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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.

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

In this chapter, we describe some aspects of the same phenomenon but from a different viewpoint—one which discusses class interests and the conflicts among them. The focus is on the development of the Italian economy from 1945 to the 1990s, starting with the 1963 crisis, which put an end to the ‘economic miracle’, and ending in 1992, when the lira left the European Monetary System. It 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, it was in those years that we can find the roots of the problems which have afflicted the Italian economy over the last two decades.

ITALY’S ROAD TO MODERNISATION

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

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

an improvement in living conditions occur, this will be general and the difference between us and the others will persist.²

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

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

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

Two points must be clarified here. First, we are not assuming an Italian *Sonderweg*: the ‘mercantilist’ anti-Keynesian attitude was by no means peculiar only to Italy. After 1945, it was widely shared in the capitalist world, first by Italy’s two former allies in the Second World War, although in different ways. The Federal Republic of Germany could be considered the prime example of a mercantilist stance in Europe as well as presenting, through the Ordoliberal school of thought, the clearest alternative to Keynesianism at the time. However, West Germany had a particular way of increasing international competitiveness: the key factor was to keep inflation low in a system of fixed exchange rates and thus achieve devaluation in real terms with respect to countries with 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 acterised 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.

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

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

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

members of the economic intelligentsia, such as Pasquale Saraceno and Ezio Vanoni, continued to advocate and practise a policy aimed at containing domestic consumption and imports, in order to encourage savings and create the resources for completion of industrialisation without borrowing from abroad.¹⁶ As Carli said: ‘Our watchword was: export, export, export.’¹⁷

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

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

However, there was another interesting trend in those years—that of wage shares on industrial products. This passed from 62.7% in 1951 to 48.8% in 1962.¹⁹ In practice, the largest part of the huge increase in productivity which took place during the decade went to the benefit of profit. In the 1950s, the position of force enjoyed by employers in industrial relations prevented workers from acting effectively to contrast this trend. However, accelerated growth throughout the decade resulted in a reduction of the manpower surplus which, in turn, caused an increase in the bargaining power of industrial workers. In the early 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 europea* (Torino: Bollati Boringhieri, 2000), 56–65.

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

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

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

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

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

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

The conservative sectors of Italian society found their main political support in the right wing of the DC, the '*Dorotei*' faction, whose leading figure in economic matters, Emilio Colombo, was minister of the Treasury. These preoccupations, coupled with the worries of the Central Bank, were under Carli's guidance.

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

Since 1947, the Bank of Italy had successfully pursued a policy mix of monetary stability, balanced current accounts and non-inflationary growth. In order to achieve this growth, the key variable in the eyes of the Central Bank was profitability. Only adequately high profits (given the scarcity of endogenous credit) could ensure the investments necessary to absorb the chronic manpower surplus without recurring to foreign capital. Conversely, due to the fact that workers' marginal propensity to consume was higher than that of their employers', in the Bank's view, a wage rise would result in a greater demand for consumer 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.

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

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

However, this policy could not long continue in the Bretton Woods system of semi-fixed exchange rates. In the light of the rapid deterioration of the Italian balance of payments, Italy's monetary and political authorities were faced with a choice: either to devalue the lira or to apply a strict deflationary policy. Devaluation of the lira encountered the opposition of the USA, concerned about the stability of the whole system, and of the European partners, threatened by the competitiveness of Italian exports. It was rejected by the Banca d'Italia itself, for reasons of prestige and 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,

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

It is important to stress the role played in these circumstances by the international context, the ‘*vincolo esterno*’ (external constraint) as it came to be called in the Italian debate. We have already mentioned the role of the Bretton Woods system, which represented an anchor for stabilising measures, in line with a long tradition of a rigid exchange rate as the ‘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.

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

It was on these bases that, in February 1964, the EEC Council, composed of the finance ministers, expressed its concern about the Italian situation.³⁷ Two months later, the Council recommended to Italy—and France—to take all necessary monetary and fiscal measures to curb inflation. 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.

