

Recovery and Development in the European Periphery (1945-1960)

edited by

Andrea Bonoldi / Andrea Leonardi



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Table of contents

Introduction, by <i>Andrea Bonoldi</i> and <i>Andrea Leonardi</i>	p. 7
Institutional Innovations and Economic Growth in Europe in the Post-World War II Era, by <i>Vera Zamagni</i>	17
Reconstruction Paths in Europe between 1945-1970. Planned and Market Economies Compared, by <i>Peter Csillik</i> and <i>Tamas Tarjan</i>	29
Reconstruction and Resumption of Development in the Yugoslav Republics after World War II, by <i>Ivo Bićanić</i>	43
Post-War Recovery in the South of Italy. Dishomogeneous Development and Regional Differences, by <i>Ezio Ritrovato</i>	63
Occupation and Economic Development. Eastern and Western Austria in a Comparative Perspective, by <i>Franz Mathis</i>	87
Rural Spain during the Franco Regime (1939-1975), by <i>Ernesto Clar</i> and <i>Fernando Collantes</i>	103
A Farewell to Marginality. Development Paths in the Italian Alpine Provinces since World War II, by <i>Andrea Bonoldi</i>	129
Marginal in Strong Areas. The «Mediocredito Regionale Lombardo» and the Organisational Structure of the Medium-Term Corporate Lending Banks under the Guidance of Giordano Dell'Amore, by <i>Pietro Cafaro</i> and <i>Andrea Locatelli</i>	163
Industrial Credit and Special Banks in Relaunching the Italian Banking System after World War II, by <i>Andrea Leonardi</i>	201
Local Credit and Territorial Development. General Aspects and the Italian Experience, by <i>Silvio Goglio</i>	241

On the Boundary of Western Europe. The Marshall Plan and Economic Development in Bavaria, by <i>Maximiliane Rieder</i>	p. 281
Mediocredito Trentino-Alto Adige and its Role in Promoting Entrepreneurship in Trentino and South Tyrol (1954-1972), by <i>Cinzia Lorandini</i>	311
Recovery and Growth in Poland after World War II, by <i>Aleksander Surdej</i>	341
Concluding Remarks, by <i>Alberto Cova</i>	361
Bibliography	371

Introduction

by *Andrea Bonoldi* and *Andrea Leonardi*

Tackling a subject such as the reconstruction of Europe after World War II means taking on a series of questions which economic historiography has already examined from various viewpoints using a multiplicity of sources. Therefore it could seem risky to put oneself to the test, with the intention of supplying a new contribution to understanding, or at least with the objective of widening the range of useful elements towards providing a key enabling an increase of knowledge in a field which has recently been investigated with great competence and authority¹. However, it cannot be ignored that even topics and situations which have been analysed with indisputable efficacy can lend themselves as objects of new research, especially if conducted from a different viewpoint. And taking these considerations as its departure point, the small working group for economic history within the Department of Economics at the Università degli Studi in Trento has given itself the task of adding its own contribution to the evaluation of a page of enormous interest in contemporary economic history.

Indeed, following a long investigation conducted in addition to the historiographic literature also and above all on a mass of documents of diverse provenance, only partially explored up until today, the Trento research group has decided to win the participation of a large community of scholars in its research, with the aim of making a comparative analysis of the results arrived at. This work group, which 15 years ago was the originator of a *Seminario permanente sulla storia dell'economia e dell'imprenditorialità nelle Alpi in età moderna e contemporanea* (*Permanent Seminar on the History of the Economy and Entrepreneurship in the Alps in Modern and Contemporary Times*), with the initiative being taken in

Translation by Joy Avery

¹ Amongst recent works, the following should be considered: P. TEMIN, *The Golden Age of European Growth Reconsidered*, in «European Review of Economic History», 6, 2002, 1, pp. 3-22; B. EICHENGREEN, *The European Economy since 1945: Coordinated Capitalism and Beyond*, Princeton 2008; P. TEMIN - G. TONIOLO, *The World Economy Between the Wars*, Oxford 2008.

2007 and which is brought together in the publication of the current volume, has therefore intended to enter onto a scene of enormous range, crossing the horizons of the Alpine regions.

