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Abstract	<p>The outbreak of the world-wide economic crisis in 2008 and its later worsening brought the topic of Italy's 'economic decline' to the forefront of public debate. The most common explanations of this decline revolve around the inability of Italian society to adapt to the new conditions caused by the advent of the 'second wave of globalisation' after the 1970s. Emphasis falls on the burden of public debt, the inadequacy of the reforms of Italy's economic and social institutions (privatisation, flexibility in the labour market, market liberalisation and deregulation) and on the need for investment in education. Here, we adopt a different outlook, one which hinges on class interests and the conflict between them. The chapter covers the development of the Italian economy from 1945 to the 1990s, focusing in particular on the period starting with the crisis which put an end to the 'economic miracle' in 1963 and ends in 1992, when the lira left the European Monetary System. This was a period of sustained, and unprecedented, growth for the Italian economy, during which Italy caught up with other advanced industrial economies. At the same time, those were the years in which we can find the roots of the problems which have afflicted the Italian economy in the last two decades.</p>	
Keywords (separated by '-')	Italy - Italian economy - Labour market - Market liberalisation - European monetary system	



CHAPTER 6

Mercantilism and Class Struggle: Italy in the International Economy, 1960–1990

Francesco Petrini

The unheralded economic crisis in Italy in 2008 and then its expansion brought a change of perception in the public debate about the country's economy and its prospects. Although in the past there had been no dearth of apologists of the virtues of the Italian model of 'industrial districts' and export-oriented small- and medium-sized enterprises, it is nowadays much more common to hear or read about the 'economic decline' of the country. **AQ1**

This attitude has also extended to academic literature. The Bank of Italy recently published a large volume, edited by Gianni Toniolo, on Italy's economic history from its unification (1861) to the present day, which will certainly become a milestone in the literature.¹ The work provides ample statistical evidence of the interruption, from the early 1990s onwards, of the century-long process of convergence of the Italian

¹Gianni Toniolo (ed.), *L'Italia e l'economia mondiale. Dall'Unità a oggi* (Venezia: Marsilio, 2013).

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18 economy towards the level of welfare of the most advanced countries. As
19 regards the causes of this dismal performance, Toniolo's work presents a
20 general interpretation which hinges on the inability of Italian society to
21 adapt to the new conditions caused by the 'second wave of globalisation'
22 after the 1970s. Emphasis is put on the burden of public debt, the inad-
23 equacy of the reforms of the country's economic and social institutions
24 (privatisation, flexibility in the labour market, market liberalisation and
25 deregulation) and the need for investment in education.

26 In this chapter, we describe some aspects of the same phenomenon
27 but from a different viewpoint—one which discusses class interests
28 and the conflicts among them. The focus is on the development of the
29 Italian economy from 1945 to the 1990s, starting with the 1963 cri-
30 sis, which put an end to the 'economic miracle', and ending in 1992,
31 when the lira left the European Monetary System. It was a period of
32 sustained and unprecedented growth for the Italian economy, during
33 which Italy caught up with other advanced industrial economies. At
34 the same time, it was in those years that we can find the roots of the
35 problems which have afflicted the Italian economy over the last two
decades.

36

ITALY'S ROAD TO MODERNISATION

37

38 In 1945, Italy's economy was in a dire state. The structural weak-
39 nesses of a poor country, with low levels of savings and incomes, with
40 very few raw materials within its territory, and afflicted by a huge sur-
41 plus of manpower, were all worsened by the destruction wrought by the
42 Second World War. In these conditions, Italy's only asset appeared to be
43 a vast reserve of hard-working, cheap manpower. In the spring of 1946,
44 in a declaration before the Economic Commission of the Constituent
45 Assembly, Vittorio Valletta, chief executive officer of Fiat, the largest and
most politically influential private Italian company, stated:

46

47 In Italy the mechanical industry in general, and the automotive industry
in particular, though they suffer from the deficiency of raw materials, can
count on low labor costs, more than anywhere else and for decades: should



48 an improvement in living conditions occur, this will be general and the dif-
 49 ference between us and the others will persist.²

50

51 The essential idea was to take advantage of the low level of salaries
 52 to conquer foreign markets. This view dominated the mental horizon of
 53 Italy's political-economic establishment during the years leading to the
 54 'economic miracle' and persisted, *mutatis mutandis*, in the subsequent
 55 decades. Expansion into foreign markets appeared to be the only path
 56 to recovery: in light of the poverty of the vast majority of its population,
 57 which greatly limited the potential of the internal market, Italy had to
 58 find its space for growth abroad by taking advantage of the low cost of
 59 labour. Thus, on one hand, manpower costs had to stay low, to boost
 60 the competitiveness of Italian products on foreign markets. On the other
 61 hand, low purchasing power due to similarly low wage levels could only
 62 reinforce such a mercantilist effort. In other words, the 'mercantilist'
 63 stance produced, and was a product of, the perpetuation of a structural
 64 trait in Italy's economy—what Franco Bonelli has called the 'equilibrium
 65 of low consumption and low wages'.³ In this perspective, as explicitly
 66 stated in the Confindustria Bulletin of November 1945 (that is, during a
 67 period of rampant inflation): 'It is not a question of adjusting salaries to
 68 the cost of living, but the cost of living to salaries.'⁴ Ultimately, as noted
 69 by Giancarlo Provasi, the Italian industrial *bourgeoisie* envisaged a process
 70 of accumulation, based on containment of wages and workers' standard

²Ministero per la Costituente-Commissione economica, *Rapporto della Commissione economica, L'industria – Appendice alla Relazione (Interrogatori)* (Roma: Istituto Poligrafico dello Stato, 1946) 2:345–355. On the political economy of the Italian reconstruction from 1945 until the early 1960s, still illuminating are: Fernando Vianello, 'Lo sviluppo capitalistico italiano dal dopoguerra al "miracolo economico": una veduta di insieme', in *Il profitto e il potere*, ed. Fernando Vianello (Torino: Rosenberg & Sellier, 1979), 21–36. For a general overview of the characteristics of the socio-economic compromise which governed Italy's growth from 1945 to the 1960s, see Fabrizio Barca, 'Compromesso senza riforme nel capitalismo italiano', in *Storia del capitalismo italiano*, ed. Fabrizio Barca (Roma: Donzelli, 1997), 3–115.

³Franco Bonelli, 'Il capitalismo italiano. Linee generali di interpretazione', in *Storia d'Italia, Annali, I. Dal feudalesimo al capitalismo*, eds. Ruggiero Romano and Corrado Vivanti (Torino: Einaudi, 1978), 1193–1255.

⁴Cited in Massimo Legnani, 'L'utopia grande borghese', in Marcello Flores et al., *Gli anni della Costituente. Strategie dei governi e delle classi sociali* (Milano: Feltrinelli, 1983), 140.



71 of living, more than on the growth of productivity.⁵ In fact, the situation
 72 developed quite differently and productivity grew at an unprecedented
 73 pace during the ‘golden years’, but the bias against wage increases
 74 remained.

75 This position excluded the possibility of any kind of Keynesian-
 76 inspired policies of support to internal demand. As observed by Mariano
 77 D’Antonio, adopting expansive policies would have meant sacrificing the
 78 more backward sectors of the industrial system.⁶ Redistributive policies
 79 would also have put an end to the advantage of low labour costs and
 80 in general a redistribution of power between workers and employers—
 81 highly undesirable from the viewpoint of the latter.

82 Two points must be clarified here. First, we are not assuming an
 83 Italian *Sonderweg*: the ‘mercantilist’ anti-Keynesian attitude was by no
 84 means peculiar only to Italy. After 1945, it was widely shared in the capi-
 85 talist world, first by Italy’s two former allies in the Second World War,
 86 although in different ways. The Federal Republic of Germany could be
 87 considered the prime example of a mercantilist stance in Europe as well
 88 as presenting, through the Ordoliberal school of thought, the clearest
 89 alternative to Keynesianism at the time. However, West Germany had a
 90 particular way of increasing international competitiveness: the key fac-
 91 tor was to keep inflation low in a system of fixed exchange rates and
 92 thus achieve devaluation in real terms with respect to countries with
 93 higher inflation rates.⁷ Italy, under the guidance of its Central Bank, first

⁵Giancarlo Provasi, *Borghesia industriale e Democrazia cristiana. Sviluppo economico e mediazione politica dalla ricostruzione agli anni settanta* (Bari: De Donato, 1976), 16.

⁶Mariano D’Antonio, *Sviluppo e crisi del capitalismo italiano 1951–1972* (Bari: De Donato, 1973), 173–174.

⁷On Germany’s ‘monetary mercantilism’ see: Carl-Ludwig Holtfrerich, ‘Monetary Policy Under Fixed Exchange Rates (1948–70)’, in *Fifty Years of the Deutsche Mark: Central Bank and the Currency in Germany since 1948*, ed. Ernst Baltensperger (New York: Oxford University Press, 1999), 307–402; Carl-Ludwig Holtfrerich, ‘Monetary Policy in Germany Since 1948. National Tradition, International Best Practice or Ideology’, in *Central Banks as Economic Institutions*, ed. Jean Philippe Touffut, (Cheltenham, UK: Edward Elgar, 2008), 22–51. For an introduction to Ordoliberalism, stressing its characteristic ‘third way’ between *laissez-faire* and collectivism, see Werner Bonefeld, ‘Freedom and the Strong State: On German Ordoliberalism’, *New Political Economy* 17, no. 5 (2012), 633–656. See also: Ralf Ptak, ‘Neoliberalism in Germany: Revisiting the Ordoliberal Foundations of the Social Market Economy’, in *The Road From Mont Pélerin: The Making of The Neoliberal Thought Collective*, eds. Philip Mirowski and Dieter Plehwe (Cambridge, Harvard University Press, 2009), 98–138.



94 followed a similar strategy (in 1959, the lira was assigned an ‘Oscar’ by
 95 the *Financial Times* as the world’s most stable currency) but, being char-
 96 characterised by class relations much more conflict-prone than those prevail-
 97 ing in West Germany, it was ultimately obliged to follow a different path.

98 Second, the convergence around a mercantilist conception based on
 99 containment of labour costs did not reduce the many reasons for con-
 100 trast within Italian capitalism. Thus, from Valletta’s viewpoint, in order
 101 to find space indispensable for deploying a Fordian-style mode of mass
 102 production, foreign markets were essential. Other well-known business-
 103 men were not at all convinced of the applicability of mass production
 104 technologies to the Italian situation,⁸ mainly because they feared the
 105 social consequences,⁹ although they were in any case convinced of the
 106 desirability of greater Italian participation in international trade. This was
 107 for contingent reasons, as in the case of the textile industry, which aimed
 108 at profiting from the disappearance of German and Japanese competitors
 109 from the markets; and partly for political reasons, to conceal collabora-
 110 tion with the state-managed, autarchic system of the Fascist era, but it
 111 was mainly due to the conviction that a system of managed free trade
 112 could play to the advantage of low-cost Italian products.¹⁰

113 In addition, the anti-Keynesian mercantilist outlook was seen as the
 114 point of contact with another crucial component of the post-war social
 115 compromise: the technocratic *élite* at the helm of state-owned compa-
 116 nies and the Bank of Italy, the country’s main decision-making centre
 117 for monetary and economic policy. It is true that there was a wide gap
 118 between the attitude of the state technocracy, whose ultimate aim was
 119 to strengthen and modernise Italy’s industrial base, and the position
 120 of Confindustria, which aimed at conserving power equilibria within

⁸For a brief overview of the Italian debate about adopting mass production, see Franco Amatori and Andrea Colli, *Impresa e industria in Italia. Dall’Unità a oggi* (Venezia: Marsilio, 2003), 198–200.