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

The deflationary front within the Italian political game welcomed and encouraged the external intervention, as it reinforced and legitimised such a position. The employers' press emphasised Community grievances and used them to present the deflationary manoeuvre as one of the duties of a good member of the EEC, while Colombo skilfully used it to press his case inside the government.³⁹ On 20 May 1964, Prime Minister Aldo Moro received a letter from the Chairman of the Commission, Walter Hallstein, in which the measures taken so far by the government were defined as 'insufficient' to avoid the risk of jeopardising the construction of the Common Market.⁴⁰ Hallstein suggested a number of measures, ranging from cuts in public expenditure and investments (which sounded a death knell for reformist ambitions), to increased taxes, and culminated in the suggestion to institute an income policy to control wage dynamics. To support these requests, on 18–19 June the Commission vicepresident Robert Marjolin went to Rome to meet the Italian authorities. His message was thus summed up by Pietro Nenni (secretary of the Socialist party and vicechairman of the Council 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 Giacone (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 Giacone (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).

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

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

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

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

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

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

THE 1970S: INFLATION AND DEVALUATION

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

Again, as in the early 1960s, the immediate consequence of the worsened social conflict was an upsurge in inflation, in an attempt to alleviate the profit squeeze which had followed the workers' victories. The great difference with respect to 1963 was that the ensuing deflationary move, carried out in 1970 by the Bank of Italy, still under the guidance of Carli, in collaboration with a centre-right government presided by Emilio Colombo, did not work. This time, deflation did not bring back order to the shop floor, stopping wage increases and thus restoring external competitiveness.⁵⁰ The reason for this different outcome mainly lay in the increased strength of the trade unions. In the early 1960s, the unions were divided and still suffering from the defeats and political isolation of the preceding decade, whereas in the early 1970s, although initially taken by surprise by the workers' protests, organised by unskilled, non-unionised workers, they were ready to overcome their political divisions and to embrace the radical democratising momentum arising from the rank and file.⁵¹ As a result, they were now much more entrenched in the factories and could thus resist attempts at normalisation, but were less disposed to compromise with their employers. In addition, international conditions were not favourable to a repetition of the 'deflation in one country' move. The other major industrial countries, the markets for Italian exports, were slowing in growth and the international environment had become much more competitive than a decade earlier.⁵² Another crucial difference was the international mood. This time, the Italian situation was suffering from a general crisis of the advanced capitalist world, engendered by horizontal and/or vertical conflicts, that 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 Income 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.

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

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

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

⁵⁴Philip 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.

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

⁵⁶See, 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.

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

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

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

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

The final demise of the Bretton Woods world of virtually fixed exchange rates and the passage to floating rates meant that devaluation could be used to over-compensate internal inflation, thus boosting exports and maintaining acceptable profit levels. Overall, in the period 1973–80, the lira exchange rate recorded a fall of 54.6%, with an average yearly devaluation of 9%.⁶¹ The lira’s true effective exchange rate, 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

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

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

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

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

Secondly, the restructuring meant the geographical relocation of production, both inside and outside Italy. In April 1970, the country's largest private firm, Fiat, announced its decision to invest heavily in production facilities in the south of Italy, reversing a policy of investment which until then had been firmly anchored in Turin.⁷¹ Behind this decision there was certainly the lure of public funding for developing the *Mezzogiorno*, but also a search for new sources of labour, less highly organised and more docile, and a move from the large urban concentrations 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.

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

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

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

However, in the absence of a coherent industrial policy, the restructuring of the manufacturing sector was left to the 'animal spirits' of Italian entrepreneurs and, contrary to the Bank of Italy's assumption of a direct link between profits and investments, the 1970s confirmed and strengthened the tendency of Italian industry to specialise at the 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

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

THE 1980s: ITALIAN-STYLE STABILISATION

Although effective in defending profitability, recourse to the cycle of inflation/devaluation increased instability at home and irritation abroad.⁷⁶ Italy's trade partners did not agree with what they saw as unfair commercial practice by a member of the Common Market. 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).

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

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

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

adjustment of wages, thwarting all the expected benefits for the competitiveness of exports.⁷⁸