In effect, the work carried out during the first seven seminar cycles, starting at the Department of Economics in 1994, remained circumscribed within a field which is indubitably interesting, even if only partially able to reflect the dynamics experienced by the wider economic scenario of the European continent. In this manner, the seminar activities developed during these years on the one hand allowed a methodological confrontation between academics from all parts of the Alps and, on the other hand, enabled a more in-depth study of the key topics such as the role of entrepreneurship, of labour and entrepreneurial mobility, of diversification in development, the role played by tourism and the innovative drive deriving from the initiation of the electrification of the Alpine regions². The objective, perhaps somewhat ambitious, which was developed when starting the seminar meetings, was to offer to the increasing number of surveys carried out in the most recent years in the field of economic history a forum for comparison which would result in less fragmentation of the studies. The majority of them, though sustained by correct methodology and backed up by an efficient use of sources and bibliography and, indeed for this reason indisputably useful in terms of the increase of knowledge which they were able to assist, did not always prove to be upheld by a shared methodology, so that a comparative examination was not possible. The efforts undertaken were therefore aimed at defining an adequate conceptual apparatus and analysis instruments involving a type of comparative study between French, Swiss, Italian, Austrian and German scholars.

Therefore, in order to overcome the risk of a simple juxtapositioning of often imposing research, but using a diversified methodology, an

² See also in this regard the «Proceedings» of the first seven seminar sessions: L. TREZZI (ed.), *A che punto è la storia d'impresa? Una riflessione storiografica e due ricerche sul campo*, Trento, Università degli Studi di Trento, 1995; L. TREZZI (ed.), *Imprenditorialità nelle Alpi fra età moderna e contemporanea*, Trento, Università degli Studi di Trento, 1997; G.L. FONTANA - A. LEONARDI - L. TREZZI (eds), *Mobilità imprenditoriale e del lavoro nelle Alpi in età moderna e contemporanea*, Milano 1998; A. LEONARDI - A. BONOLDI (eds), *L'economia della montagna interna italiana: un approccio storiografico*, Trento, Università degli Studi di Trento, 1999; A. LEONARDI (ed.), *Aree forti e deboli nello sviluppo della montagna alpina*, Trento, Università degli Studi di Trento, 2001; A. LEONARDI - H. HEISS, *Tourismus und Entwicklung im Alpenraum. 18.-20. Jb. Turismo e sviluppo in area alpina. Secoli XVIII-XX*, Innsbruck 2003; A. BONOLDI - A. LEONARDI (eds), *Energia e sviluppo in area alpina. Secoli XIX-XX*, Milano 2004.

attempt at synthesis and conceptualisation was proposed to facilitate the inter-relationship between the surveys carried out in different centres. The Alpine zone therefore, and the analysis carried out of the different situations present in this area, thanks to the initiative consolidated over time around the Department of Economics of the University of Trento, has become a zone of experimentation with regard to a new type of relationship between the different economic historiographies.

The area of comparative analysis was consolidated with instruments which gradually became more efficient; therefore, with the 8th seminar cycle, although without abandoning the Alpine regions, it was possible to proceed even further, widening the scope of the surveys on the subject of reconstruction after the war and in the specific role played by the European Recovery Program. In Trento in 2004, in fact, an important historical debate took place on the subject: *La rinascita economica dell'Europa: il Piano Marshall ed i suoi riflessi sull'area alpina* (*The economic renaissance of Europe: The Marshall Plan and its effects on the Alpine zone*). The comparison developed in that meeting³ established the premise of a further in-depth study of a series of unresolved problems around the scenarios which have defined the economic recovery in which the Alpine regions have proved to be co-protagonists in a transformation of enormous importance for the whole of Europe.

Consequently, on the basis of the requests which emerged during the development of the 8th seminar cycle, it was decided to set out the organisation of the 9th cycle in new terms, whilst also making use of the funds made available by the Ministry of Education, University and Research within the framework of a research project of national interest⁴, as well as the collaboration offered by the Centro per gli studi storici italo-germanici / Centre for Italian-German Historical Studies of the Bruno Kessler Foundation of Trento. In view of the wide interest and the coming-together of a number of scholars, it was decided to base the discussion on what had emerged from the comparison on the topic of post-war recovery in the Alpine regions in order to carry out a series of

³ A. BONOLDI - A. LEONARDI (eds), *La rinascita economica dell'Europa. Il Piano Marshall e i suoi riflessi sull'area alpina*, Milano 2006.

