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The Italian Industrial System and the End of Currency Convertibility: Italy's Shareholdings between the Downfall of Bretton Woods and Monetary Fluctuations—Industrial and Investment Policies in the Case of IRI, 1965-1975

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Abbreviations

ASFBC=historical archive of the Craxi Foundation, Rome;

ASIRI= Historical archive of the Institute for the Industrial Reconstruction, Rome;

DDRS= Declassified Documents and Reference System;

b.= box

Fold= folder

1. The Italian industrial policy in the 1970s: flexible productions or capital-intensive investments?

Most scholarly studies on the industrial development of Italy in the Twentieth century maintain that in the first half of the century a very sharp economic divide marked the Italian economy. According to this perspective, a clear watershed chunked the country between on the one side a backward area spanning from the Southern and the north Eastern areas based on craftsmanship and agriculture, and on the other a north Western area whose economic growth was increasingly centered during the century on

manufacturing industries¹. This economic and geographical divide did bring about a parallel Firms size and production divide. On the one side we found the most advanced and industrialized regions, whose processing industries did assume fordist mass production models as early as the first half of the century. On the other the less advanced ones, whose craft activities and the low capital intensive manufacturing industries –mainly the textile and the garment industries- drawn on the centuries-old models of family capitalism, based on small-sized firms².

Since as far back as the 1930s, and increasingly after WWII, mass production and family capitalism did account for very different technological developments. As early as they opened, the fordist industries did apply production standardization and mechanization, whereas small sized industries did continue to base their capital accumulation on labour-intensive productions and low-capital output. This did also bring big-sized and small sized industries to undertake very different investment policies.

To some extent, this two fold industrial dualism between capital intensive big sized industries and labour intensive small firms was bridged after the post WWII industrial take off which the Italian economy did come through during the late 1950s and early 1960s. According to the economic historians of contemporary Italy, in the 1960s the small sized industries, particularly the instrumental goods producing mechanical ones, did make a significant technological advance leading them to bridge their technological gap³.

This trend was broken down a few years later, when the world-scale economic crisis pushed the Italian industrial system back to the century old technological divide between small and big sized enterprises.

As a matter of fact in the early 1970s, when all across the advanced industrial democracies capital accumulation suffered from a sharp setback as a result of both oil price shock and the turn from fixed exchange rates to monetary fluctuations⁴, the Italian industrial system draw upon a capital intensive investment policy to cope with the uneven accumulation crisis. The Italian big business, both the state-owned manufacturing firms and some mass production oriented private concerns, led this industrial policy. Basically, IRI and Fiat embodied this commitment by the state shareholding system and the private consumer goods producing big sized industries to achieve this task. Both IRI and Fiat did introduce

¹ see for example economic history book chapters on the structure of the Italian economy published since as early as the 1970s in *Storia d'Italia, Annali, Dal Feudalesimo al capitalismo*, Torino, Einaudi;

² Andrea Colli-Michelangelo Vasta (eds), *Forms of enterprise in 20th century Italy. Boundaries, structures and policies*, Edward Elgar, Cheltenham, UK-Northampton, MA (in press)

³ Piero Bolchini, *Piccole e grandi industrie, liberismo e protezionismo*, in *Storia economica d'Italia, 3. Industrie, mercati, istituzioni*, tomo 1. *Le strutture dell'economia*, edited by Pierluigi Ciocca-Gianni Toniolo, Laterza, Roma-Bari 2003; Matteo Gomellini, *Il commercio estero dell'Italia negli anni Sessanta: specializzazione internazionale e tecnologia*, in *Quaderni dell'Ufficio Ricerche Storiche Banca d'Italia*, Vol. 7, June 2004;

⁴ On this a fair amount of literature has been produced so far. See for example William Glenn Gray, *Floating the System: Germany, the United States and the Breakdown of Bretton woods 1969-1973*, in "Diplomatic History", vol. 31, n. 2 (April 2007);

microprocessor and information technologies in their firms' production lines. Furthermore, both groups became increasingly sensitive to computer technologies: indeed, since this decade they opened Italy's mass production models to the information age⁵.