⁹For a clear description of these preoccupations, see Luigi Einaudi, ‘Economia di concorrenza e capitalismo storico. La terza via fra i secoli XVIII e XIX’, *Rivista di storia economica*, June 1942, 49–72.

¹⁰On private industrialists’ positions regarding Italy’s insertion in the international economy see, for example: Francesco Petrini, *Il liberismo a una dimensione. La Confindustria e l’integrazione europea 1947–1957* (Milano: Franco Angeli, 2005), Chap. 1; Francesco Petrini, ‘Americanismo e privatismo. La Confindustria e il piano Marshall’, *Ventesimo secolo*, no. 13 (2007): 117–151.



121 private capitalism and keeping workers at a safe distance. Yet, in prac-
 122 tice, both positions saw in mercantilism and wage containment the recipe
 123 for reconstructing the Italian economy.¹¹ This appears clearly in *Appunto*
 124 *per un piano di ricostruzione economica dell'Italia* (Note for a plan of
 125 economic reconstruction of Italy), a document drawn up in 1944 by an
 126 anonymous executive of IRI (*Istituto per la Ricostruzione Industriale*,
 127 a holding which regrouped state-participating assets in the industry
 128 and banking sectors), which foreshadowed the lines of development to
 129 be followed in the years to come.¹² According to that document, Italy
 130 should aim at strengthening:

131 those visible and invisible accounts [manufacturing exports, migration,
 132 tourism] susceptible to give a real contribution to the balance of payments.
 133 Traditionally exporting sectors should have precedence in the reconstruc-
 134 tion process.¹³

135 As regards internal demand, the *Appunto* advocated a ‘strict national
 136 discipline’ to contain internal consumption and favour the creation of
 137 savings, in order not to frustrate efforts at modernising the industrial
 138 apparatus: ‘the compression of our consumption will have to continue
 139 for a long time’.¹⁴ In this view, as Rolf Petri points out, ‘substantial wage
 140 increases and a growth in public spending to support consumption and
 141 social welfare had to be eschewed’.¹⁵ This was the technocrats’ outlook
 142 in 1944; in the post-war period, although in milder tones, the substance
 143 did not change very much. Men like Donato Menichella, until 1960
 144 the governor of the Bank of Italy, his successor Guido Carli, and other

¹¹On the viewpoint and role of Italian technocrats, see Rolf Petri, *Storia economica d'Italia. Dalla Grande guerra al miracolo economico (1918–1963)* (Bologna: il Mulino, 2002), 291 et seq.

¹²IRI Historical Archive (Rome), Numerazione nera, Archivio IRI 1943–1947, Appunti e relazioni varie, fasc. 81, *Appunto per un piano di ricostruzione economica dell'Italia*, 8 August 1944. For a thorough analysis of the origin and significance of the document, see Rolf Petri, *Dalla ricostruzione al miracolo economico*, in *Storia d'Italia V: La repubblica*, eds. Giovanni Sabbatucci and Vittorio Vidotto (Roma/Bari: Laterza, 1997), 313–439.

¹³IRI Historical Archive, Numerazione nera, Archivio IRI 1943–1947, Appunti e relazioni varie, fasc. 81, *Appunto per un piano di ricostruzione economica dell'Italia*, 8 August 1944, 6.

¹⁴*Ibid.*, 10.

¹⁵Rolf Petri, *Storia economica d'Italia*, 301.



145 members of the economic intelligentsia, such as Pasquale Saraceno and
 146 Ezio Vanoni, continued to advocate and practise a policy aimed at con-
 147 taining domestic consumption and imports, in order to encourage sav-
 148 ings and create the resources for completion of industrialisation without
 149 borrowing from abroad.¹⁶ As Carli said: ‘Our watchword was: export,
 150 export, export.’¹⁷

151 POLITICAL ASPECTS OF FULL EMPLOYMENT: THE END
 152 OF THE ‘ECONOMIC MIRACLE’

153 It was on this basis that the extraordinary growth of the 1950s took
 154 place, climaxing in the ‘economic miracle’ at the end of that decade. One
 155 essential component of the ‘miracle’ was exports, which increased at a
 156 yearly rate of 12.5%.¹⁸ Private consumption grew at a more moderate,
 157 albeit considerable, 5.9% per year. Apparently the exceptional expansion
 158 of the 1950s had not affected the mercantilist model of development.

159 However, there was another interesting trend in those years—that
 160 of wage shares on industrial products. This passed from 62.7% in 1951
 161 to 48.8% in 1962.¹⁹ In practice, the largest part of the huge increase
 162 in productivity which took place during the decade went to the bene-
 163 fit of profit. In the 1950s, the position of force enjoyed by employers
 164 in industrial relations prevented workers from acting effectively to con-
 165 trast this trend. However, accelerated growth throughout the decade
 166 resulted in a reduction of the manpower surplus which, in turn, caused
 167 an increase in the bargaining power of industrial workers. In the early
 168 1960s, the labour market had shrunk to the point at which, in industrial

¹⁶On the Central Bank policy under Menichella, see Alfredo Gigliobianco, *Via Nazionale. Banca d'Italia e classe dirigente. Cento anni di storia* (Roma: Donzelli, 2006), 217–248; Pasquale Saraceno, *Intervista sulla ricostruzione (1943–1953)*, ed. Lucio Villari (Bari: Laterza, 1977); Antonio Magliulo, ‘La politica economica di Ezio Vanoni negli anni del centrismo’, *Studi e Note di Economia*, no. 1 (2007): 77–114.

¹⁷Guido Carli, *Cinquant'anni di vita italiana* (Roma/Bari: Laterza, 1993), 140.

¹⁸For an overview of the debate on the role of exports in Italy's growth after 1945, cfr. Augusto Graziani, *Lo sviluppo dell'economia italiana. Dalla ricostruzione alla moneta euro-
pea* (Torino: Bollati Boringhieri, 2000), 56–65.

¹⁹Riccardo Bellofiore, *I lunghi anni settanta. Crisi sociale e integrazione economica inter-
nazionale, in Le radici della crisi. L'Italia tra gli anni '60 e '70*, ed. Luca Baldissara (Roma: Carocci, 2001), 57–102.



169 areas (mainly in north-west Italy) employers had trouble finding work-
170 ers to fill existing positions. The official number of unemployed reached
171 an historic all-time low of 780,000 in 1963.²⁰ As the Polish economist
172 Michał Kalecki had written 20 years earlier, a condition of full employ-
173 ment would inevitably lead to deep social and political changes:

174 Indeed, under a regime of permanent full employment, the ‘sack’ would
175 cease to play its role as a disciplinary measure. The social position of the
176 boss would be undermined, and the self-assurance and class-consciousness
177 of the working class would grow. Strikes for wage increases and improve-
178 ments in conditions of work would create political tension.²¹

179 The shift in the balance of power in industrial relations did in fact lead
180 to a sudden increase in conflict, marking a key passage in Italian history.
181 Workers’ discontent exploded in a wave of strikes which rocked facto-
182 ries in the north-west. As a result, wages rose substantially: in two years,
183 raises for employees grew by 43%.²² For the first time, they surpassed
184 productivity growth and the wage share climbed back to 52% in 1963.

185 The tumultuous social change brought about by the ‘miracle’ was
186 due to a profound transformation in the political landscape. This was the
187 period which saw the birth of a centre-left alliance between the Christian
188 Democrat party (DC, the main governing force since the institution of
189 the Republic in 1946) and the Socialist party (PSI). In 1963, this alliance
190 led to the constitution of a government presided over by Aldo Moro of
191 the DC, in which, for the first time since 1947, the PSI had ministers.
192 The main aim of the new political coalition was to achieve reforms which
193 were seen as the necessary complement of industrialisation. Important
194 sectors of Italian society—in particular, the majority of private employ-
195 ers—viewed this development with alarm. In particular, they were deeply
196 disturbed by the nationalisation of the electricity sector, decided by the
197 government in 1962, which struck at the conservative heart of Italian
198 private capitalism, with the new withholding tax on stock dividends and
199 discussion on a new town-planning bill which threatened the interests of

²⁰See database AMECO, at: http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm.

²¹Michał Kalecki, ‘Political Aspects of Full Employment’, *The Political Quarterly*, no. 4 (1943): 322–331.

²²Carli, *Cinquanta anni*, 268.



200 the building industry and the vast class of *rentiers* and small proprietors.
 201 In general, they feared that the country was slipping towards a socialist,
 202 planned economy.²³

203 The conservative sectors of Italian society found their main political
 204 support in the right wing of the DC, the ‘*Dorotei*’ faction, whose lead-
 205 ing figure in economic matters, Emilio Colombo, was minister of the
 206 Treasury. These preoccupations, coupled with the worries of the Central
 207 Bank, were under Carli’s guidance.

208 In fact, the immediate consequence of the workers’ unrest had
 209 been soaring inflation. This was alimeted by employers’ attempts to
 210 defend their profits, passing the increase in labour costs to prices. As
 211 Confindustria’s weekly newsletter ‘*L’Organizzazione industriale*’ put it:
 212 ‘The transfer of the rise in costs to prices becomes inevitable under the
 213 pressure of the reduction of profit margins on which firms operate.’²⁴
 214 Increased wages and rising inflation resulted in worsening of the trade
 215 balance, threatening the very core of the mercantilist strategy.²⁵ In addi-
 216 tion, the profit squeeze resulting from the wage increase disrupted the
 217 Bank of Italy’s strategy.

218 Since 1947, the Bank of Italy had successfully pursued a policy mix
 219 of monetary stability, balanced current accounts and non-inflationary
 220 growth. In order to achieve this growth, the key variable in the eyes of
 221 the Central Bank was profitability. Only adequately high profits (given
 222 the scarcity of endogenous credit) could ensure the investments neces-
 223 sary to absorb the chronic manpower surplus without recurring to
 224 foreign capital. Conversely, due to the fact that workers’ marginal prop-
 225 ensity to consume was higher than that of their employers’, in the
 226 Bank’s view, a wage rise would result in a greater demand for con-
 227 sumer goods, thus feeding inflation, higher imports and current account

²³Paul Ginsborg, *A History of Contemporary Italy* (London: Penguin, 1990), 264–273. As quoted by Ginsborg (265), on 4 January 1962 the Italian business newspaper *Il Sole 24 Ore* warned small and medium firms that they could be faced ‘with a situation similar to that of their Czechoslovak, Hungarian, and Chinese colleagues around the year 1950’.

²⁴‘Una più seria politica economica’, *L’Organizzazione industriale*, no. 19, 9 May 1963.

²⁵In 1963, the external trade deficit exceeded \$1960 billion, or 3.7% of the GDP. The Banca d’Italia’s currency reserves fell to 1700 billion lire from their peak of 2600 billion recorded in 1962. See Pierluigi Ciocca and Gianni Toniolo (eds.), *Storia economia d’Italia*, 2, *Annali* (Roma/Bari: Laterza, 1999) 402.