⁴ The Prin 2005 (2005137548-005), coordinated at the national level by Alberto Cova and entitled: «Intervento pubblico, dirigismo e programmazione economica in Italia: continuità e cambiamenti (1922-1956)». The research unit of the University of Trento, coordinated by Andrea Leonardi, looked specifically at the topic: «Banking system role: from the functional specialization to the territorial diversification».

considerations of even wider scope. Keeping in mind the particular skills and the terrain of the survey as carried out by the research group under the Department of Economics of the University of Trento, the field in which a profitable comparison was to be developed could not have been identified in the more dynamic areas, but was to focus on those environments, such as the Alpine areas which presented different elements considered to be marginal in the route taken towards the achievement of the most important goals of modern economic development. Therefore, a conference was organised with scholars from all over Europe to compare the results of their research on the topic of economic recovery after World War II in those European areas considered to be marginal.

The point of departure for the research presented at the conference which took place in Trento on the 6th and 7th December 2007 was the examination of the great turbulences which marked the pre-war period. Subsequently, the analysis of post-war reconstruction was looked at and the different routes taken by countries which were able to avail themselves of aid under the Marshall Plan in comparison to those which could not. Specifically, the trajectories of development in the following years were taken into consideration, against the background of the growing confrontation between the Western and Eastern blocks. One of the objectives of this confrontation between economic historians and economists from different fields of study was, thus, to compare the processes of reconstruction and development of the post-war period in countries with differing systems of economic regulation.

In the introductory phase of the conference, over-precise definition of the concept of periphery as in the title was avoided with the aim of allowing the different meanings which this term acquires according to its context to emerge. In general, the contributions referred to the economic marginality of an area, noting the delay in terms of structural transformation, or the less good performance under the profile of the principle economic indicators in comparison with areas which were more developed. Whilst in some cases this was done with specific reference to the national dimension – for example for Poland, ex-Yugoslavia or Hungary – in other contributions the comparison was made more importantly within the states themselves, taking the aggregates as defined according to the different criteria (regions, mountain areas, rural areas) into consideration.

When talking about periphery in economic-historical terms, accounting for the position of such a concept within a theoretical debate is inevitable. Currently, two principal trends can be identified. The first is a tributary

of the conceptual elaborations by Immanuel Wallerstein, who, within the framework of his postulation of a world-system, identifies a core, a semi-periphery and a periphery which are defined on the basis of a division of labour with a precise hierarchy in favour of the first. The core concentrates production with the highest value added, whilst the periphery essentially supplies raw materials, agricultural products and labour itself. The persistence of this disequilibrium, which translates into evident diversification both in the structure of the economy and in the distribution of income, is for Wallerstein the condition per se for the survival of the system, in which shifts, although they happen, are viscous and cause friction⁵.

The perspective from which the literature on convergence confronts the relationship between the core and the periphery is decidedly different: starting with the neoclassical model of growth, centred on the role of capital, labour and technology, it has postulated the possibility for less developed systems to recuperate the delay in comparison with more advanced countries, in particular thanks to an increase in productivity⁶. This thread of research has produced a notable amount of studies, both methodological and empirical. The latter have highlighted that in reality there does not seem to exist any convergence in terms of rates of growth and output per capita in the poorer countries in relation to the richer. A convergence process exists, but only for determinate groups of countries during determinate historical periods⁷; moreover, the model seems to respond better in reality, when the variables such as human capital, investment in R&D, commercial openness, the quality of the institutions operating within a given system are also taken into consideration⁸. From

⁵ I. WALLERSTEIN, *The Modern World-System*, 3 vols, New York 1974, 1980, 1988. For a recent overview of the works of I. WALLERSTEIN, *World-Systems Analysis: an Introduction*, Durham - London 2004.

⁶ One of the most often quoted articles of all times in the economic literature deals with exactly this topic: M. ABRAMOVITZ, *Catching-up, Forging Ahead and Falling Behind*, in «Journal of Economic History», 46, 1986, pp. 385-406.