Particularly, the case of IRI demonstrate that this capital intensive answer to the world economic crisis' impact on the Italian capital accumulation was aimed on the one side at restructuring Italy's share of world trade and as such at restoring capital accumulation through the export industries. On the other, that this came about through a supply side oriented industrial policy. This led IRI and the Italian economic policy makers at government level not so much to expand consumer goods' home demand and markets, further as to insist on expanding production volumes and price competitiveness, particularly on foreign markets. In that decade, and particularly between 1973 and 1976, this economic policy guidelines did bring about a significant export expansion led by average and high capital intensive capital goods, components and instrumental goods⁶. The industrial restructuring of IRI did provide a substantial contribution to this industrial and trade history of Italy.

This combining between a capital intensive industrial policy and an export oriented trade policy does make IRI the case for targeting two historiographic perspectives. In first instance it let us reappraise a scholarly debate on the post WWII Italy's economic policy as a matter of an alternative between an industrial investment-centered strategy and an export driven model⁷. Secondly, it puts into question a wide spread view of the 1970s as the turning point decade removing the Italian economy far away from mass production models and toward its industrial system toward flexible specializations⁸.

2. The investment programs of IRI from the late 1960s to the recession years. Capital intensive manufacturing productions and export-oriented supply side policies

As such, the history of IRI's manufacturing firms investment policies between the late 1960s and the early 1970s rounds mainly about the most advanced and highest added value sectors, namely electronics, the average capital intensive mechanical and metalworking productions involved in aeronautical procurements, the steel industries and, last but not least, the energy producing firms. As a matter of fact, it is noteworthy that with reference to the state-shareholding system's tendency to raise production levels against the background of a 'supply side' oriented industrial policy this did involve other industrial sectors of

⁵ on the 1960s as a decade-long backstage for these developments, see Carlo Troilo, *1963-1982. I venti anni che sconvolsero l'IRI*, Bevivino Editore, Milano 2008;

⁶ ISTAT, *Statistica annuale del commercio con l'estero*, vol. XXXIII, 1976, tomo 3, Roma 1978, pp. 13-14;

⁷ on this standpoint see for example Fabrizio Barca, *Compromesso senza riforme nel capitalismo italiano*, and Marcello De Cecco, *Splendore e crisi del sistema Beneduce: note sulla struttura finanziaria e industriale dell'Italia dagli anni Venti agli anni Sessanta*, both in F.Barca (ed.), *Storia del capitalismo italiano dal dopoguerra a oggi*, Donzelli, Roma 1997;

⁸ in this respect it is still paramount Michael J.Piore- Charles F.Sabel , *The Second Industrial Divide. Possibilities for Prosperity*, Basic Books, New York 1984;

paramount importance to IRI. In this respect this was the case, for example, for the car producing plants of Alfa Romeo and Alfa Sud, whose production levels raised by over 50 per cent between 1969 and 1973, reaching some half billion cars for civilian markets, according to the late 1960s' scheduled productions plans⁹. Nonetheless, it was only in these four sectors that such a production expansion was combined with capital intensive investments aimed at restructuring the Italian share holding system's share of international trade through a significant upgrade in price competitiveness. All the more so as in these sectors the aim at increasing productivity without raising employment and expanding labour costs, an industrial policy commitment pursued in whatever sector where IRI had branches and manufacturing activities, was achieved through a capital intensive-based cut in production costs. In turn, in these four sectors this technological upgrade and modernization did weaken the trade unions bargaining powers and its impact on prices either. To make the case of the steel sector, by 1971 Finsider had expanded output and productivity significantly above its employment rate after introducing mechanization and automation¹⁰.

