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INTRODUCTION

150 years of the Italian economy, 1861–2010

Paolo Malanima

National Research Council (CNR)

Vera Zamagni

University of Bologna

Abstract

This article sets the background for the contributions collected in this issue, comments on the statistical data and discusses the chronology of Italy's economic history in a long-term macroeconomic perspective. The following topics are addressed: the rise in productive capacity; structural change and the periodization of challenges and responses. Data concerning the main macroeconomic indicators are collected in a short Appendix, together with concise information about their sources.

Keywords

Gross domestic product (GDP), demography, Total factor productivity (TFP), regional disparities, finance industrialization catching up.

At the time of unification, in 1861, Italy was a relatively backward country compared to the more advanced western European nations. Agriculture was the main productive sector and 60 per cent of the labour force was still toiling on the land. From then on the Italian economy underwent deep changes, both in its productive capacity and structure. Italy caught up with the level of output per head of the most advanced economies and today shares a similar economic structure and a low rate of growth.

The Italian economy has always been an important case study for both Italian and non-Italian scholars. During the 1950s and 1960s, the scholarly debate on the growth pattern of Italy was particularly animated (Cohen and Federico 2001). In the course of the following decades, new studies resulted in an ever-deeper knowledge of the economy after 1861, especially with the publication of new statistical series and the analysis of the organization of economic activity, technology, economic policy, north–south disparities and changes in income distribution. This progress, although less well known to international scholarly audiences than previous debates, has been quite remarkable.

The opportunity offered by the *Journal of Modern Italian Studies* to devote a special issue to the development of Italy over the last 150 years is particularly welcome and offers an excellent opportunity to provide an international

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audience with an overview of the most recent results on Italian economic history of the last century and a half.

The aim of this introduction is threefold: to set the background for the following contributions, dealing with the main features of the Italian economy; to provide a comment on the general statistical data and discuss the chronology of Italian economic history in a long-term macroeconomic perspective. In the three following sections, we examine the rise in productive capacity; the structural change and the periodization of challenges and responses. The main data utilized are collected in a short Appendix, together with concise information about their sources.[1]

1. Productive capacity

1.1. Population, output and wealth

From the late nineteenth century onwards Italy like other western European and Mediterranean countries experienced growth in population, output and wealth (Table 1 and Appendix Table A1, lines 1–8).

In Italy, the demographic transition started in the last decades of the seventeenth century (Del Panta *et al.* 1996). Never before had a rate of growth been experienced similar to that which took place during the nineteenth and twentieth centuries. In the 140-year period between 1861 and 2001, despite considerable emigration, the population rose by about 30 million, from 26 million in 1861 (within present boundaries) to 56 million in 2001, that is, at the rate of 0.56 per cent per year.

Fast demographic growth did not imply, as in previous agrarian economies, decline in average income and standard of living. After unification, while population was rising rapidly, gross domestic product (GDP) rose faster and, as a consequence, average output figures also increased (Figure 1). From 1861 until the present day, the yearly rate of growth in per capita terms has resulted in an almost stable, exponential curve with a slope of little less than 2 per cent. Modern growth, which started during the 1880s, decreased in the early 1890s, and accelerated from about 1895 until World War I (Fenoaltea 2003, 2005a,

Table 1 Yearly rates of growth of the Italian population, per capita GDP and GDP 1861–2001 (%)

	Population (%)	*Per capita GDP (%)*	*GDP (%)*
1861–1913	0.65	1.17	1.82
1913–36	0.70	0.87	1.57
1936–51	0.73	1.16	1.89
1951–73	0.67	4.62	5.29
1973–2001	0.11	2.15	2.26
1861–2001	*0.56*	*1.86*	*2.42*

2005b, 2006). In the interwar decades, the yearly rate of growth was lower than average, as the log graph clearly reveals. During the two decades following World War II, the rise in pace of output was, by contrast, particularly dynamic. Since population rose 2.2 times in the period in question and per capita GDP increased 13.6 times, growth of gross product was slightly lower than 30 fold.

In Italy, as in many other advanced economies, rates of growth began to describe a downward trend in the last decades of the past century, especially from 1973 onward (Figure 2). Acceleration was followed by deceleration and

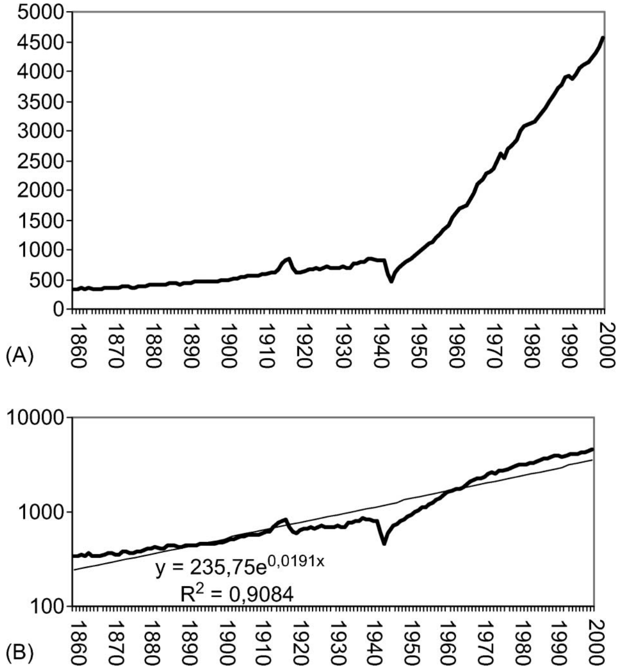

Figure 1 Per capita GDP in Italy 1950–2001 (vertical axis: A, arithmetic; B, log).