⁷ Cf. S.N. BROADBERRY, *Convergence: What the Historical Record Show*, in B. VAN ARK - N. CRAFTS (eds), *Quantitative Aspects of Post-War European Economic Growth*, Cambridge 1996, pp. 327-346.

⁸ In particular, Easterly and Levine suggested that «something else» beside the accumulation of factors of production explains diversity with regard to development processes. The role of this surplus, the total factor productivity, was already identified as crucial by Solow. It is nevertheless important for the efficacy of the models to understand what is and what influences the TFP: for Easterly and Levine, for example, an important role is

an economic historian's viewpoint, one of the most interesting results of the debate is the understanding of the complexity of the variables which influence the development processes.

A diversification of developmental dynamics is also to be noted within single states, with groups of regions which tend to converge in their growth paths in many similar aspects – this being the case both in the Austrian Länder about which Mathis speaks, and also the northern Italian mountain areas discussed by Bonoldi – whilst other situations, such as in southern Italy as illustrated by Ritrovato, phases of convergence alternate with phases of distancing from the national trend⁹.

The common elements which characterise the cases presented in this volume are many, and range from the necessity of reconstructing situations profoundly affected by the war, to the introduction of more or less significant institutional changes¹⁰, to the role played in the development processes by public actors. Obviously the historical context in which these dynamics were played out is different. In particular, the experience of the Eastern European countries is marked on the one hand by a strong impulse towards structural transformation of the economy in a situation which was still profoundly marked by agriculture, and on the other hand, by the consolidation of socialist institutions and the creation of the Soviet political and economic block¹¹ with the partial exception of Yugoslavia, as shown in the contribution by Bicanic. In this period, the inheritance of the war played an extremely important role, not only in the definition of the political destiny of the countries involved, but also in determining conditions for and the necessity of an economic recovery¹². In particu-

also played by economic policies. W. EASTERLY - R. LEVINE, *It's Not Factor Accumulation: Stylized Facts and Growth Models*, in «The World Bank Economic Review», 15, 2001, 2, pp. 177-210. For a comparison with regard to Europe: N. CRAFTS - G. TONIOLO, *Reflections on the Country Study*, in N. CRAFTS - G. TONIOLO (eds), *Economic Growth in Europe Since 1945*, Cambridge 1996, pp. 576-581.

⁹ Cf. V. DANIELE - P. MALANIMA, *Il prodotto delle regioni e il divario Nord-Sud in Italia (1861-2004)*, in «Rivista di Politica Economica», 97, 2007, 3-4, pp. 267-315, in particular pp. 287-289.

¹⁰ This observation could also be valid for Spain, if instead of World War II, the effects of the Civil War are taken into consideration.

¹¹ Cf. I.T. BEREND, *Central and Eastern Europe 1944-1993: Detour from the Periphery to the Periphery*, Cambridge 1996; B. EICHENGREEN, *The European Economy*, pp. 131-162.

¹² Cf. B.F. ABRAMS, *The Second World War and the East European Revolution*, in «East European Politics & Societies», 16, 2002, pp. 623-664, and E.A. RADICE, *The Collapse of*

lar, the destruction of capital in the Eastern European countries was hugely important, most importantly in Poland, Yugoslavia and Hungary. Keeping this in mind, in terms of the radical transformation in step with the rapid conversion to planned economies, massive nationalisations and the limited assistance given by the Soviet Union, the capacity of these countries in terms of recovery during the post-war era seems surprising for a number of reasons¹³.

Convergence, which as we have seen, does not seem to hold up empirically as a general rule, seems however to be notable among the European countries during the post-war «Golden Age» (1950-1973)¹⁴. In this period, the impulses generated by the process of reallocation of resources were determining after the distortions resulting from the thirty-year period of contraction in international trade¹⁵, and for Western Europe, the Marshall Plan¹⁶ and the establishment of a favourable institutional context had a relevant role, as is demonstrated by the contribution by Vera Zamagni¹⁷ in this volume. If, as already seen, the economies of the «periphery» of Eastern Europe rapidly recovered after the war, the Western countries grew more quickly in the following decades, succeeding in gradually integrating even the countries in their own southern «periphery» such as Spain, Portugal and Greece¹⁸. The difficulty in this sense for the Eastern

German Hegemony and its Economic Consequences, in M.C. KASES - E.A. RADICE (eds), *The Economic History of Eastern Europe 1919-1975*, vol. 2: *Interwar Policy, the War and Reconstruction*, Oxford 1986, pp. 495-519.