Furthermore, what make us focus our attention on these four sectors and did mark them as the core of the industrial and investment policy which IRI carried out to cope with accumulation crisis is that this restructuring in the mode of production was combined with broad reorganization and rationalization of ownership assets. Most big-sized firms founded through partnership between IRI and private capitals, mostly between IRI and FIAT, by the early 1970s came under full control of the Italian State¹¹. In this respect, the most remarkable example was that of electronics and the aeronautical industry. Respectively Selenia and Aeritalia, both born out of a partnership between FIAT and Finmeccanica during the 1960s, were fully absorbed by the Italian State shareholdings concerned with mechanical and high-tech productions¹². Furthermore, such a cost-cutting rationalization in production organization was pushed forward through the separation of different manufacturing activities carried out within the same group or firms. The ownerships of production lines working in different industrial sectors were reorganized according to their production specialization. As for this asset strategy, It is worth mentioning the case of Ansaldo San Giorgio, whose high capital intensive electronic productions were separated from mechanical manufacturing activities and reorganized under Elmag¹³. All of this restructuring of ownership assets, both with reference to State/market relationships and within IRI, were aimed at improving coordination among the IRI-owned firms working in the same sectors in order to reduce competition and eliminate double productions as a way to cut production costs and raise productivity.

⁹ Ispettorato IRI, 'Note sul Piano Alfa romeo per il quadriennio 1970/73', novembre 1969, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497, fold. 2 (programmazione 1970/73)

¹⁰ Comitato di Presidenza IRI, 'Adunanza del 12 giugno 1972', in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497, fold. 2 (programmazione 1970/73)

¹¹ For a full account of this reorganisation see S.Selva, *L'industria militare*, in Nicola Labanca (ed.), *Le armi della Repubblica*, Utet, Torino, 2010;

¹² On the foundation of Aeritalia see for example Consiglio di Amministrazione IRI, Adunanza del 18 dicembre 1969, in ASIRI;

¹³ V.Zamagni, *Finmeccanica*, Il Mulino, Bologna 2009;

This industrial policy model took place against the broader attempt to coordinate all across the country economic planning and development which was carried out at government level since as early as the mid-1960s through mid-term development programs, the *programma economico nazionale*, conceived since the beginning to cover a five to ten years period. Mainly drafted at interministerial level, the *programma economico nazionale* was aimed at devising and drafting new investment policies to provide the Italian industrial system as a whole with an exit strategy from the mid-1960s recession and to sort out of tight monetary policies undertaken since 1963 onwards to cope with a severe post-boom inflationary tendency¹⁴. Since the beginning it was a five to ten year-long industrial and investment policy program whose drafting involved both the economic ministries and the state-shareholdings groups' top level management. IRI's top management was expected to bring before the Ministry for the State shareholdings an industrial and investment program which should be broad in scope and very specific in scale. As a matter of fact, IRI did present both a set of investment programs per sector and a business development strategy as specific as each group under its control and ownership was¹⁵. The Ministry for the State shareholdings was charged with revising these programs and submitting them to a government body, the Interministerial Committee for economic planning (CIPE), for final approval and submission to the Parliament for political endorsement within the broader framework of a 5 year-long *Programma economico nazionale*¹⁶.

What defined these 5-year industrial and investment programs was the aim at concentrating investments in the manufacturing firms which IRI owned or shared in Southern Italy. Besides, the core of these new investment program in manufacturing activities operating south of Rome should be the most advanced and technologically updated firms. From Finsider to the spare part producing mechanical firms working on procurement from the world class aeronautical group of Aeritalia, most of these new investments in Southern Italy were thought to push IRI's capital intensive productions in Southern Italy forward. What accounts for these structures of the new investment policy was the law ruling on the state Share holding system. As a matter of fact, this law committed the state-owned industry to invest as much as at least 40 per cent of new investments south of Rome. With reference to the focus on the manufacturing activities, it was due to the structure of IRI's investments and activities in these areas of Italy. As a matter of fact, as a result of backwardness and lack of infrastructures on the one side, and a very weak internal market and demand for telecommunication products and services on the other, the Institute's activities in both means