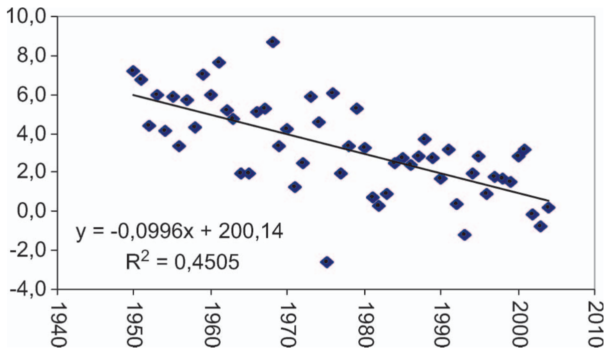

Figure 2 Rates of growth of GDP 1950–2007 (% of $t+1$ as to t).

in the first 10 years of the twenty-first century, rates of growth in Italy have been particularly low (Toniolo and Visco 2004).

Estimates of wealth are ordinarily more uncertain than those of output. For this lengthy period, the available calculations show a yearly rate of growth of the same magnitude as that of GDP – 2.5 per cent – and a total growth of 34 times, with a wealth–output ratio of around 6. While wealth in 1861 consisted mainly of natural resources and buildings, nowadays it is mostly made up of fixed capital, whereas in quantitative terms, natural resources play a negligible role.

1.2. The determinants of growth

While the remote causes of the growth of modern Italy are always hard to single out and have been the object of long-lasting debates, the immediate determinants are easier to identify.

Technical progress and the increase of useful knowledge have been the driving forces of modern growth since the beginning in the 1880s, that is, in the age of the so-called second industrial revolution. In Italy, the first wave of growth was partially supported by the technology of the first industrial revolution – watermills, iron and coal – but more so by that of the second industrial revolution – electricity, chemicals and engineering. While the activity rate diminished from 59 to 42 per cent during the 140 years between 1861 and 2001, labour productivity rose by nineteen times. In Italy, as in other advanced economies, growth meant both a rise in the standard of living and a decline in working hours. All this was primarily a consequence of the rising capital–labour ratio – about eighteen times – slightly less than labour productivity (Appendix Table A1, lines 9–13).

A rise in capital per worker is a necessary, but not sufficient condition of modern growth. In Italy, as elsewhere, the increasing technical knowledge incorporated both in capital and labour was of particular importance. The improving quality of production factors was more significant than their quantitative growth. Growth in total factor productivity (TFP) was especially remarkable in the period 1951–73 (Table 2).

A calculation of the importance of labour, capital and TFP (with different assumptions on the relative importance of labour and capital; that is their marginal productivity) gives the results displayed in Table 3. We refer merely to the number of workers, without any attempt at incorporating human capital on the basis of the level of education. As a consequence, the influence of human capital on GDP is included in TFP and not in *L*. While the contribution of the mere increase in the number of workers *L* to output growth is negligible, and the role of capital *K* significant (especially in 1913–36 and 1973–2001), TFP constitutes by far the main determinant. On average, labour contributed to the rate of GDP growth by 10–12 per cent, capital by 30–40 per cent and TFP by 50–8 per cent during the 140 years between 1861 and 2001.

Table 2 Yearly rates of growth in GDP (*A*) and in total factor productivity (TFP) with different assumptions on the relative importance of labour (L, 0.7 and 0.6) and capital (*K*, 0.3 and 0.4)

	A *GDP*	*B* *L 0.7; K 0.3* *TFP*	*C* *B/A*	*D* *L 0.6; K 0.4* *TFP*	*E* *D/A*
1861–1913	1.82	1.11	0.61	0.98	0.54
1913–36	1.57	0.61	0.39	0.45	0.29
1936–51	1.89	1.52	0.80	1.37	0.73
1951–73	5.29	3.72	0.70	3.20	0.60
1973–2001	2.26	1.10	0.49	0.91	0.40

Table 3 Relative importance (%) of labour (*L*), capital (*K*), and total factor productivity (TFP) with different assumptions on the relative importance of labour (0.7 and 0.6) and capital (0.3 and 0.4) 1861–2001

	L 0.7	*K 0.3*		*L 0.6*	*K 0.4*	
	L	*K*	*TFP*	*L*	*K*	*TFP*
1861–1913	13	26	61	11	35	54
1913–36	23	39	39	19	52	29
1936–51	−3	22	80	−2	30	73
1951–73	0	30	70	0	39	60
1973–2001	19	33	49	16	43	40
1861–2001	*12*	*30*	*58*	*10*	*40*	*50*

1.3. Italy in the international context

Physical capital and human capital were the basis of growth and convergence of the Italian economy towards the level of productivity of leading economies of Western Europe and the USA.