Meanwhile, the rise in the cost of living and mounting unemployment (and also the evidence of a widening gap in rights and wage levels between workers employed by large industrial firms and those in small- and medium-sized ones) had weakened the trade unions and led them to reconsider their strategy. In January 1978, in an historic interview, the secretary general of the main union confederation—the communist/socialist CGIL—also speaking on behalf of the other confederations, signalled the trade unions’ willingness to accept a policy of moderation, and explicitly recognised that the idea of wages as an independent variable, which had been the central point in the trade unions’ strategy since 1969, had been a mistake. In order to reduce unemployment (which had now reached the figure of 1,600,000), the economy had to be revitalised: ‘I am convinced that capitalism is declining. By that, I don’t mean that it could not improve in the medium term. [It] is in order to reach this objective, and to use it to reduce unemployment, that we are asking the working class to accept a programme of sacrifices.’⁷⁹ A few days later, the large majority of almost 1500 delegates at the nation-wide conference of the Unitary Federation of Trade Unions pledged to accept containment in wage increases and greater flexibility in the use of labour, in exchange for an economic policy of investment to reduce unemployment.⁸⁰ Against this background, in March 1978 the PCI, for the first time since 1947, had a parliamentary majority with the Christian Democrats, although it did not have representatives in government. As it was, the Communists were thus directly involved in preparing the stabilisation plan presented by the minister of the Treasury, Filippo Maria Pandolfi, in August 1978. The plan’s final aims, which echoed the views 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.

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

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

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

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

However, the end of the Communist party’s participation in the stabilising effort was not a return to the old pattern of industrial conflict. The PCI had not yet defined any clear alternative after the failure of the *compromesso storico*.⁸⁷ In addition, the thorough restructuring undergone by Italian industry and the worsening of the international economic climate, following the second oil shock and the monetarist turn in the USA and the UK, had irremediably weakened the unions’ position. The change 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).

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

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

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

The other element consolidating the anti-inflationary attitude of 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.

minister of the Treasury, Nino Andreatta, in agreement with the governor of the Bank of Italy, Carlo A. Ciampi, to terminate the Bank's obligation, formally established in 1975,⁹¹ to buy all government bonds left unsold. The result of a simple exchange of letters between Andreatta and Ciampi, not submitted to parliament (an 'open plot', as stated later by Andreatta),⁹² the 'divorce' between the Treasury and the Bank gave the latter effective independence in managing monetary policy. The 'divorce' also had the effect of making the pursuit of a policy of high interest rates in order to entice investors into buying state bonds inevitable. The high interest rates also kept the lira within the EMS fluctuation band. The soaring interest rates were the main source of the steep rise in the public debt ratio, which rose from 59.5% in 1980 to 99.1% in 1990 (reaching 120% in the mid-1990s).⁹³ (See Fig. 6.3).

In spite of lower prices, the diverging inflation rate with respect to the more 'virtuous' European countries remained significant, and this led to an increase in the exchange rate of the lira in real terms. The frequent re-alignments of the exchange rates which took place in the first phase of the EMS were not sufficient to compensate the inflationary spread. In addition, after the Basel-Nyborg agreement of 1987, the EMS in practice became a system of fixed exchange rates,⁹⁴ thus accentuating the problem of competitiveness for the Italian economy. The industrial system 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 Szsz, *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

also the Netherlands, France, Belgium and Denmark), whose currencies 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

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

It is therefore evident that, in these years, the troubles of the Italian economy had less to do with the non-productivity of Italian workers than with the constraints imposed by entry into the EMS. In the second half of the 1980s, the increasing rigidity of the EMS, the weakness of the US dollar, which reduced possibilities of finding alternative outlets 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.

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

CONCLUSION: THE DISAPPEARANCE OF THE ‘INTERNAL CONSTRAINT’

When, in September 1992, the EMS collapsed under the weight of the policy of high interest rates adopted by the Bundesbank in order to cushion the inflationary effects of financing German reunification, the lira reacquired its freedom to fluctuate.⁹⁸ By April 1993, it had lost almost 30% with respect to the mark. Its exchange rate then stabilised around a level 25% lower than in the past,⁹⁹ allowing a sudden recovery in exports. But, again, the respite due to devaluation was not used to obviate the most evident weaknesses of the Italian industrial system. On the contrary, in July 1992, the agreement between Confindustria and the unions definitively ended the wage index system and, a year later, the new agreement on the cost of labour, which linked wage bargaining to the programmed rate of inflation,¹⁰⁰ definitely marked the end of the ‘internal constraint’ for the Italian productive system, with the disappearance of a strong labour movement capable of making employers follow a strategy 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)

At the same time, the onset of a vast programme of privatisation, the largest ever achieved in an advanced capitalist country, carried out under the motto ‘Europe wants it!’, meant renouncing any possibility of industrial policy and economic planning and, in many cases, led to dismal 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).

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

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

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