¹⁴ Adriano Giannola, *L'evoluzione della politica economica e industriale*, in *Storia dell'Italia repubblicana*, Vol. III, *L'Italia nella crisi mondiale. L'ultimo ventennio*. Tomo 1, *Economia e società*, Einaudi, Torino 1996;

¹⁵ Giuseppe Petrilli (President of IRI) to Flaminio Piccoli (Minister for the State Shareholdings, 'I programmi di finanziamento e di investimento del gruppo a fine 1969', 30 April 1970, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497;

¹⁶ IRI to FINMARE (Società Finanziaria Marittima), 'Programma di investimenti del gruppo a fine 1968', 8 August 1968, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497;

of communication such as motorways producing concerns, and its commitment to radio and television services could not serve as a successful fly wheel for new investments in these areas of the country¹⁷. If this was the policy guidelines in the late 1960s, down into the mid 1970s neither in the transport sector nor in telecommunications as well as in the construction industry the investments of IRI did make any significant advance¹⁸. All of these factors put manufacturing firms in both strategic sectors and new high added value centered sectors like electronics on the forefront of the late 1960s and early 1970s investment programs. Furthermore what pushed the top level management of IRI to focus its attention on the most advanced concerns and industrial sectors was the ongoing tendency of the late 1960s' western capitalism to shape world trade through an increasingly fierce competition in capital intensive sectors and high tech oriented productions. This would be the core of capital restructuring a few years later, when the advanced industrial democracy were pressurized between raw material skyrocketing prices and foreign exchange rate increasingly determined, as a result of floating currencies, by capital flows¹⁹.

3. Capital intensive restructuring and monetary stability

IRI and Finmeccanica, its financial holding in the mechanical sector, were fully aware of this tendency in world market as early as 1968. As early as that year the Steel industry holding of Italsider suggested that steel raw material produced in Italy would be absorbed by home market, whereas to the contrary its refined and highly processed steel goods would be put under fierce pressure by foreign competitors²⁰. On the other hand, by 1972 the most important concern involved in one of the most capital intensive sector, that to say thermo-mechanical industry, claimed that the level of technological investments which IRI allotted prevented this sector from coping with high rate of investments and competitiveness on world markets. Ansaldo Meccanico Nucleare called for a further and unprecedented commitment to investments to make it as much competitive as necessary to build nuclear energy producing plants such as those procurements coming from the Italian energy service concern ENEL²¹. As such what they brought before the attention of the Ministry for the State shareholding and the Italian government was a program which devised those four sectors as the core of IRI's capital accumulation for the following decade. The most

¹⁷ Giuseppe Petrilli (President of IRI) to Flaminio Piccoli (Minister for the State Shareholdings, 'I programmi di finanziamento e di investimento del gruppo a fine 1969', 30 April 1970, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497;

¹⁸ IRI, 'I programmi di investimento e di finanziamento del gruppo IRI a fine 1972', luglio 1973, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497, fold. 4(programmazione 1972/75)

¹⁹ Harold James, *International Monetary Cooperation since Bretton Woods*, Oxford University Press, Oxford-New York 1996;

²⁰ 'Appunto per il dott. Arena', 19 settembre 1968, in ASIRI;

²¹ Ansaldo Meccanico Nucleare, 'Note sul bilancio 1971', in ASIRI;

refined and highly sophisticated steel productions, with particular reference to the thin steel byproducts, along with the electronic devices to be used in civilian and military aircrafts, did account for two-thirds of these new investments. Most of them would be concentrated in Southern Italy and shaped an investment program letting this group to stand out and cope with the economic recession which Italy faced since the early through the mid-1970s²².