During the period of the unification, per capita GDP in Italy stood at just below 80 per cent of the Western Europe average, 50 per cent of that of the UK and about 60 per cent of that of the USA (Maddison 2003). After a slight improvement, the relative position of Italy with respect to Western Europe as a whole was about the same – around 70 per cent – up to the end of World War II. However, the graph records a high GDP level during World War I but a low GDP level during World War II. The opinion of most scholars is that the available estimates are implausibly high during the World War I and implausibly low during the World War II, but revisions are not yet available. The 1950s, 1960s and 1970s constituted a period of attainment, and by the start of the new millennium Italy had reached the average level of other western European nations. However, in comparison with the USA, the whole of

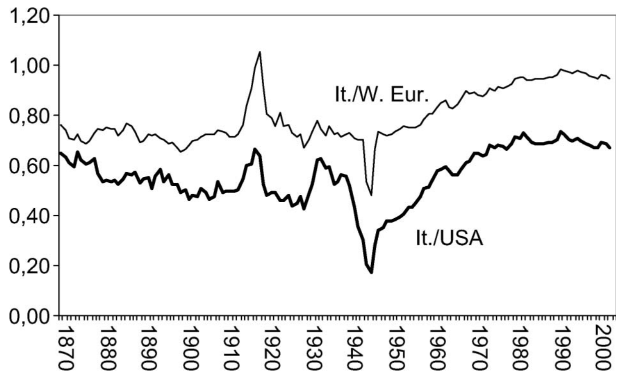

Figure 3 Per capita GDP in Italy as a ratio of per capita GDP in Western Europe and USA 1870–2005.

Europe had lost ground. Overall, the ratio of per capita GDP between Europe and USA reached its lowest level during the World War II, but since then it has partially recovered, with the western European per capita output reaching 70 per cent of that of the USA from 1980 onwards (Figure 3).

2. Structural change

2.1. The structure of output

Modern growth has always been a source of economic instability: the balance among productive sectors and the structure of employment changing rapidly, and social equilibrium being shaken by new fortunes alongside the rise and fall of social groups. Economic geography undergoes transformation as cities grow at the expense of the countryside and urbanization rises. In the case of a late-comer, these complex changes are likely to be faster and deeper than in industrial countries which have developed over a longer period.

Between 1861 and 2001, as already seen, labour productivity in Italy rose nineteen times. In agriculture it rose 1.8 times between 1861–70 and 1930–40, and 35.4 times between 1861–70 and 1990–2000 (Federico and Malanima 2004). Productivity rise and income-inelastic demand of agricultural goods were the main reasons for the change in the structural composition of product and employment.

In 1861, agriculture was still by far the most important economic sector. Over this period, the primary sector represented 45–55 per cent of the whole output, the secondary about 20 per cent and services about 30 per cent (Appendix Table A1, lines 14–16). In the following decades, the role of industry and services in terms of output rose. However, after World War II, the share of agriculture in gross output was still considerable – 25 per cent – and only diminished drastically over the two following decades. Industry reached its highest quota in 1973: 40 per cent of the product being of industrial origins. In 2001, this quota had dropped to 28 per cent, which is the same level as in 1936. The relative growth of services has also been considerable and rapid. These represented about 40 per cent of gross product in the earlier 1950s, constituting 71 per cent in 2008.

2.2. The structure of employment

Looking at labour force, the same trends can be seen as those in the composition of output; although with some delay (Appendix Table A1, lines 17–19). In agriculture, the declining trend is particularly apparent. In 1861, about 60 per cent of the labour force was employed in the primary sector, the remaining 40 per cent being divided between industry and services, with a slight prevalence of industry. The decline in agricultural occupation occurred in the northern regions first of all and later in the South (Figure 4). As can be seen, the fall was particularly rapid after World War II and involved both the north and the south (the southern regions declining slightly later).

2.3. Urbanization and personal income distribution

Changes in employment are correlated to those in urbanization (Appendix Table A1, line 20). In 1861, urbanization rates in Italy were not particularly high in a comparative European perspective (and were certainly lower than during the Renaissance) (Malanima 2005). They increased together with rising productivity in agriculture and the changing balance in terms of employment in agriculture on the one hand and industry–services on the other (Table 4).

Growing employment in industry and modern services is always likely to cause rising inequality in personal income distribution, since an increasing

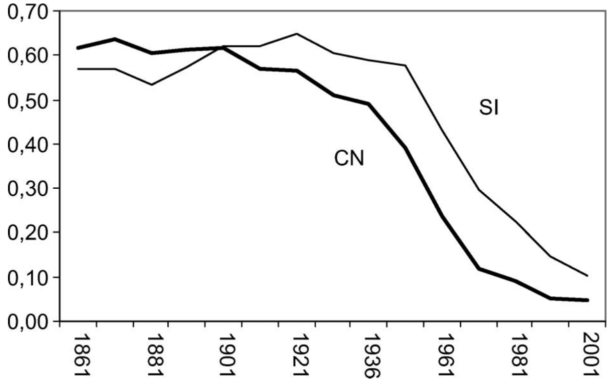

Figure 4 Share of labour force in agriculture in the centre–north (CN) and south–islands (SI) 1861–2001.