228 imbalances and, lastly, causing an arrest in growth.²⁶ Yet the centrality
 229 of profits in guaranteeing capital accumulation did not translate, in the
 230 Bank's policy, into a dogmatic concept. Its attitude had always been
 231 characterised by policy flexibility and theoretical eclecticism. So, in the
 232 period immediately before the 1962–63 inflationary crisis, it adopted an
 233 easy monetary policy to sustain the price increases which defended profit
 234 levels. In this regard, Carli is very clear in his memoirs:

235 The political motivation of monetary expansion, which we did not oppose,
 236 was this: to allow firms to transfer rising costs to prices, without having
 237 to squeeze their profit margins. [...] The essential aim was defence of pri-
 238 vate companies and capitalist industry, seriously jeopardised by excessive
 239 nationalisation by the centre-left [and by] the trade unions which, vehe-
 240 mently and often violently, claimed increasing portions of that 'surplus
 241 value' which, according to the prevailing ideology, was expropriated by the
 242 capitalists.²⁷

243 However, this policy could not long continue in the Bretton Woods sys-
 244 tem of semi-fixed exchange rates. In the light of the rapid deterioration
 245 of the Italian balance of payments, Italy's monetary and political authori-
 246 ties were faced with a choice: either to devalue the lira or to apply a strict
 247 deflationary policy. Devaluation of the lira encountered the opposition of
 248 the USA, concerned about the stability of the whole system, and of the
 249 European partners, threatened by the competitiveness of Italian exports.
 250 It was rejected by the Banca d'Italia itself, for reasons of prestige and
 251 credibility.²⁸ Thus, between the second half of 1963 and early 1964, the

²⁶For a discussion of this viewpoint, see Banca d'Italia, *Considerazioni finali 1963*, in Idem, *Considerazioni finali 1960–1981*, http://www.bancaditalia.it/chi-siamo/storia/governatori-direttori-general/CF_1960_1981.pdf (accessed on 13 January 2017), 111–149. For an analysis of this aspect of the Bank's conceptions, see Michele Fratianni and Franco Spinelli, *Storia monetaria d'Italia. Lira e politica monetaria dall'Unità all'Unione Europea* (Milano: ETAS, 2001), 448; Eugenio Gaiotti and Salvatore Rossi, *La politica monetaria italiana nella svolta degli anni Ottanta*, in *Gli anni Ottanta come storia*, eds. Simona Colarizi et al. (Soveria Mannelli: Rubbettino, 2004) 281–340; Alfredo Gigliobianco, *Via Nazionale. Banca d'Italia e classe dirigente. Cento anni di storia* (Roma: Donzelli, 2006), 282.

²⁷Carli, *Cinquanta anni*, 268–269.

²⁸Antimo Verde, 'La crisi della lira del 1963–64, una crisi senza svalutazione: perché?', *Studi e Note di Economia*, no. 1 (2002): 75–95. On the contrary views of the other EEC countries, especially France, see Paolo Peluffo, *Introduzione: 'Il cavallo non beve'. Dibattiti negli anni Sessanta su politica monetaria e programmazione economica*, in Guido Carli,



252 Bank reversed its policy of monetary expansion and applied a very restric-
 253 tive one,²⁹ which, in conjunction with the fiscal measures taken by the
 254 government, more or less put an end to the ‘economic miracle’. This
 255 deflationary turn, which appeared to seal the fate of the reformist ambi-
 256 tions of the centre-left, was welcomed by employers, in spite of the fact
 257 that inflation and the easy monetary policy of the previous months had
 258 helped them to sustain its profitability. The employers’ press explicitly
 259 recalled, as an example to be repeated, the 1947 manoeuvre which had
 260 drastically curtailed post-war inflation—at the price, however, of a seri-
 261 ous economic stall.³⁰ Confindustria deplored, as inadequate, the policies
 262 of planning and reforms supported by the socialists and the left of the
 263 Christian Democrat party, and pleaded for adoption of orthodox moneta-
 264 ry and fiscal policies.³¹ Alberto De Stefani, Mussolini’s former minister
 265 of finance, wrote in the daily newspaper *Il Tempo*: ‘His [Carli’s] recent
 266 declarations showed a really reassuring bravery.’³²

267 It is important to stress the role played in these circumstances by the
 268 international context, the ‘*vincolo esterno*’ (external constraint) as it came
 269 to be called in the Italian debate. We have already mentioned the role
 270 of the Bretton Woods system, which represented an anchor for stabilis-
 271 ing measures, in line with a long tradition of a rigid exchange rate as the
 272 ‘highly effective arm of the lever that was pressing on the wage level’,

Scritti scelti, eds. Paolo Peluffo and Federico Carli (Roma/Bari, Laterza, 2000), V-LIV, XIX.

²⁹The U-turn in monetary policy was announced by Carli in May 1963: Banca d’Italia, *Considerazioni finali 1962*, in Id., *Considerazioni finali 1960–1981*, 75–109, in particular, 106.

³⁰‘La stabilità monetaria. Il presupposto di ogni sviluppo economico’, *L’Organizzazione industriale*, no. 16, 18 April 1963. Particularly telling is the reference to 1947. At that time, as evidenced by Camillo Daneo (La politica economica della ricostruzione 1945–1949 (Torino: Einaudi, 1975) 241), the industrialists were strongly in favour of the ‘linea Einaudi’ (Luigi Einaudi was the architect of the manoeuvre) which, from a financial viewpoint, was actually damaging them. However, for the first time after the end of the war, it gave them the opportunity to initiate a vast reduction of personnel.

³¹See, for example, the press communiqué issued after a meeting of the Confindustria governing body in June 1963, which demanded the return to ‘rigid economic and financial orthodoxy’ (*L’Organizzazione industriale*, ‘L’esigenza del ritorno all’ortodossia economica’, no. 26, June 27 1963).

³²Paolo Peluffo, “*Il cavallo non beve*”, *op. cit.*, XXXIII–XXXIV.



273 as indicated by Karl Polanyi.³³ However, the 1963 crisis saw the *début*
 274 of another facet of the *vincolo esterno* which was to play a crucial role
 275 in Italian political economy in the subsequent decades: the European
 276 Economic Community. Within the Community, preoccupations about an
 277 inflationary ‘contagion’ were widespread, especially in the FRG, obliged
 278 to re-evaluate the deutschmark in 1961 and worrying about the influx
 279 of capital engendered by the weak lira.³⁴ The French also pressed for the
 280 adoption of more orthodox monetary policies by the Italians, anxious
 281 that possible devaluation of the lira would put more pressure on their
 282 already unbalanced trade relations with Italy.³⁵ In addition, France and
 283 the EEC Commission viewed the instability of the lira and the spectre of
 284 devaluation as a looming menace for the fledgling Common Agricultural
 285 Policy. It is by no chance that, in this phase, the Commission presented a
 286 project for coordinating national economic policies which in 1964 led to
 287 the birth of the Committee of Governors of Central Banks, the Budget
 288 Policy Committee and the Medium-term Economic Policy Committee.³⁶

289 It was on these bases that, in February 1964, the EEC Council, com-
 290 posed of the finance ministers, expressed its concern about the Italian
 291 situation.³⁷ Two months later, the Council recommended to Italy—and
 292 France—to take all necessary monetary and fiscal measures to curb infla-
 293 tion. In the case of Italy, it was explicitly stated that this aim would have

³³Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 2001), 238.

³⁴On the declarations of the German chancellor Ludwig Erhard, and his minister for the economy Kurt Schmücker, expressing worries about inflationary tension and demanding the institution of Community machinery to coordinate the fiscal policies of the member states (that is, to have some decision-making power in the policies of the more financially ‘undisciplined’ members), see ‘Tensione delle economie del Mec’ (*The Guardian*, 17 March 1964), *Orientamenti*, no. 453, 15 April 1964. See also Schmücker interviewed by Eugenio Scalfari, ‘Che si può fare per la lira’, *L’Espresso*, 19 July 1964. On the positions of the European partners and the role of the Commission, see Elena Cavalieri, *Il prestito della Cee all’Italia del 1964: storia di un aiuto mai concesso*, available online: http://www.sissco.it/download/attivita/paper_Cavalieri.pdf. (accessed on 13 January 2017).

³⁵Peluffo, ‘*Il cavallo non beve*’, p. IX.

³⁶On this aspect of EEC institutional history, see Eric Bussière, *Les tentatives d’une politique économique et monétaire*, in *La Commission européenne 1958–1972. Histoire et mémoire d’une institution*, eds. Michel Dumoulin et al. (Brussels: Communautés Européennes, 2007), 405–424.

³⁷‘La situazione economica dell’Italia è la più inflazionata in seno al Mec’, *L’Organizzazione industriale*, no. 7, 13 February 1964.



294 to be reached by the second half of 1964, thus requiring a continuation
 295 of the restrictive monetary policy, even though current account balances
 296 were showing substantial improvements.³⁸

297 The deflationary front within the Italian political game welcomed
 298 and encouraged the external intervention, as it reinforced and legiti-
 299 mised such a position. The employers' press emphasised Community
 300 grievances and used them to present the deflationary manoeuvre as one
 301 of the duties of a good member of the EEC, while Colombo skilfully
 302 used it to press his case inside the government.³⁹ On 20 May 1964,
 303 Prime Minister Aldo Moro received a letter from the Chairman of the
 304 Commission, Walter Hallstein, in which the measures taken so far by the
 305 government were defined as 'insufficient' to avoid the risk of jeopard-
 306 ising the construction of the Common Market.⁴⁰ Hallstein suggested
 307 a number of measures, ranging from cuts in public expenditure and
 308 investments (which sounded a death knell for reformist ambitions), to
 309 increased taxes, and culminated in the suggestion to institute an income
 310 policy to control wage dynamics. To support these requests, on 18–19
 311 June the Commission vicepresident Robert Marjolin went to Rome to
 312 meet the Italian authorities. His message was thus summed up by Pietro
 313 Nenni (secretary of the Socialist party and vicechairman of the Council
 314 of Ministers) in his diary: 'Tax incomes mercilessly and contain wages'.⁴¹

³⁸Partly thanks to the \$1.275 million line of credit obtained (from various sources) in March through the good offices of the US administration. Cfr. Giorgio Fodor, 'I prestiti internazionali all'Italia nel 1964', in *Stabilità e sviluppo negli anni cinquanta, L'Italia nel contesto internazionale*, ed. Franco Cotula (Roma/Bari: Laterza, 2000), I:401–439.

³⁹In this passage, I refer to: Francesco Petrini, 'Grande mercato, bassi salari: la Confindustria e l'integrazione europea, 1947–1964', in *L'Italia nella costruzione europea. Un bilancio storico (1957–2007)*, eds. Piero Craveri and Antonio Varsori (Milano: Franco Angeli, 2009), 233–258.

⁴⁰See text of letter in Mimmo Franzinelli and Alessandro Giaccone (eds.), *Il riformismo alla prova. Il primo governo Moro nei documenti e nelle parole dei protagonisti (ottobre 1963–agosto 1964)* (Milano: Feltrinelli, 2012), 359–363, Doc. 346, *Lettera del presidente della Commissione della CEE Hallstein a S.E. il presidente del Consiglio Aldo Moro*, 20 May 1964.