By this time, it was straightforward that the combining rise of oil and raw material on one side and the end of fixed exchange rates did break down the broader monetary policy framework which for as long as at least a decade let the Italian economy combine its raw material and technology dependency on foreign providers with a significant competitiveness on foreign markets. As a matter of fact, since as early as the mid-1960s, the Italian central bank did undertake a two-fold foreign exchange rate policy toward the dollar area and the European currencies respectively. Indeed, against the US currency, which was the instrumental goods and technological capital goods currency area provider, Italy did adopt a revaluation policy to let its manufacturing firms carry out their necessary imports. To the contrary, against the European markets, and particularly the deutsche mark, Italy did arrange for a devaluation in order to increase its export industry's competitiveness on those markets. After the downfall of fixed exchange rate and the Opec countries decision to rise oil prices, international capital flows became the main source for foreign exchange rate²³. In the case of Italy, particularly between 1974 and 1976, this put under uneven pressure the balance of payments and close down the combining of technological dependence on foreign markets with a stable and healthy external equilibrium, both in foreign trade and in the balance of payments.

In terms of industrial policy, what was devised to manage with this new international monetary relations framework was an import substitution energy policy aimed at reducing the Italian firms dependency on foreign markets provisions without giving up with a capital intensive-centered restructuring of capital accumulation to cool off the ongoing recession. The Italian elites devised nuclear productions as the way to combine energy independence and balance of payments equilibrium with a highly added value based reorganization of Italy's competitiveness on foreign markets and share of world trade²⁴.

Again, the industrial and investment policy of IRI drove this policy guideline. As a matter of fact, as referred above, during the 1960s some of IRI concerns operation in the shipbuilding sector were converted to thermo-mechanical productions against the background of ENEL procurement policy to produce thermo-nuclear energy producing plants. In this respect, the most remarkable case was that of Ansaldo Meccanico

²² 'I programmi di investimento e di finanziamento del gruppo a fine 1969', April 1970, in ASIRI, Ufficio Studi, Piani quadriennali, b. ID/497, fold. 3 (programmazione 1971/1974);

²³ With respect of the Italian case see what the powerful head of the Italian Central Bank reminds on that time period: Guido Carli, *Pensieri di un ex governatore*, Edizioni Studio Tesi, Pordenone 1988;

²⁴ Partito socialista italiano, Promemoria, *Note sulla ristrutturazione della industria aeronautica italiana*, 1979, in ASFBC, Craxi, Attività di partito, Vita interna del PSI, Elaborazione della linea politica, Materiale informativo, b. 9;

nucleare²⁵. As such, through its investment policy, by the mid 1970s widely focused on this sector, IRI went on the forefront of this new energy policy aimed at balancing industrial modernization and technological update with monetary stability. An industrial policy guideline which, even if by the end of the decade did not prove to be successful and called for further partnerships between FIAT and IRI to make some significant advance²⁶, in the 1970s was fully backed at international level. Indeed, between 1974 and 1976 the United States government did support it consistently through loans coming from both the IMF and the US Treasury²⁷.

Therefore, in the most recession time period for the Italian economy to date since the end of World War II, the group of IRI led a capital intensive oriented restructuring of output and capital accumulation focused on manufacturing, centered in its Southern Italy industrial plants and concerns, based on the most advanced industrial sectors and aimed at letting the Italian industrial system as a whole advance its technological update and production organization in the framework of the new international monetary relation system.

²⁵ Barbara Curli, *Il nucleare*, in *Storia dell'Ansaldo*, Vol. 8, *Una grande industria elettromeccanica 1963-1980*, Laterza, Roma-Bari 2001

²⁶ *Negoziato Finmeccanica-Fiat nell'area nucleare e dei motori aeronautici militari*, 29 gennaio 1980, in ASIRI, Numerazione nera, Affari Generali, Organi Deliberanti di Controllo e di Coordinamento, Comitato di Presidenza, Documentazione del Comitato di Presidenza, a. 1980, *Comitato di presidenza, Adunanza 30 gennaio 1980*;

²⁷ Henry A. Kissinger, Memorandum for the Vice President, *Your Meeting with Giovanni Agnelli*, 22 maggio 1975, in DDRS.