Table 4 Rates of urbanization in Italy from 1861 to 2001 (urban population in *comuni* with more than 20,000 inhabitants and a predominance of secondary and tertiary sectors)

	Urban percentage
1861	19.6
1871	21.5
1881	23.7
1891	26.5
1901	28.1
1911	31.3
1921	32.2
1931	35.1
1936	35.5
1951	41.1
1961	47.7
1971	52.0
1981	55.0
1991	66.6
2001	67.2

percentage of population flows to better-paid jobs in the developing secondary and tertiary sectors. A growing part of the population enjoys higher incomes, when compared to the population of agricultural labourers. Although economic inequality during the first modernization period was probably lower in Italy than in other countries, whether they be early or late-comers, it actually rose, to reach its highest level between 1880 and World War II (Ciocca 2007: 20). There was a decline from the 1950s onwards which was more notable in the 1960s and 1970s, when the majority of workers were employed in industry and services. More and more families and workers shared rising prosperity.

2.4. Economic disparities and the north–south divide

Another structural effect of modernization has been the rising disparity among regions (Appendix Table A1, line 21). Initially, economic development is always localized in specific areas and cannot but be geographically concentrated. Only later does it spread, thanks to the movement of workers, capital and knowledge. Many different indicators can be used to measure these disparities. However, the result is the same, as Figure 5 illustrates.

In the Italy of 1861, some economic disparity probably existed in per capita GDP, but it was modest indeed. However, other indicators, show a much more pronounced disparity, in terms of the diffusion of education among the lower classes and moreover in terms of infrastructures and banks, all factors that constituted crucial prerequisites for industrialization (Felice 2007a, b). According to recent estimates of per capita GDP in 1891, the difference between the north and south was 7 per cent (Daniele and Malanima 2007). From then on, this figure rose and peaked after World War II. The remarkable rates of growth after the war and especially in the 1960s determined a fast decline in the disparities until 1973. Reduced rates of growth after 1973 were accompanied by a new increase in economic disparities (Figure 6).

Typical of Italy, however, and much more so than for other European countries, is the specific structure of these disparities. The poorest regions in Italy, as from the end of the nineteenth century, have been located in the south. A true north–south divide occurred at the end of the nineteenth century, i.e. when politicians and intellectuals started to discuss the causes of the backwardness of the Mezzogiorno (the so-called debate on the *Questione*

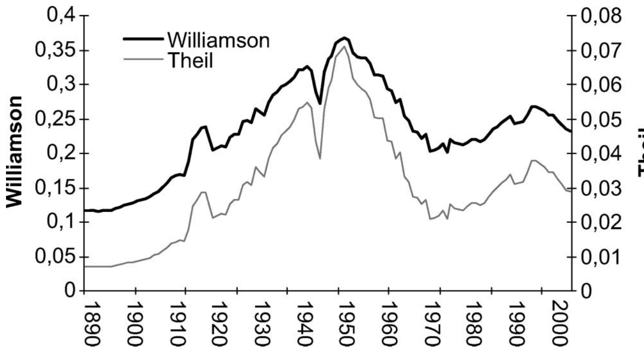

Figure 5 Regional disparities 1891–2005 (Williamson and Theil indices).

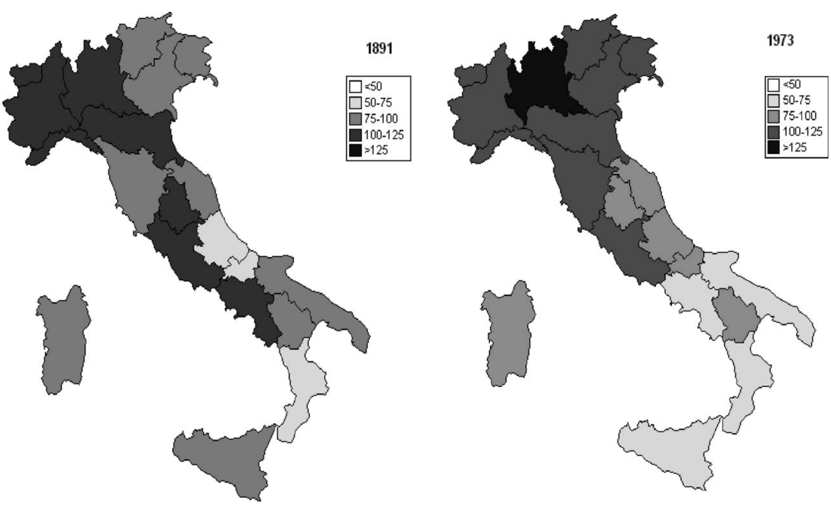

Figure 6 Regional disparities in the level of per capita GDP per region in 1891 and 1973 (Italy = 100).