⁴¹Franzinelli and Giaccone (eds.), *Il riformismo alla prova*, 430, Doc. 414. *Diario di Nenni*, 19 June 1964. Cavalieri shows that Marjolin, in a 'very questionable choice', decided not to consider a report prepared by a Commission expert, which showed that Italy was by now out of the crisis (Cavalieri, *Il prestito Cee all'Italia*, 10).



315 Confindustria's press gave prominence to the talks, to emphasise the
316 government's difficulties and to strengthen opposition to reforms:

317 Marjolin's mission has made clear the EEC's position of extreme anxiety
318 about an Italian economy which has reached breaking point, due both
319 to the inadequacy of the counter-cyclical measures taken hitherto and to
320 internecine struggles inside the government which prevent the adoption of
321 serious and vigorous measures.⁴²

322 Eventually, the progressive forces within the government found them-
323 selves isolated and were obliged to accept the deflationary measures. The
324 already divided government foundered and Moro resigned. Years later,
325 in 1978, in a memoir written while he was a prisoner in the hands of the
326 'Red Brigades' extremist group, he described EEC interference in Italian
327 affairs through Marjolin's visit as 'a grave fact'.⁴³

328 The restrictive manoeuvre achieved its objectives. Inflation returned
329 under control. The abrupt slowing-down of the economy caused a surge
330 in unemployment—the number of jobless returned to over a million—
331 but order was restored on the factory floor. With labour costs again
332 under control, the previous conditions of capital accumulation were
333 also restored. From 1966, the GDP had been rising again at a very sus-
334 tained pace. But this growth had a very different quality from that of the
335 'miracle' years: it began—to use Riccardo Bellofiore's words—a phase of
336 'accumulation without investments'.⁴⁴ Capitalists reacted to the social
337 turmoil of the early part of the decade with a 'strike' in investments,
338 preferring to transfer capital abroad, legally or illegally.⁴⁵ Thus, growth
339 became even more dependent on exports. The gains in productivity,

⁴²'Il riequilibrio dell'economia italiana nel quadro del Mec', *L'Organizzazione industriale*, no. 26, 25 June 1964.

⁴³This quotation comes from Moro's memoirs, published in Sergio Flamigni, *Il mio sangue ricadrà su di loro. Gli scritti di Aldo Moro prigioniero delle Br* (Milano: Kaos Edizioni, 1998) 221–226. It should be added that, in January 1968, in a speech to parliament, Moro said the opposite, defining Marjolin's visit as 'the most discreet, constructive, respectful one could imagine' (Miguel Gotor, *Il memoriale della Repubblica* (Torino: Einaudi, 2011), 513–551.

⁴⁴Riccardo Bellofiore et al., 'Il presente come storia. Un incontro su Paul Sweezy', *L'ospite ingrato*, no. 1 (2005): 197–236.

⁴⁵Michele Salvati, *Economia e politica in Italia dal dopoguerra ad oggi* (Milano: Garzanti, 1986) 89–97.



340 necessary to maintain the competitiveness of Italian manufactured goods
341 on international markets, were achieved with reduced manpower and
342 accelerated production lines.⁴⁶

343 In sum, the 1964 crisis marked a pivotal change in Italian history: in
344 response to the exposure of the contradictions of the ‘economic mira-
345 cle’, the country’s establishment decided to remain on the path of ‘low
346 consumption–low salaries–export push’, rather than accept the new reali-
347 ties brought about by modernisation, and to accommodate workers’
348 demands with a move to more internally oriented growth and efforts
349 towards higher value-added production.⁴⁷

350 THE 1970S: INFLATION AND DEVALUATION

351 At the end of the 1960s, when the labour market worsened again,⁴⁸
352 industrial workers’ discontent with their poor job conditions exploded
353 again, setting in motion a cycle of industrial conflict which was to
354 last until the end of the 1970s. The workers won significant advances
355 in terms of wages, as in the early 1960s, but this time also in terms of
356 increased control over production processes, directly questioning power
357 hierarchies on the factory floor.⁴⁹

⁴⁶Graziani, *Lo sviluppo dell’economia italiana*, 86–89; Guido Crainz, *Il Paese mancato* (Roma: Donzelli, 2005), 57–64.

⁴⁷This point is developed in Francesco Petrini, ‘Vincolo esterno e lotte sociali: gli industriali italiani e la fine dell’età dell’oro’, in *Fra mercato comune e globalizzazione. Le forze sociali europee e la fine dell’età dell’oro*, eds. Ilaria Del Biondo, Lorenzo Mechi and Francesco Petrini (Milano: Franco Angeli, 2010), 15–44. On Italy’s industrial ‘de-specialisation’ during the 1960s, see Matteo Gomellini, ‘Il commercio estero dell’Italia negli anni sessanta: specializzazione internazionale e tecnologia’, in *Quaderni dell’Ufficio ricerche storiche*, Banca d’Italia, no. 7, 2004.

⁴⁸More precisely, in the late 1960 s, the Italian labour market was not in a situation of full employment, but the growing Taylorisation of the work process had paradoxically led to an increase in workers’ control over production lines. In addition, the rise in the cost of living in towns and higher levels of education had prevented the creation of an effective ‘industrial reserve army’. See Massimo Paci, *Mercato del lavoro e classi sociali in Italia* (Bologna: il Mulino, 1973), Chap. 8.

⁴⁹This point was evidenced by Carli: ‘[The unions] aimed not only, and even not so much, for purely wage claims, but for the rigidity of the labour force. This was the crucial point of that clash: to exonerate the workforce from the operation of market mechanisms, from the ups and downs of the economy and from the autonomous decisions of the employers’ (Guido Carli, *Intervista sul capitalismo italiano* (Torino: Bollati Boringhieri, 2008), 64.



358 Again, as in the early 1960s, the immediate consequence of the wors-
359 ened social conflict was an upsurge in inflation, in an attempt to alle-
360 viate the profit squeeze which had followed the workers' victories. The
361 great difference with respect to 1963 was that the ensuing deflationary
362 move, carried out in 1970 by the Bank of Italy, still under the guid-
363 ance of Carli, in collaboration with a centre-right government presided
364 by Emilio Colombo, did not work. This time, deflation did not bring
365 back order to the shop floor, stopping wage increases and thus restoring
366 external competitiveness.⁵⁰ The reason for this different outcome mainly
367 lay in the increased strength of the trade unions. In the early 1960s, the
368 unions were divided and still suffering from the defeats and political iso-
369 lation of the preceding decade, whereas in the early 1970s, although ini-
370 tially taken by surprise by the workers' protests, organised by unskilled,
371 non-unionised workers, they were ready to overcome their political divi-
372 sions and to embrace the radical democratising momentum arising from
373 the rank and file.⁵¹ As a result, they were now much more entrenched in
374 the factories and could thus resist attempts at normalisation, but were
375 less disposed to compromise with their employers. In addition, interna-
376 tional conditions were not favourable to a repetition of the 'deflation in
377 one country' move. The other major industrial countries, the markets
378 for Italian exports, were slowing in growth and the international envi-
379 ronment had become much more competitive than a decade earlier.⁵²
380 Another crucial difference was the international mood. This time, the
381 Italian situation was suffering from a general crisis of the advanced capi-
382 talist world, engendered by horizontal and/or vertical conflicts, that
383 is, by competition among the main capitalist areas,⁵³ and/or the clash

⁵⁰See Carli's gloomy considerations in *ibid.*: 'At that time, I had the feeling that we had definitely entered a system we could define as a *labour standard*, that is, a system in which wages were the independent variable.'

⁵¹Robert J. Flanagan, David. W. Soskice and Lloyd Ulman, *Unionism, Stabilization, and Incomes Policies. European Experience* (Washington: The Brookings Institution, 1983), Chap. 9.

⁵²Michele Salvati, 'The Italian Inflation', in *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, eds. Leon N. Lindberg and Charles S. Maier (Washington: The Brookings Institution, 1985), 509–563.

⁵³Robert Brenner, 'The Economics of Global Turbulence. Uneven Development and the Long Downturn: the Advanced Capitalist Economies from Boom to Stagnation, 1950–1998', *New Left Review*, 1/229 (1998): 1–265.



384 between employers and workers.⁵⁴ The immediate expression of this cri-
 385 sis was the dismantling, in the early 1970s, of the Bretton Woods system.
 386 For Italy, this meant that, although in 1963–64 the pressures deriving
 387 from the need to defend the external parity of the lira had played a cru-
 388 cial role in legitimising the deflationary manoeuvre, in the new ‘free-
 389 for-all’ climate of the early 1970s, the *vincolo esterno* no longer worked.
 390 The disorientation of the Italian economic establishment clearly emerged
 391 in the words of the chairman of Assolombarda (the employers’ associa-
 392 tion regrouping firms operating in Lombardy, the industrial heart of the
 393 country): ‘In practice, the mechanism of accumulation that characterised
 394 the Italian economy in the 1950s and 1960s seems to have stalled, and
 395 we have not yet found the way to restart it.’⁵⁵

396 In their search for a way out of their predicament, Italian employ-
 397 ers supported attempts to revive a system of rigid exchange rates on a
 398 European basis, not only as a way of insulating the Common Market
 399 from the repercussions of the international financial turmoil, but also in
 400 the hope of restoring external constraints on wage levels. In this regard,
 401 it is significant that, in March 1972, on the occasion of the launching
 402 of the ‘European Monetary Snake’ (the joint floating exchange rate
 403 system of the EEC countries), a number of articles in *Confindustria*’s
 404 daily newspaper pleaded for the adoption of a common wage policy as
 405 an indispensable complement to the monetary measures.⁵⁶ But hopes of
 406 reviving the ‘lever pressing on the wage level’ soon came into conflict
 407 with the modest results achieved by attempts at macro-economic coordi-
 408 nation of the EEC countries.⁵⁷

409 Since the newly acquired force of the trade unions and the turmoil
 410 into which international monetary relations were mired were against

⁵⁴ Philip Armstrong, Andrew Glyn and John Harrison, *Capitalism Since 1945* (Oxford: Blackwell, 1991) 169–207. For an interpretation of the crisis which combines the horizontal and vertical conflicts within the context of the decline in US hegemony, see Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the 21st Century* (London: Verso, 2009), 116–39.

⁵⁵ Giuseppe Pellicanò, ‘Riflessi della situazione internazionale sull’industria italiana’, *Mondo Economico*, 5 February 1972, 49.

⁵⁶ See, for example, Lo squilibrio nello squilibrio (le strutture salariali nella Cee), *Il Sole 24 Ore*, 18 March 1972; ‘Assemblea dell’Assolombarda’, Milan, April 6 1972, Relazione del presidente G. Pellicanò’, *Mondo Economico*, 15 April 1972.

⁵⁷ Risultati modesti, *Il Sole 24 Ore*, 2 November 1972.