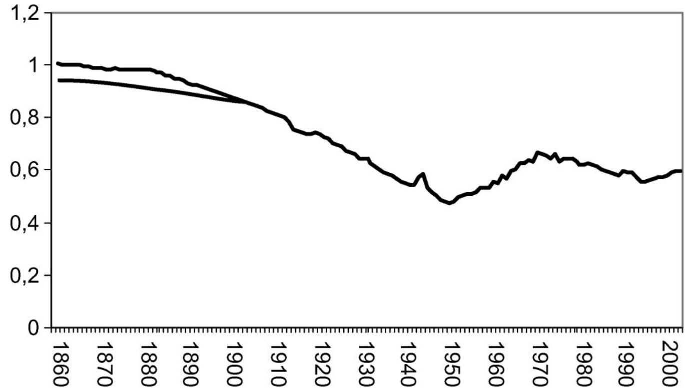

Figure 7 Per capita GDP in the south–islands as a ratio to that of north and centre (1861–2005).

Meridionale started in the 1880s as the backward Mezzogiorno was then becoming a central feature of the Italian economy and society).

We see that the ratio of per capita income in the south to that in the north diminished until 1951 and rose from then until 1973, when it began to fall again (Figure 7). There was a modest rise in this ratio later on. In any case, if per capita output in the south was 47 per cent of that in the north in 1951, it reached 66 per cent in 1973 and it is now 58 per cent.

3. Challenges and responses

3.1. General overview

The periods of growth and difficulties of the Italian economy are connected, on the one hand, to the international cycles and major international events (the two World Wars) and, on the other hand, to national politics. During the two strongest periods of growth in the international economy (1890s–World War I and 1952–70), Italian governments succeeded in gearing the domestic evolution to general expansion. In contrast, internal problems were compounding with international difficulties in the other periods, sometime causing less than average economic performance compared to western European growth. It will therefore be of interest for an international audience to find here an account of the main challenges faced by the country and the relative responses, over the four periods into which the 150 years of unified Italy can be usefully subdivided (Zamagni 2007).

3.2. Liberal Italy

The first 50 years of the new kingdom were marked by a continuous effort to modernize legislation and infrastructures under a parliamentary system that started with a conservative (but enlightened) government and ended with a liberal government and universal male suffrage (1913). However, the organization of an industrial surge proved exceedingly difficult and only towards the end of the period did the rate of industrial growth increase substantially. There are several reasons for the delay in the transformation into an industrial economy. We will mention only the most important.

3.2.1. Agriculture

The illusion of being able to maintain the role of an agricultural country, with the important appendix of silk production, continued at least up to the agrarian crisis of the 1880s. Agricultural production did improve, but the Italian soil was not capable of supporting more people and higher incomes; the future of Italian agriculture was in specialized Mediterranean products for export, but only after the crisis did this option become clear, though utterly marginal to the development of the country. Protection of cereals delayed the change, but this was inevitable in the face of the large flows of emigration.

3.2.2. Lack of coal

The adoption of the technology of the first industrial revolution was slow in Italy mainly because of the complete lack of coal which made the use of steam engines and the construction of steel plants terribly expensive. Indeed, Italy prospered more in the second industrial revolution, particularly in the field of electricity production and engineering. Electricity was already being produced in Italy in the 1880s and its development, above all in hydroelectricity, progressed up to the 1950s. Transport and machinery witnessed major entrepreneurial ventures (including Fiat, 1899) and formed the core of the surge that had been delayed up until the turn of the nineteenth century. The article by Pierangelo Toninelli in this collection is entirely devoted to the problems connected with supplying energy to the developing Italian economy.

3.2.3. Education

The diffusion of education among the lower classes at the time of unification was very poor, especially in the south (where the number of illiterate people reached 90 per cent). An early reform (the Casati Law) laid the basis for the extension of primary education (that was made compulsory and free for boys and girls), set up a vast selection of vocational and technical schools, as well as polytechnics at the higher educational level, and provided for the formal training of teachers. It took time, however, before the results of this reform reached a critical mass in some areas of the country, one of the reasons being that until World War I responsibility for education was left in the hands of local authorities, which had very different propensities to fulfill their obligations.

3.2.4. Finance

Both public and private finance had to be re-organized. It took some 15 years before the state budget could be balanced, with a large increase in taxation matching a remarkable increase in public spending for infrastructures and the residual expenses of the unification.[2] In the meantime, the public debt had substantially increased, crowding out other types of private investment. With regard to the banking system, Italy started with a multiplicity of banks of issue, which did not facilitate control of money supply and produced a major banking crisis at the end of the 1880s–beginning of the 1890s. In addition, Italy was on and off the gold standard twice before 1894, when the creation of the Bank of Italy inaugurated a period of money stability and of universal banking on the German model.

The indecisiveness of the process of industrialization has led a number of commentators to describe waves of industrial development rather than that of a take-off. When Italy finally speeded up industrialization, all sectors were in place (although chemicals remained at a relatively preliminary stage), but only in the 'industrial triangle' (the regions around Turin, Milan and Genoa), with some spillover effects in the neighbouring regions. The monumental work by Stefano Fenoaltea on every branch of industry has reconstructed this process in full detail. On the eve of World War I, Italy could not yet be considered an industrial country, because of the limited geographical spread of industry, but it had all the pre-requisites for a long-lasting process of industrialization: a stable government open to innovation, numerous entrepreneurs, a skilled workforce, established flows of exports, monetary stability. The south, already lagging behind, was made object of special legislation as from 1904, with the aim of changing its inadequate prerequisites.