411 any resort to deflation as a way of countering wage pressures, price
 412 hikes were the only means left to defend profits. As a result, inflation
 413 escalated, partly alimented by the steep rise in the prices of raw materi-
 414 als and labour costs after the ‘pay explosion’: in 1971–72, Italy’s infla-
 415 tion rate, although accelerating, was around 5%, lower than Germany’s;
 416 in 1973, it soared to 10.8%.⁵⁸ Consequently, concern was expressed
 417 about the loss of competitiveness that the pegging of the lira to the
 418 deutschmark through the Snake, together with increases in the cost of
 419 labour, had caused for Italian exports. For example, commenting on the
 420 Smithsonian Agreement which briefly revived the Bretton Woods system,
 421 Confindustria’s newspaper *Il Sole 24 Ore* clearly perceived the need for
 422 devaluation:

423 At the political level, the need for a restoration of the business margins will
 424 arise. This can be achieved through a substantial devaluation [...]. Italian
 425 workers have to understand that it is not possible to increase the real value
 426 of wages by 20–30% in one year and then not accept a devaluation.⁵⁹

427 The monetary storm of early 1973 led to the lira abandoning the Snake
 428 and floating free—a prelude to a series of sharp devaluations which
 429 allowed the Italian economic system to withstand the impact of high
 430 rates of domestic inflation. As commented by the influential weekly mag-
 431 azine *Mondo Economico*: ‘The European Monetary Snake is an intolerable
 432 straitjacket for economies that go each on its way.’⁶⁰

433 The final demise of the Bretton Woods world of virtually fixed
 434 exchange rates and the passage to floating rates meant that devalua-
 435 tion could be used to over-compensate internal inflation, thus boosting
 436 exports and maintaining acceptable profit levels. Overall, in the period
 437 1973–80, the lira exchange rate recorded a fall of 54.6%, with an aver-
 438 age yearly devaluation of 9%.⁶¹ The lira’s true effective exchange rate,
 439 deflated by unit labour cost, fell by 20%.⁶² (See Fig. 6.1.)

⁵⁸ ISTAT, Serie storiche, http://seriestoriche.istat.it/fileadmin/documenti/Tavola_21.8.xls (accessed on 13 January 2017).

⁵⁹ ‘Quale è il costo dei cambi fissi?’, *Il Sole 24 Ore*, 5 January 1972.

⁶⁰ ‘Unione monetaria. Una politica da riformulare’, *Mondo economico*, 24 February 1973, 13.

⁶¹ Ciocca and Toniolo, *Storia economica d’Italia*, 442.

⁶² Gaiotti and Rossi, *La politica monetaria italiana*, 316.

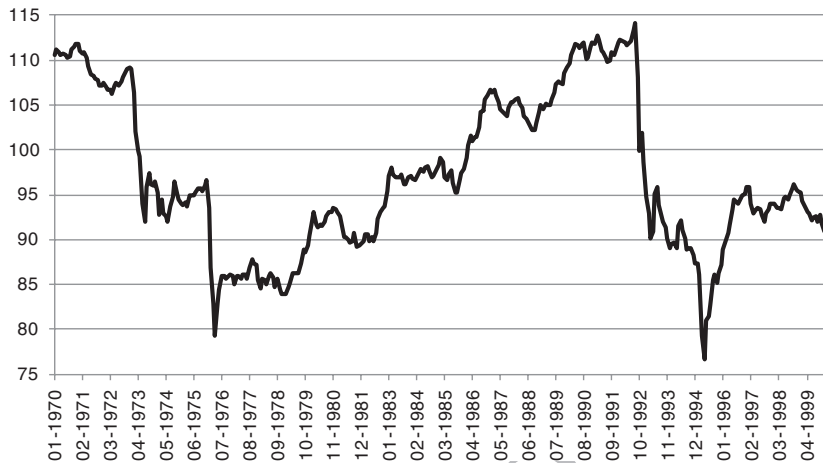


Fig. 6.1 Lira, real effective exchange rates, 1970–1999, based on CPI, monthly averages; 2010 = 100. *Source* Bank of International Settlements

440 The devaluation of the lira turned out to be quite effective in terms
 441 of GDP growth and defence of profits. In 1973–74, the economy
 442 grew at rates similar to those of the ‘economic miracle’, with an average
 443 yearly GDP growth (in real terms) of 6.3%.⁶³ However, the sudden
 444 rise in imports produced by the booming economy, the ‘skyrocketing’
 445 of the cost of imported energy due to the oil shock, and worsening of
 446 terms of trade caused a drastic worsening in the balance of payments.
 447 During 1974, the government was therefore forced to ask for international
 448 financial assistance.⁶⁴ In return, it pledged to contain inflation.
 449 The Central Bank and the government implemented a very restrictive fiscal
 450 and monetary manoeuvre.⁶⁵ The result was a slump in 1975, when

⁶³Ciocca and Toniolo, *Storia economica d’Italia*, 443.

⁶⁴In April, Italy received from the IMF a stand-by credit line of up to 1 billion Special Drawing Rights. In August, the German Bundesbank granted a loan of \$2 billion, taking as collateral the gold reserves of the Bank of Italy. Lastly, in December, the EEC conceded a loan of \$1.4 billion.

⁶⁵In implementing their restrictive policy, the Italian authorities ended up being *plus royaliste que le roi*, applying measures much harsher than those recommended by the IMF; see Luigi Spaventa, ‘Two Letters of Intent: External Crises and Stabilization Policy, Italy



451 for the first time since the end of the Second World War, GDP growth
 452 became negative, while inflation continued unabated. Once again, in a
 453 situation characterised by international instability and a strong labour
 454 force at home, deflationary measures failed to restore profitability.

455 The difficult conditions prevailing in the Italian economy led to a
 456 new sharp devaluation of the lira early in 1976. Exploiting the differ-
 457 ent courses of the US dollar and the German mark, the Italian monetary
 458 authorities adopted a policy of ‘asymmetric’ or ‘differentiated’ devalua-
 459 tion, allowing the lira to lose value against the mark (to the benefit of a
 460 vast range of exports) and to devalue to a lesser extent or even revalue
 461 against the dollar (to the benefit of many imports). The economy
 462 reverted to growth. As Ciocca and Toniolo write: ‘In Italy, 1976 marked
 463 a real boom of the economy, with a real GDP growth of 6.2% and an
 464 increase of industrial production greater than 12% (a rate never again
 465 reached).’⁶⁶ This opened a five-year spell of sustained GDP growth—
 466 on average 4.7% between 1976 and 1980—analogous to Japan’s and
 467 higher than that of Italy’s European partners. It was, once again, export-
 468 led growth. However, although between 1964 and 1972 expansion of
 469 exports was founded on the gains in productivity obtained by greater
 470 exploitation of the workforce, after 1973 the key factors became devalua-
 471 tion and transfer of resources from employees to enterprises. In effect,
 472 the operation of a massive fiscal drag, that is, an increase in workers’ tax
 473 burden due to nominal wage rises, allowed a system of generous subsid-
 474 ies to enterprises to be financed (mainly through cuts in social secu-
 475 rity contributions paid by employers and passed on to the state).⁶⁷ As
 476 pointed out by Francesco Giavazzi and Luigi Spaventa: ‘There was in
 477 short a redistribution from wages to industrial profits by means of an
 478 increased taxation of labour incomes induced by inflation rather than
 479 legislated by Parliament.’⁶⁸

1973–1977’, in *IMF Conditionality*, ed. John Williamson (Washington: Institute for International Economics, 1983), 441–473.

⁶⁶Ciocca and Toniolo, *Storia economica d’Italia*, 457.

⁶⁷‘Fiscal drag was responsible for an almost nine-point rise in the tax burden of industrial workers between 1974 and 1980, only a fraction of which was offset by discretionary measures of opposite sign’. (Francesco Giavazzi and Luigi Spaventa, ‘Italy: the Real Effects of Inflation and Disinflation’, *Economic Policy*, no. 8 (1989): 133–171, 147).

⁶⁸*Ibid.*



480 On a more structural plan, the manufacturing sector underwent deep
 481 restructuring, aimed at containing labour costs, which tripled. First and
 482 foremost, production outside the large Ford-style factories was decen-
 483 tralised. Entire production lines were moved from large plants to smaller
 484 firms. This development was part of a more general trend of the whole
 485 capitalist world, which slowed down and in some cases inverted the ten-
 486 dency, almost centennial, towards increased average dimensions of firms.
 487 In Italy, this phenomenon acquired a particular force. There is a vast lit-
 488 erature on the reasons for this development, which traces it back to the
 489 history of the country and to its particular social and economic structure,
 490 or to technological change.⁶⁹ But it is certainly no coincidence that the
 491 movement towards the concentration of capital, which had been particu-
 492 larly strong in the second half of the 1960s, was abruptly reversed in the
 493 harsh climate of social conflict of the 1970s. As observed by Sebastiano
 494 Brusco, there was a direct correlation between the intensity of employers’
 495 control over the workforce and the size of the plants.⁷⁰ In small firms,
 496 the workforce was generally less organised and often not unionised at all,
 497 and there was also ample recourse to black market labour, which had no
 498 equal in other major capitalist countries.

499 Secondly, the restructuring meant the geographical relocation of
 500 production, both inside and outside Italy. In April 1970, the country’s
 501 largest private firm, Fiat, announced its decision to invest heavily in pro-
 502 duction facilities in the south of Italy, reversing a policy of investment
 503 which until then had been firmly anchored in Turin.⁷¹ Behind this deci-
 504 sion there was certainly the lure of public funding for developing the
 505 *Mezzogiorno*, but also a search for new sources of labour, less highly
 506 organised and more docile, and a move from the large urban concen-
 507 trations of the workforce towards smaller establishments placed in

⁶⁹See, for example, Franco Amatori, Matteo Bugamelli and Andrea Colli, ‘Tecnologia, dimensione d’impresa e imprenditorialità’, in *L’Italia e l’economia mondiale*, 631–671.

⁷⁰Sebastiano Brusco, ‘Organizzazione del lavoro e decentramento produttivo nel settore metalmeccanico’, in *Piccole imprese e distretti industriali*, ed. Sebastiano Brusco (Torino: Rosenberg & Sellier, 1989), 113–117.

⁷¹Valerio Castronovo, *Fiat 1899-1999: un secolo di storia italiana* (Milano: Rizzoli, 1999), 1238; Giuseppe Berta, *Conflitto industriale e struttura d’impresa alla Fiat 1919-1979* (Bologna: il Mulino, 1998), 150–151.



508 predominantly agricultural areas.⁷² In the same period, Fiat strength-
 509 ened its international presence with the opening or expansion of plants
 510 in Poland, Yugoslavia, Spain, Turkey, Brazil and Argentina. Thus,
 511 while in 1968 82.8% of vehicles of the Fiat group (subsidiaries, affilia-
 512 tes or licensors) were made in Italy, this percentage had fallen steadily
 513 to 58.9% by 1977.⁷³ At the same time—and this was the third aspect
 514 of the restructuring—the manufacturing sector underwent technologi-
 515 cal innovation which, while apparently opening to the demands of the
 516 labour movement for more humanisation of work and greater protection
 517 of health, actually aimed at saving labour and recovering flexibility in the
 518 use of manpower. Cesare Romiti, CEO of Fiat during these years, pithily
 519 summed up the sense of the technological change, with considerations
 520 that concerned Fiat but which could easily be extended to the entire
 521 industrial system:

522 You [the unions] have put such emphasis on this story about producing cars
 523 in a new way that Fiat itself has actually done it. In fact, it now comes first.
 524 It was so insistent about automation that it did achieve a new way of making
 525 cars, but with lower production costs—that is, not in the way you imagined.⁷⁴

526 In sum, thanks to a mix of devaluation, inflation, subsidies and large-
 527 scale restructuring of production, Italian capitalism, although under
 528 pressure from the workers' movement, managed to defend its profit lev-
 529 els to the extent that, in the second half of the 1970s, it recorded better
 530 performance than its European partners (See Fig. 6.2.).

531 However, in the absence of a coherent industrial policy, the restruc-
 532 turing of the manufacturing sector was left to the 'animal spirits' of
 533 Italian entrepreneurs and, contrary to the Bank of Italy's assumption
 534 of a direct link between profits and investments, the 1970s confirmed
 535 and strengthened the tendency of Italian industry to specialise at the
 536 medium-low end of the technological spectrum, with a decrease in the

⁷²Alberto Imazio and Carlo Costa, *L'organizzazione del lavoro alla Fiat. Produzione e conflittualità operaia* (Padova: Marsilio, 1975), 139–150.

⁷³Gioia Pescetto, 'Il settore dell'auto negli anni '60 e '70 e la strategia della Fiat', in *La ristrutturazione nell'auto e nei componenti e la posizione della Fiat*, Istituto Piemontese di Scienze Economiche e Sociali A. Gramsci (Turin, 1980), 22. According to Vincenzo Comito (*La Fiat tra crisi e ristrutturazione* (Roma: Editori Riuniti, 1982), 40–1), from the mid-1970s Fiat investments abroad became truly alternative to those in Italy.

⁷⁴Cesare Romiti and Giampaolo Pansa, *Questi anni alla FIAT* (Milan: Rizzoli, 1988), 89.

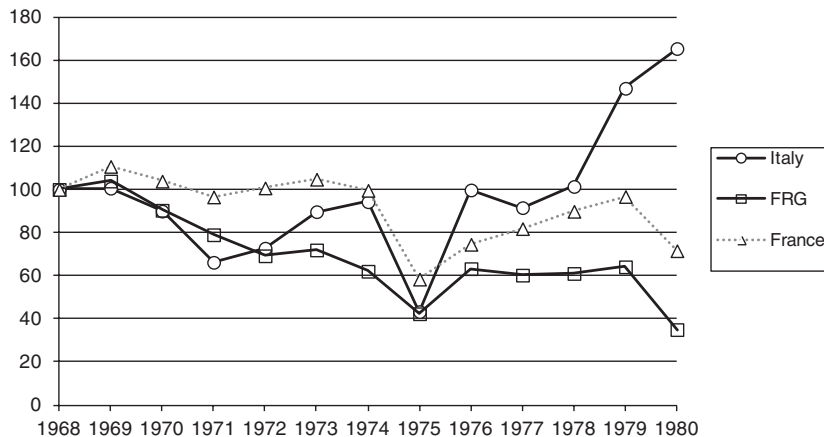


Fig. 6.2 Manufacturing net profit rate in Italy, France and the Federal Republic of Germany, 1968–1980, 1968 = 100. *Source* Paul Armstrong, Andrew Glyn and John Harrison, *Capitalism Since 1945* (Oxford, Blackwell, 1991) data appendix, Table A1, 352

537 amount of innovation of Italian manufactured goods.⁷⁵ The respite
 538 afforded by devaluation was not used as a springboard towards new pat-
 539 terns of specialisation, but as a bulwark to defend the mercantilist model
 540 based on containment of manpower costs.

541 THE 1980s: ITALIAN-STYLE STABILISATION

542 Although effective in defending profitability, recourse to the cycle
 543 of inflation/devaluation increased instability at home and irritation
 544 abroad.⁷⁶ Italy's trade partners did not agree with what they saw
 545 as unfair commercial practice by a member of the Common Market.
 546 German industry especially resented the competitiveness which the weak

⁷⁵Franca Falcone, *Commercio internazionale e integrazione europea. Aspetti teorici ed esperienza italiana* (Bologna: il Mulino, 1990), 247–361; on the 1970s, 261–263.

⁷⁶The word 'stabilisation' is used in this section in the sense Charles Maier gave it, that is, the 're-establishing [of] the overlapping hierarchies of power, wealth, and status that can be loosely termed "capitalist"' (Charles S. Maier, *In Search of Stability. Explorations in Historical Political Economy* (Cambridge: Cambridge University Press, 1987), 161).



547 lira gave to exports of Italian manufactured goods. In addition, towards
548 the end of the 1980s, the changing international economic climate made
549 it impossible for Italy—a relatively small country, deeply integrated in
550 international markets—to continue a policy which was in direct contra-
551 diction to

552 the ascendant monetarist creed, with its insistence on the containment
553 of inflation as the supreme objective of economic policy. In the era of
554 soaring US interest rates, ‘the highest since the birth of Jesus Christ’,
555 as the German chancellor Helmut Schmidt put it in 1981, there was no
556 more space for Italy’s differentiated devaluation.

557 At internal level, inflation seemed to intertwine with the political and
558 social turmoil of years characterised by the advance of the left at local
559 and national elections, violent confrontations in the streets between the
560 neo-fascist right and the extra-parliamentarian left, and by the increasing
561 activity of armed terrorist bands of both right and left tendencies. In this
562 uneasy climate, and well aware of the geo-political constraints weighing
563 on the country as a member of the Western bloc, at the beginning of the
564 decade the main party of the left, the Italian Communist party (PCI),
565 decided to follow a strategy of ‘national responsibility’, that is, to give
566 up the prospects of a left-wing alternative and to seek an accord (the so-
567 called ‘*compromesso storico*’, or historical compromise) with the Christian
568 Democrats. In 1974, the ‘No’ vote in the referendum on the abolition of
569 divorce marked the defeat of the right wing of the Christian Democrats,
570 opening the way to the re-launching of the centre-left coalition and to
571 the intricate manoeuvring which, later, would lead to the PCI enter-
572 ing the governmental sphere.⁷⁷ On the economic level, the February
573 1975 agreement between Confindustria and the trade unions on revis-
574 ing the wage index system (the *scala mobile*, sliding scale) had radically
575 altered prospects. The new system, gradually entering into force by the
576 end of 1977, guaranteed wages total, automatic and equal coverage
577 against inflation. This, of course, made recourse to the inflation/devalu-
578 ation mechanism useless as a means of defending profits because, in the
579 end, it would have triggered a rise in labour costs through automatic

⁷⁷Franco De Felice, ‘Nazione e crisi: le linee di frattura’, in Francesco Barbagallo et al., *Storia dell’Italia Repubblicana, L’Italia nella crisi mondiale. L’ultimo ventennio* (Torino: Einaudi, 1996), III:7–127.



580 adjustment of wages, thwarting all the expected benefits for the competi-
581 tiveness of exports.⁷⁸

582 Meanwhile, the rise in the cost of living and mounting unemploy-
583 ment (and also the evidence of a widening gap in rights and wage levels
584 between workers employed by large industrial firms and those in small-
585 and medium-sized ones) had weakened the trade unions and led them
586 to reconsider their strategy. In January 1978, in an historic interview,
587 the secretary general of the main union confederation—the communist/
588 socialist CGIL—also speaking on behalf of the other confederations,
589 signalled the trade unions' willingness to accept a policy of moderation,
590 and explicitly recognised that the idea of wages as an independent vari-
591 able, which had been the central point in the trade unions' strategy since
592 1969, had been a mistake. In order to reduce unemployment (which had
593 now reached the figure of 1,600,000), the economy had to be revital-
594 ised: 'I am convinced that capitalism is declining. By that, I don't mean
595 that it could not improve in the medium term. [It] is in order to reach
596 this objective, and to use it to reduce unemployment, that we are asking
597 the working class to accept a programme of sacrifices.'⁷⁹ A few days later,
598 the large majority of almost 1500 delegates at the nation-wide confer-
599 ence of the Unitary Federation of Trade Unions pledged to accept con-
600 tainment in wage increases and greater flexibility in the use of labour,
601 in exchange for an economic policy of investment to reduce unem-
602 ployment.⁸⁰ Against this background, in March 1978 the PCI, for the
603 first time since 1947, had a parliamentary majority with the Christian
604 Democrats, although it did not have representatives in government. As
605 it was, the Communists were thus directly involved in preparing the sta-
606 bilisation plan presented by the minister of the Treasury, Filippo Maria
607 Pandolfi, in August 1978. The plan's final aims, which echoed the views
608 of Confindustria's proposal put forward in late 1977,⁸¹ were a sustained

⁷⁸This point was acknowledged by Carli in his first Annual Report as President of Confindustria, in July 1976: 'La relazione all'Assemblea di Confindustria del 1976', in *Guido Carli presidente di Confindustria 1976-1980*, ed. Paolo Savona (Torino: Bollati Boringhieri, 2008), 27-40.

⁷⁹*La Repubblica*, 24 January 1978.

⁸⁰Lorenzo Bertucelli, Adolfo Pepe and Maria Luisa Righi, *Il sindacato nella società industriale* (Rome: Ediesse, 2008), 261-282.

⁸¹See 'L'Operazione sviluppo and Documento del 20 ottobre 1977 presentato al governo e alla federazione unitaria CGIL-CISL-UIL', in *Guido Carli presidente di Confindustria*, 169-184.



609 rate of growth and an increase in employment levels, but these aims were
 610 in contradiction with the deflationary bias of the envisaged policies: cuts
 611 in public expenditure, no increase in real labour costs (and consequently
 612 stagnant real wages) and greater flexibility in the use of manpower
 613 (essentially: greater possibilities for lay-offs). Again, the only possibility
 614 of growth meant increasing exports. In this context, controlling inflation
 615 was essential, if the benefits of devaluation and containment of labour
 616 costs were to be reaped.⁸²

617 An essential contribution to the consolidation of the conserva-
 618 tive anti-inflationary front came from the ‘*vincolo esterno*’. The nascent
 619 European Monetary System (EMS) was a challenge for Italy, meaning
 620 that the strategy followed until then inevitably had to be revised; at the
 621 same time, the anti-inflationary front had to be consolidated. The choice
 622 for Europe, in this case embodied by the EMS, was presented (as was
 623 to happen later) as the last chance to rescue a political and social sys-
 624 tem which seemed increasingly out of control. Participation in the EMS
 625 justified the stabilising measures envisaged by the Pandolfi plan—a sacri-
 626 fice for the sake of the good cause of European integration, but also an
 627 unavoidable necessity, if Italy was to remain attached to the European
 628 train.⁸³ According to Carli, then chairman of Confindustria, the Italian
 629 entry into the EMS could stimulate ‘the acceleration of the agreement
 630 between the social and political forces on the [Pandolfi] plan and a firmer
 631 commitment to tighten the constraints that it imposes’.⁸⁴ As stated by
 632 the Christian Democrat senator Beniamino (Nino) Andreatta, one of
 633 Italy’s most influential economists, during the parliamentary debate on
 634 the EMS:

⁸²The text of the Pandolfi plan appears in Giangiacomo Nardozzi (ed.), *I difficili anni '70. I problemi della politica economica italiana 1973–79* (Milano: ETAS, 1980), 23–56. For an insightful analysis of the document, see Andrea Jovane and Paolo Guerrieri, *Le linee di politica economica per il rilancio dell'economia italiana: un'analisi critica*, in *La politica economica italiana degli anni '70. Un'analisi critica*, eds. Paolo Garonna et al. (Venezia: Marsilio, 1979), 79–104.