3.3. Between two wars and a dictatorship

There is little doubt that a major war taking place at the very beginning of the flourishing of an industrial spurt produced enormous dislocation, as can be seen in the figures displayed in the previous sections. Heavy industry increased much beyond the needs of a civil economy, with ensuing bankruptcies and need for state intervention. Universal banks suffered considerably as a result of the enormous liquidity in the hands of major corporations working for the war which started to buy up bank shares altering the established equilibria in bank-industry relations. Public spending rose dramatically and was mostly financed with debt; particularly foreign debt. Social relations after the war became violently conflicting and political stability was lost, with the rise of new movements and parties that destabilized the formation of long lasting governments. Italian democracy was incapable of meeting these challenges and, in October 1922, Benito Mussolini became prime minister. At the end of 1925 he turned his government into a dictatorship.

Research on the Italian economy during the period of the dictatorship has, in the main, reached the following conclusions.

3.3.1. Industrial growth continued

Research done since the 1970s has proved that the previous interpretation of the stagnation and ruralization of the Italian economy is incorrect. It was in this period that Value Added (VA) in industry overtook VA in agriculture, even though the general pace of the country's growth was slow compared to that of the most advanced economies of the time, with the result that the Italian economy did not catch up.

3.3.2. New sectors and new areas

The chemical industry increased in importance with the rise of a major corporation, Montecatini, and the autarchic policies of the regime. During the 1920s, in Emilia-Romagna, Venetia and Tuscany, small scale light industries also began to spread, prefiguring their full industrialization after World War II.

3.3.3. The state as entrepreneur and banker and the demise of universal banking

In Italy, the 1929 crisis was tackled in a very peculiar way. As in many other countries, the state intervened, but unlike all other counties, these forms of state intervention lasted for several decades after World War II. In 1931 universal banks' support to industry was substituted by a state owned long term bank IMI (*Istituto Mobiliare Italiano*) (Lombardo 1998), that was the proto-type of a number of such banks, all publicly owned (called ICS, *Istituti di credito speciale*) and founded after World War II. With the 1936 banking bill, the experience of universal banks was discontinued and industrial investment was financed by the ICS. Their special feature was that they collected funds from the public by placing their fixed yield bonds with state guarantee and took upon themselves all the risks of investment. This system remained in place until the 1980s. The article by Giandomenico Piluso attempts to summarize the main features of the complicated Italian financial history. In 1933 a large state owned industrial holding was formed, IRI (*Istituto per la Ricostruzione Industriale*), which inherited from the former universal banks (that became ordinary banks) the control of most heavy industry and kindred activities (such as radio, telephones, shipping and airlines). It was the beginning of a large state presence in the Italian heavy industry and other sectors that lasted formally until 2000 when IRI was liquidated. Today the Italian state still holds 'golden shares' in a number of strategic corporations. This strong presence of the state in industry is still a matter of heated controversies.

3.3.4. The degeneration of the south

Although in the liberal years the southern regions had already been on a downward trend, during the war years the fall was dramatic. The main reasons for this negative performance have to do with state expenditure in the northern regions and in the neighbouring areas, for war production, which strengthened industrialization where it had already started, and with the additional difficulties suffered by southern agricultural exports in the shrinking international markets. Nothing was done by Mussolini's governments to help, as even the famous 'Integral land reclamation' (*Bonifica Integrale*) benefited the northern and central regions far more than the southern ones.[3]

After the Pact of Steel signed in 1938 by Mussolini and Hitler, Italy was forced to mobilize for war and although heavy industry, and in particular engineering capacity, was to increase substantially during the war, the mobilization was half-hearted. The Italian economy remained utterly inadequate to fight World War II and Italy had to withdraw, bringing about the end of the fascist regime, not without major political and economic troubles. In conclusion, we can say that times of great international difficulties sucha as the ones spanning the two World Wars were borne with great difficulty by the Italian economy, which, despite not slipping back and although witnessing a continuation of industrialization, with its distinct tendency towards a large state presence, was certainly not able catch up.

3.4. The economic miracle and its aftermath

After the war Italy recovered democracy and became a republic. The new governments, led by the centre party, the DC, (Christian Democracy), proved capable of supporting expansion. Beyond doubt, the 40 years that followed its post-war reconstruction were the ones in which Italy became a fully industrialized country, growing together with the other losers of World War II (Germany and Japan) at a higher rate compared with most of the advanced countries (and substantially more than USA and UK). For this reason Italy attained the spectacular catching up described in the previous paragraphs. There are a few aspects of this successful period that are worth pinpointing for comment.[4]

3.4.1. Discontinuities

Throughout the period Italy continued to catch up, but, together with all the Western economies, experienced in the second part of the period a substantial delay as a result of the instability that exploded in the international economy in the 1970s (demise of the Bretton Woods arrangements, rise of the Eurodollar markets, increase in the price of oil and other basic products, change in technological paradigms). The economic policies enacted to counter the slow down were mostly defensive, with some positive effects over the short term, but dangerous over the longer term, because of the great increase that they entailed in public debt. This high and persistent public debt has burdened the country heavily constraining public policies, right up to the present day.