⁸³See, for example, the contributions of the businessman and Christian Democrat MP Francesco Merloni and Filippo Maria Pandolfi, in *La lira e lo scudo: la scommessa europea*, eds. Beniamino Andreatta et al. (Bologna: il Mulino, 1978) 103–111 and 123–138.

⁸⁴Guido Carli, ‘La partecipazione dell'Italia allo SME’, *Prospettive Settanta*, no. 4 (1978): 3–6.



635 We believe that anchoring our country to the European *écu* will give us
 636 a stable point of reference that can only be beneficial for the debate on
 637 the Pandolfi plan. In this perspective, the intolerability of an integral wage
 638 indexation becomes evident [...]. [We] have to aim high, to commit our-
 639 selves to a policy of stabilisation, even if such a policy implies sacrifices for
 640 the industrial worker, whose wage [...] has dwindled in real terms. But
 641 I believe that in the first phase of the adjustment it will be necessary to
 642 endure a real wage reduction of even 1–2%.⁸⁵

643 In spite of the opposition of both the Bank of Italy and the PCI, the
 644 government headed by Giulio Andreotti decided to follow the Schmidt–
 645 Giscard proposal. The Bank of Italy was doubtful about the asymmetric
 646 character of the new system and feared possible losses of reserves while
 647 trying to remain within the fluctuation band and the ultimate loss of
 648 credibility if the lira could not fulfil its commitments. This would strike
 649 a deadly blow at any strategy of stabilisation.⁸⁶ The asymmetric character
 650 of the exchange mechanism, which assigned the burden of adjustment
 651 to the debtor countries, and the lack of any real commitment in support
 652 of the weaker countries, induced the PCI and other voices on the left
 653 to criticise the predictable social effects of an agreement which appeared
 654 to be tailored to Germany's deflationary bias. Ultimately, the PCI voted
 655 against entry into the EMS, thus terminating its participation in the gov-
 656 ernmental majority.

657 However, the end of the Communist party's participation in the stabi-
 658 lising effort was not a return to the old pattern of industrial conflict. The
 659 PCI had not yet defined any clear alternative after the failure of the *com-*
 660 *promesso storico*.⁸⁷ In addition, the thorough restructuring undergone by
 661 Italian industry and the worsening of the international economic climate,
 662 following the second oil shock and the monetarist turn in the USA and
 663 the UK, had irremediably weakened the unions' position. The change
 664 in the balance of power in industrial relations was clear-cut in autumn

⁸⁵ 'Intervention at the Senate of the Republic, December 7 1978', in *La Lira e lo scudo*, 141–156.

⁸⁶ Gigliobianco, *Via Nazionale*, 324–326.

⁸⁷ On the PCI positions in the 1970 s and immediately afterwards, see: Lucio Magri, *The Tailor of Ulm. Communism in the Twentieth Century* (London: Verso, 2011), 244–347; Leonardo Paggi and Massimo D'Angelillo, *I comunisti italiani e il riformismo. Un confronto con le socialdemocrazie europee* (Torino: Einaudi, 1986).



665 1980, when the ‘march of the 40,000’ white-collar Fiat workers in Turin
666 imposed the end of a 35-day sit-down strike at Fiat plants, against the
667 announcement of 14,000 lay-offs by the management.⁸⁸ With the defeat
668 of the unions at Fiat, the heart of Italian industry, a new season of indus-
669 trial relations began, with a drastic decline in conflict and reaffirmation of
670 employers’ authority on the shop floor.

671 As evidenced by Roberto Gualtieri,⁸⁹ Italy’s stabilisation after the tur-
672 bulent 1970s followed a peculiar path, a sort of ‘third way’ between the
673 conflictual stabilisation of Thatcherism and the consensual stabilisation of
674 the neo-corporatist countries of Northern Europe.⁹⁰ After the collapse
675 of the ‘*compromesso storico*’, which could be equated to a neo-corporat-
676 ist attempt to build a *Grosse Koalition* involving the trade unions in the
677 disinflationary process, during the 1980s Italy achieved ‘monetarist sta-
678 bilisation’, in which management of economic policy was taken over by
679 the technocratic *élite* of the Bank of Italy, and politics was relegated to a
680 ‘residual role’, that is, to guarantee the existence of a sufficiently broad
681 and stable parliamentary majority, consistent as far as was possible with
682 the necessities dictated by the policy of stabilisation.

683 In the aftermath of the second oil shock, inflation peaked in 1980,
684 although two moves consolidated the new anti-inflationary course of
685 Italy’s macro-economic policy. One was the ‘St. Valentine’s decree’ of
686 1984 by the government, with the assent of the non-communist trade
687 unions, which reduced the wage index system in an attempt to break
688 what was seen as a vicious circle between wage indexes and inflation.
689 This measure, attacking one of the main union achievements of the
690 1970s, caused the collapse of the trade unions’ unitary federation. The
691 communist sections of the CGIL and the PCI called for a referendum
692 against the measure. Their defeat in the polls one year later definitely
693 marked the opening of a new epoch. The electorate had embraced the
694 promises of growth which monetarist stabilisation seemed to reveal.

695 The other element consolidating the anti-inflationary attitude of
696 Italian economic policies was the decision taken in July 1981 by the

⁸⁸ Ginsborg, *A History of Contemporary Italy*, 402–405.

⁸⁹ Roberto Gualtieri, ‘L’impatto di Reagan. Politica ed economia nella crisi della prima repubblica, 1978–1992’, in *Gli anni ottanta come storia*, 90–191.

⁹⁰ This dichotomy is taken from Michele Salvati, *Occasioni mancate. Economia e politica in Italia dagli anni ’60 a oggi* (Rome/Bari: Laterza, 2000), 59–64.



697 minister of the Treasury, Nino Andreatta, in agreement with the gover-
 698 nor of the Bank of Italy, Carlo A. Ciampi, to terminate the Bank's obli-
 699 gation, formally established in 1975,⁹¹ to buy all government bonds left
 700 unsold. The result of a simple exchange of letters between Andreatta and
 701 Ciampi, not submitted to parliament (an 'open plot', as stated later by
 702 Andreatta),⁹² the 'divorce' between the Treasury and the Bank gave the
 703 latter effective independence in managing monetary policy. The 'divorce'
 704 also had the effect of making the pursuit of a policy of high interest rates
 705 in order to entice investors into buying state bonds inevitable. The high
 706 interest rates also kept the lira within the EMS fluctuation band. The
 707 soaring interest rates were the main source of the steep rise in the public
 708 debt ratio, which rose from 59.5% in 1980 to 99.1% in 1990 (reaching
 709 120% in the mid-1990s).⁹³ (See Fig. 6.3).

710 In spite of lower prices, the diverging inflation rate with respect to the
 711 more 'virtuous' European countries remained significant, and this led to
 712 an increase in the exchange rate of the lira in real terms. The frequent
 713 re-alignments of the exchange rates which took place in the first phase
 714 of the EMS were not sufficient to compensate the inflationary spread. In
 715 addition, after the Basel-Nyborg agreement of 1987, the EMS in prac-
 716 tice became a system of fixed exchange rates,⁹⁴ thus accentuating the
 717 problem of competitiveness for the Italian economy. The industrial sys-
 718 tem was forced to compete with countries (starting with the FRG, but

⁹¹Historical Archive of the Bank of Italy (Rome), Carte Baffi, Governatore Onorario, n.136, fasc.8, Verbale della 201 'Riunione del Comitato interministeriale per il credito ed il risparmio, tenuta il 21 marzo 1975', 26 June 1975.

⁹²Beniamino Andreatta, 'Il divorzio tra Tesoro e Bankitalia e la lite delle comari', *Il Sole 24 Ore*, 26 July 1991. The two letters exchanged between Andreatta and Ciampi to implement the 'divorce' appear in Beniamino Andreatta et al., *L'autonomia della politica monetaria. Il divorzio Tesoro-Banca d'Italia trent'anni dopo* (Bologna: il Mulino, 2011), 99–105.

⁹³Giuliano Garavini and Francesco Petrini, 'Il "divorzio" tra Tesoro e Banca d'Italia: il vincolo interno e le origini del problema del debito pubblico italiano', in *Al governo del cambiamento. L'Italia di Craxi tra rinnovamento e obiettivi mancati*, eds. Daniele Caviglia and Silvio Labbate (Soveria Mannelli: Rubbettino, 2014), 39–71.

⁹⁴For a careful overview of the EMS in the 1980s, see Andr  Sz sz, *The Road to European Monetary Union* (Basingstoke: Macmillan, 1999), Chap. 8.

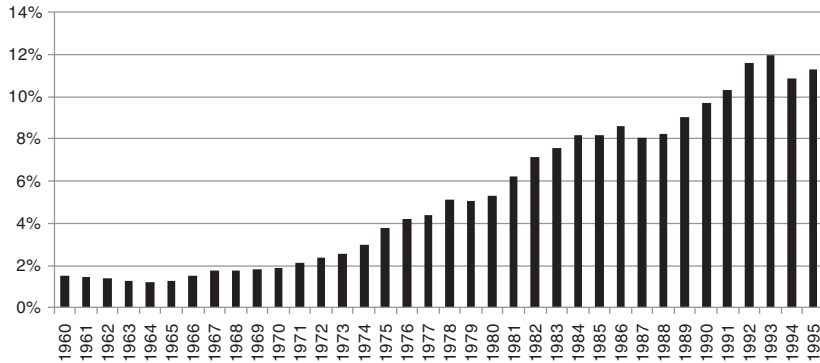


Fig. 6.3 Italian public debt, interest expenditure/GDP, 1960–1995. Sources Mario Arcelli and Stefano Micossi, ‘La politica economica negli anni Ottanta (e nei primi anni Novanta)’, in *Storia, economia e società in Italia 1947–1997*, ed. Mario Arcelli (Roma/Bari: Laterza, 1997), 263–322, Tab. 3, La sostenibilità del debito pubblico, 310–311; ISTAT, Conti economici nazionali, <http://serie-storiche.istat.it/> (last accessed 13 January 2017)

Table 6.1 Inflation differentials and nominal and real exchange rates of the lira, 1979–1991 (cumulated percentage variations)

	<i>Inflation differential</i>	<i>Nominal devaluation</i>	<i>Real appreciation</i>
Belgium	73.0	24.5	48.5
Denmark	50.5	32.7	17.8
France	43.8	11.3	32.5
Germany	92.3	51.4	40.9
Ireland	24.6	17.7	6.9
The Netherlands	92.6	46.8	45.8

Data: Michele Fratianni and Franco Spinelli, *Storia monetaria d’Italia. Lira e politica monetaria dall’Unità all’Unione Europea* (Milano: ETAS, 2001), 489

719 also the Netherlands, France, Belgium and Denmark), whose currencies
720 underwent a process of devaluation in real terms.⁹⁵ (See Table 6.1).

⁹⁵Jan A. Kregel, ‘La politica del cambio della Banca d’Italia e la ristrutturazione dell’industria italiana, 1980–1985’, in *Il ruolo della Banca centrale nella recente evoluzione dell’economia italiana*, ed. Giangiacomo Nardozzi (Milano: Franco Angeli, 1993), 59–98.