3.4.2. The rise of the 'Third Italy'

During this period Italy witnessed a revival of the old industrial triangle (north-west of the country, NW), but especially a very dynamic performance of the regions located in the centre-north-east (NEC)[5] of the country, that started to converge with the NW regions but with a distinct pattern of growth. While in the NW, the nineteenth century capitalist corporations had undergone a very classical development, the NEC areas had been retarded by their artisanal structure, which in some cases had not changed since the Middle Ages. These regions modernized by technologically upgrading their artisanal traditions while keeping the size of firms small, trying to reap the economies of networks by locating these small firms in clusters in a particular place and by specializing in the production of customized goods, either consumer goods or machinery and spare parts. It was the flourishing of the so-called 'industrial districts', a feature of the Italian economy that has attracted a vast amount of literature,[6] being so different from the American corporation model popularized by Alfred Chandler. In the industrial districts, enterprises were small. They competed but they also collaborated and the social network of the place was an integral part of the functioning of the model, based on relations of trust. Within the same areas, co-operative enterprises also developed[7] alongside the private small and medium-sized enterprises (SMEs); some of which grew to become international leaders in niche markets.[8] The panorama of Italian enterprises has therefore become much more varied than in most advanced economies and this variety is the object of the essay by Andrea Colli.

The success of the industrial districts on the international markets was so marked (as documented in the essay by Michelangelo Vasta in this collection) that politicians started believing that the future of the country could be entrusted to the SMEs, but many scholars have emphasized the need for a country the size of Italy to remain active in the fields of advanced technologies and large corporations also.

3.4.3. Special legislation for the South

The realization that the south had been slipping back so much prompted the formation of an Agency in 1951 (the *Cassa per il Mezzogiorno*) which devised additional investments in that area, with the aim of creating an industrial surge.

State owned enterprises were forced to invest there and large corporations were induced, by being offered large subsidies, to place capital intensive plants in this area. Things seemed to improve, as the essay by Felice shows, but the change stopped too soon, for a host of reasons explained in his essay and in Rota (2008).

3.5. At the dawn of the new millennium

Since the second half of the 1990s and particularly in the first decade of the new millennium, the Italian economy has not been doing well by international standards. There has even been talk of 'decline',[9] but it seems rather too early to draw this conclusion. Here, we cannot but hint at some of the causes of this dismal performance.

3.5.1. Privatizations and the breaking up of the time-long periods of political equilibrium

Since the 1990s, Italy has become a laboratory for reform in economics and politics. The established equilibria have been broken, but the outcome has not yet established a new equilibrium. The old state-owned enterprises have been privatized, but few of them are successful.[10] Italy remains with too few large corporations. The old political parties have been replaced by new ones, but none of these has yet shown an enlightened strategic leadership in the long term.

3.5.2. Obsolete industrial specializations?

Italian industry has not lost much in the international export markets (before the 2008 crisis), and has had considerable success in upgrading its products in the higher, more sophisticated range, although entries into new sectors have been few (see the essay by Michelangelo Vasta).

3.5.3. From industry to services

Italy, too, has become a service economy, but without dwarfing the industrial sector as in other advanced countries. On the one hand, services have not attracted enough innovative entrepreneurship and productivity has been lagging behind; on the other hand, the resistance of Italy (together with Germany and Japan) in the industrial sector has been made partly possible by a stagnation in real wages that had contained domestic demand even before the 2008 world crisis. Whether it was wise for Italy not to accelerate the transition towards services is something that will be clarified by future developments. The question is still very much open to research, as the essay by Patrizia Battilani clearly shows.

3.5.4. The problem of public administration and welfare

Public administration in Italy was considered an employment sector that was not under the pressure of efficiency. As the world has become so much more rapid in decision-making, the slowness, inefficiency and often corruption of the Italian public administration has become a real burden to the system, contributing to its overall loss of productivity and making the Italian welfare system costly and unsatisfactory.

At the conclusion of this Introduction, we must admit that it has certainly been a heroic effort to try and encompass the entire history of the Italian economy since unification in six essays, but we believe it has been worth the attempt. The effort to be concise has led the team of scholars recruited for this adventure to select what they consider to be relevant over the long term and sacrifice details, which the reader can easily recover from the studies cited. One final warning: the Italian case of economic growth is in many ways atypical. The country has a complex history, the effects of which are enduring, and such a variety of enterprises, cities, ideas and social networks that make it a reality that is difficult to model in the ways that are possible for most other advanced countries. The interpretation of Italian history, therefore, defeats conventional wisdom and requires caution and openness to much more than standard economics. This is why the Italian economy has often been likened to a bumble-bee which (in theory) should not be able to fly. The explanation of why it does fly can only come from approaches that do not separate the economy from society and which look to a very long term as a horizon.