	Inflation Differential	Nominal Devaluation	Real Appreciation
Belgium	73,0	24,5	48,5
Denmark	50,5	32,7	17,8
France	43,8	11,3	32,5
Germany	92,3	51,4	40,9
Ireland	24,6	17,7	6,9
The Netherlands	92,6	46,8	45,8

Fig. 6.4 GDP at 2005 market prices per person employed in Italy and the Federal Republic of Germany, yearly percentage change, 1961–1999 *Source* AMECO Database

721 The Bank of Italy, under its governor Ciampi, closely followed this
 722 policy of monetary discipline and strong currency, in the hope that it
 723 would stimulate the Italian productive system to modernise and make
 724 a technological leap towards higher value-added production.⁹⁶ In fact,
 725 for the majority of Italian industry, this did not happen. Most Italian
 726 employers, now that deflation had restored order to the factories, pre-
 727 ferred to remain on the path opened in the mid-1960s—low invest-
 728 ments in new technology and reliance on the manpower cost differential.
 729 This, in an increasingly interconnected world, characterised by the rise
 730 of newly industrialised countries and by the entry into the labour market
 731 of huge masses of underpaid industrial workers, appeared to have been a
 732 losing bet. But this did not mean that Italian productivity lagged behind.
 733 In fact, as shown in Fig. 6.4, the productivity of Italian workers was not
 734 much lower than that of German workers. In some periods it was even
 735 higher—for instance, in the second halves of the 1960s and the 1980s.

736 It is therefore evident that, in these years, the troubles of the Italian
 737 economy had less to do with the non-productivity of Italian workers
 738 than with the constraints imposed by entry into the EMS. In the sec-
 739 ond half of the 1980s, the increasing rigidity of the EMS, the weakness
 740 of the US dollar, which reduced possibilities of finding alternative out-
 741 lets for Italian exports and, lastly, the 1990 decision to adopt the stricter

⁹⁶Gianni Bonaiuti, 'Oltre il governo del credito: finalità e limiti nell'azione della Banca d'Italia negli anni Ottanta', in *Il ruolo della Banca centrale nella recente evoluzione dell'economia italiana*, ed. Giangiacomo Nardozzi (Milano, FrancoAngeli, 1993), 23–58; John B. Goodman, *Monetary Sovereignty. The Politics of Central Banking in Western Europe* (Ithaca: Cornell University Press, 1992), 158–167.



742 fluctuation band of $\pm 2.25\%$ for the lira, further exacerbated the prob-
 743 lem for the Italian economy.⁹⁷ Inflation, after having fallen to its lowest
 744 level in 1987, started to rise again, as a result of the increase of prices in
 745 the services sector and, paradoxically, of the capital influx caused by the
 746 newly acquired credibility of the lira and high interest rates.

747 CONCLUSION: THE DISAPPEARANCE OF THE ‘INTERNAL
 748 CONSTRAINT’

749 When, in September 1992, the EMS collapsed under the weight of the
 750 policy of high interest rates adopted by the Bundesbank in order to cush-
 751 ion the inflationary effects of financing German reunification, the lira
 752 reacquired its freedom to fluctuate.⁹⁸ By April 1993, it had lost almost
 753 30% with respect to the mark. Its exchange rate then stabilised around a
 754 level 25% lower than in the past,⁹⁹ allowing a sudden recovery in exports.
 755 But, again, the respite due to devaluation was not used to obviate the
 756 most evident weaknesses of the Italian industrial system. On the con-
 757 trary, in July 1992, the agreement between Confindustria and the unions
 758 definitively ended the wage index system and, a year later, the new agree-
 759 ment on the cost of labour, which linked wage bargaining to the pro-
 760 grammed rate of inflation,¹⁰⁰ definitely marked the end of the ‘internal
 761 constraint’ for the Italian productive system, with the disappearance of a
 762 strong labour movement capable of making employers follow a strategy
 763 of growth different from pure containment of the cost of manpower.¹⁰¹

⁹⁷On the Italian economy in the 1980s, see Felice Roberto Pizzuti (ed.), *L'economia italiana dagli anni Settanta agli anni Novanta* (Milano: McGraw-Hill, 1994).

⁹⁸A good account of the September 1992 crisis can be found in Barry Eichengreen, *The European Economy since 1945* (Princeton: Princeton University Press, 2007), 357–366.

⁹⁹On Italian economic policy during these years, see the memoirs of the then minister of the Treasury, Piero Barucci, *L'isola Italiana del Tesoro. Ricordi di un naufragio evitato* (1992–1994), (Milano: Rizzoli, 1995).

¹⁰⁰Bertucelli, Pepe and Righi, *Il sindacato nella società industriale*, 354–355; see also Consiglio Nazionale dell'Economia e del Lavoro, Assemblea del 12/7/1994, ‘Considerazioni ed indicazioni su ‘Le relazioni sindacali in Italia’’ (Roma: CNEL, 1994), 911–984.

¹⁰¹I owe this idea of ‘internal constraint’ to Riccardo Bellofiore’s reconstruction of the thoughts of Claudio Napoleoni, http://www.treccani.it/enciclopedia/claudio-napoleoni_%28II-Contributo-italiano-alla-storia-del-Pensiero:-Economia%29/ (accessed on 13 January 2017) and to Alberto Bagnai, *Declino, produttività, flessibilità, euro: il mio*

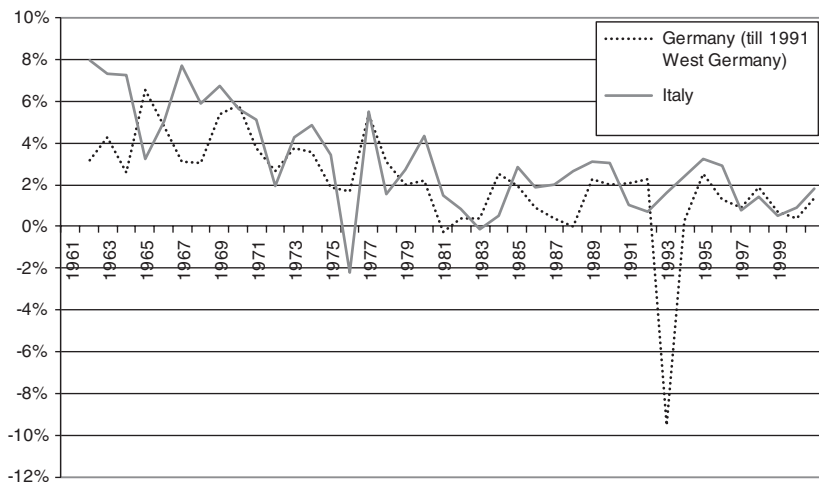


Fig. 6.5 The end of the ‘internal constraint’: labour conflicts in Italy, hours lost in industry 1960–2000 *Source* Istat, http://seriestoriche.istat.it/fileadmin/allegati/Mercato_del_lavoro/Tavole/Tavola_10.22.xls. (last accessed 13 January 2017)

764 At the same time, the onset of a vast programme of privatisation, the
 765 largest ever achieved in an advanced capitalist country, carried out under
 766 the motto ‘Europe wants it!’, meant renouncing any possibility of indus-
 767 trial policy and economic planning and, in many cases, led to dismal
 768 results.¹⁰² (See Fig. 6.5).

primo maggio, <http://goofynomics.blogspot.it/2013/05/declino-produttivita-flessibilita-euro.html> (accessed on 13 January 2017).

¹⁰²See the situation in the steel sector, in which all Italy’s major integrated mills (in Genova, Pionbino and Taranto), after having been sold to private Italian groups in the 1990 s, have now been dismantled or are out of production; and in the telecommunications sector, in which Telecom Italia, the main offspring of privatisation in the 1990s, ended up heavily indebted and sold to foreign investors. On the 1990s’ privatisations, see Barbara Curli, ‘The “vincolo europeo”, Italian Privatization and the European Commission in the 1990s’, *Journal of European Integration History*, no. 2 (2012), 285–301; Gianluigi Da Rold, *Asalto alla diligenza. Il bottino delle privatizzazioni all’italiana* (Milano: Guerini e Associati, 2012).



769 The beginning of the process of entering the euro area, in the late
770 1990s, marked a return to the pattern of real appreciation of the cur-
771 rency and the deteriorated competitiveness of Italian products. As in
772 the 1980s, and to an even greater extent, the dramatic weakening of the
773 labour movement meant that strong external constraints did not spur
774 the industrial system to evolve towards higher value-added productions.
775 On the contrary: although remaining second in Europe for size, Italian
776 industry over the last 20 years has experienced low levels of investments
777 in new technologies and stagnant productivity,¹⁰³ flanking the decline
778 in workers' relative shares of products and rights. In the 'good' years,
779 these processes were somewhat alleviated by influxes of capital, the hous-
780 ing bubble (Italy has one of the world's highest rates of home owner-
781 ship) and a relatively low level of unemployment, thanks to the creation
782 of jobs in the services sector and, in the 1980s, to the counter-cyclical
783 effect of expanding employment in the public sector and, later, the crea-
784 tion of a large number of temporary—and poorly paid—positions. But,
785 when the crisis came, the asymmetries in the euro architecture emerged
786 fully, exposing the failure of a whole model of development.

787

¹⁰³See data in Nicholas Craft and Marco Magnani, 'L'età dell'oro e la seconda globaliz-
zazione', in *L'Italia e l'economia mondiale*, op. cit., 97–145, here 130–133.

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During the process of typesetting your chapter, the following queries have arisen. Please check your typeset proof carefully against the queries listed below and mark the necessary changes either directly on the proof/online grid or in the 'Author's response' area provided

Query Refs.	Details Required	Author's Response
AQ1	Please check and confirm if the author and his respective affiliation has been correctly identified. Amend if necessary.	

MARKED PROOF

Please correct and return this set

Please use the proof correction marks shown below for all alterations and corrections. If you wish to return your proof by fax you should ensure that all amendments are written clearly in dark ink and are made well within the page margins.

<i>Instruction to printer</i>	<i>Textual mark</i>	<i>Marginal mark</i>
Leave unchanged	... under matter to remain	Ⓟ
Insert in text the matter indicated in the margin	∧	New matter followed by ∧ or ∧ [Ⓢ]
Delete	/ through single character, rule or underline or ┌───┐ through all characters to be deleted	Ⓞ or Ⓞ [Ⓢ]
Substitute character or substitute part of one or more word(s)	/ through letter or ┌───┐ through characters	new character / or new characters /
Change to italics	— under matter to be changed	↵
Change to capitals	≡ under matter to be changed	≡
Change to small capitals	≡ under matter to be changed	≡
Change to bold type	~ under matter to be changed	~
Change to bold italic	≈ under matter to be changed	≈
Change to lower case	Encircle matter to be changed	≡
Change italic to upright type	(As above)	⊕
Change bold to non-bold type	(As above)	⊖
Insert 'superior' character	/ through character or ∧ where required	Υ or Υ under character e.g. Υ or Υ
Insert 'inferior' character	(As above)	∧ over character e.g. ∧
Insert full stop	(As above)	⊙
Insert comma	(As above)	,
Insert single quotation marks	(As above)	ʹ or ʸ and/or ʹ or ʸ
Insert double quotation marks	(As above)	“ or ” and/or ” or ”
Insert hyphen	(As above)	⊥
Start new paragraph	┌	┌
No new paragraph	┐	┐
Transpose	┌┐	┌┐
Close up	linking ○ characters	○
Insert or substitute space between characters or words	/ through character or ∧ where required	Υ
Reduce space between characters or words		↑