Notes

1 Wherever the sources of our figures are not provided in the references in the text, see the Appendix.
2 Unification of the country was not completed in 1861: in 1866 there was the so-called Third War of Independence against the Hapsburg Empire for the acquisition of Venetia, and in 1870 Lazio was seized from the Pope, while the capital of the new kingdom was first transferred from Turin to Florence and then to Rome.
3 For a general overview of fascist public policies, see Fausto (2007).
4 For a general consideration of the period, see Battilani and Fauri (2008).
5 This area has been called the 'Third Italy', the first being identified with the NW regions and the second with the southern regions (S). See Bagnasco (1977).
6 In English, see Belussi and Sammarra (2009); Becattini *et al.* (2009); Jones *et al.* (2009).
7 See Menzani and Zamagni (2009).
8 Italian scholars have called these solid, medium-sized enterprises 'pocket multinationals', for their capability not only to export abroad, but also to acquire specialized companies in foreign markets and form multinational groups. Also, there has been talk of 'fourth capitalism', meaning the capitalism of the internationalized medium-sized enterprises, coming after the first capitalism of the large private

corporations, the second capitalism of state owned enterprises and the third of the industrial districts made up of small firms. See Colli (2002).

9 Among the many volumes discussing the alleged decline, see Toniolo and Visco (2004).

10 One of the successful ones is our defense company Finmeccanica. See Zamagni (2009).

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Appendix

In 1957, Italy, together with the USA, was the first nation to elaborate yearly historical series of GDP. These series, provided by the Italian National Institute of Statistics (Istat) and then revised by several scholars, have for a long time been the main statistical basis for the knowledge of the long-term performance of the Italian economy. Only during the 1990s, did a new elaboration start aimed at a historical reconstruction of GDP, based on direct data and not only on the revision of the old Istat series. Istat revised the most recent series in 1965, 1979, 1987 and 1995. Thanks to these efforts by historians and statisticians, it is now possible to use a more convincing outline of the long-term performance of the Italian economy (although a revision of GDP in the period 1913–39 is still in progress).

Data in Table A1 refer to Italy within its present borders. In the previous pages and in this Appendix, by north or centre-north, we refer to the part of Italy from the Alps down to and including Latium (Lazio). By south or south–islands we refer to the rest of Italy.

Table A1 Main indicators of the performance of the Italian economy (1861–2001)

	Capacity	*1861*	*1913*	*1936*	*1951*	*1973*	*2001*
1	Population (000) (present) (P)	25,756	36,023	42,303	47,159	54,609	56,305
2	*Index population (1861 = 1)*	*1.00*	*1.40*	*1.64*	*1.83*	*2.12*	*2.19*
3	Per capita GDP (1951 prices)	84,488	155,995	190,596	226,881	627,311	1,146,391
4	*Index GDP per capita (1861 = 1)*	*1.00*	*1.85*	*2.26*	*2.69*	*7.42*	*13.57*
5	GDP (1951 prices) (000.000)	2,176,073	5,619,408	8,062,783	10,699,481	34,256,826	64,547,545
6	*Index GDP (1861 = 1)*	*1.00*	*2.58*	*3.71*	*4.92*	*15.74*	*29.66*
7	Wealth (1951 prices) (000.000)	13,056,438	36,526,151	43,539,026	71,686,523	184,986,863	438,923,308
8	Wealth/GDP ratio	6.0	6.5	5.4	6.7	5.4	6.8
9	Labour force (LF) (000)	15,077	17,987	20,208	19,984	20,000	23,742
10	*Index labour force (1861 = 1)*	1.00	1.19	1.34	1.33	1.33	1.57
11	Activity rate (LF/P) (%)	59	50	48	42	37	42
12	Capital per worker (Index)	1.00	1.92	2.73	3.40	10.72	17.95
13	Labour productivity (index)	1.00	2.16	2.76	3.71	11.87	18.84
	Structure	*1861*	*1913*	*1936*	*1951*	*1973*	*2001*
14	Agriculture (output) (%)	45–55	38.8	24.9	25.3	8.9	3.1
15	Industry (output) (%)	18–22	23.2	28.1	35.0	40.5	28.4
16	Services (output) (%)	27–33	38.0	47.0	39.0	50.6	68.5
17	Agriculture (labour force) (%)	60	59	52	45	17	6
18	Industry (labour force) (%)	23	24	26	27	44	28
19	Services (labour force) (%)	17	17	22	28	38	66
20	Urbanization (%)	19.6	31.3	35.5	41.1	52.0	67.0
21	Per capita GDP (south/north)	0.90–1.00	0.80	0.59	0.47	0.66	0.58

Sources: Figures refer to the line numbers: 1–2, Istat (1958, 1976), Del Panta, Livi Bacci, Pinto and Sonnino (1996); 3–6, Fenoaltea (2005a, b), Maddison (1991), Daniele and Malanima (2007), *I conti economici dell'Italia* (1991, 1992, 2002); 7–8, Goldsmith and Zecchini (1999); Ciocca (2007, p. 20); 9–11, Zamagni (1987), Vitali (1968, 1970), Istat (1973, 2001); 12–13, Goldsmith and Zecchini (1999), Ercolani (1969), Rossi, Sorgato and Toniolo (1993); 14–16, Istat (1958, 1976), Istat (Annuario 2001) (data on the composition of output are based on current prices series); 17–19, Vitali (1970), Zamagni (1987), Istat (Annuario 2001), Svimez (1961, 2000); 20, Malanima (2005); 21, Daniele and Malanima (2007).