¹³ Cf. D. ALDCROFT - S. MOREWOOD, *Economic Change in Eastern Europe since 1918*, Aldershot 1995, pp. 100-104; W. BRUS, *Postwar Reconstruction and Socio-economic Transformation*, in M.C. KASES - E.A. RADICE (eds), *The Economic History*, pp. 564-641.

¹⁴ B. EICHENGREEN, *The European Economy*, pp. 87-93, 198-204.

¹⁵ P. TEMIN, *The Golden Age*, p. 19. A recent empirical study on this subject in T. VONYÓ, *Post-War Reconstruction and the Golden Age of Economic Growth*, in «European Review of Economic History», 12, 2008, pp. 221-241.

¹⁶ B. EICHENGREEN - M. UZAN, *The Marshall Plan: Economic Effects and Implications for Eastern Europe and the USSR*, in «Economic Policy», 14, 1992, pp. 14-75; J. BRADFORD DE LONG - B. EICHENGREEN, *The Marshall Plan: History's Most Successful Structural Adjustment Program*, in R. DORNBUSCH et al. (eds), *Postwar Economic Reconstruction and Lessons for the East Today*, Cambridge MA 1993, pp. 189-230.

¹⁷ Cf. B. EICHENGREEN, *Institutions and Economic Growth in Europe after World War II*, in N. CRAFTS - G. TONIOLO (eds), *Economic Growth*, pp. 38-70.

¹⁸ B. EICHENGREEN, *The European Economy*, summary table on p. 17 (partially reproduced in the text by Aleksander Surdej in this volume) and pp. 204-216. Although initially the trend of productivity in Spain and Portugal tends to diverge from that of Eastern Europe,

countries was also connected – as pointed out by Surdej with regard to Poland – to problems of microeconomic efficiency within the system, which planned economies were not able to resolve¹⁹. These problems are also referred to by Peter Csillik and Tamas Tarjan to explain the lack of convergence towards the respective potential growth path of planned economies. Their text, although methodologically eccentric in comparison with the rest of the volume, constitutes a useful reference also because it takes into account the latest methodological developments in the debate about convergence as mentioned above.

The topic of the role of public intervention is still important in various respects, therefore, to facilitate understanding of light and shadow in the development processes both on a national and regional level²⁰. In the case of rural Spain, as discussed by Ernesto Clar and Fernando Collantes, the typical trends of a modernisation process – increase of agricultural productivity and reduction of rural population – appear to have manifested themselves along a different path from that which was foreseen by the interventionist politics of the Franco regime, which prevalingly aimed at the maintenance of traditional countryside social structures. In the case of Bavaria, as analysed by Maximiliane Rieder, however, the mix between local politics endowed with efficient instruments for intervention and a strong orientation towards development and innovation and a dynamic economic environment have led to outstanding results.

The question of development highlights very well how the pendulum of research uniting history and economics tends to oscillate continually between elegant theoretical suggestions for syntheses and the force of the

analogously, with regard to that seen in Czechoslovakia and East Germany, over a long period the presence of major foreign investments and structures more easily assimilated in the market economy, despite the continuance of more authoritarian regimes, enabled the creation of conditions conducive to recovery. Cf. B. VAN ARK, *Convergence and Divergence in the European Periphery: Productivity in Eastern and Southern Europe in Retrospect*, in B. VAN ARK - N. CRAFTS (eds), *Quantitative Aspects*, pp. 271-326, in particular pp. 300-303.

¹⁹ See also on this topic J. KORNAI, *The Socialist System. The Political Economy of Communism*, Oxford 1992, in particular pp. 228-301.

²⁰ Andrea Boltho maintains that in some ways the European «Golden Age» was the result of the impulse to deploy the forces of a market economy on one hand, and the ordering function, the stimulus and the redistribution resulting from public intervention, at least in the creation of positive expectations on the other. A. BOLTHO, *Reconstruction after Two World Wars: Why the Differences?*, in «The Journal of European Economic History», 30, 2001, 1, pp. 429-456, in particular pp. 452-453.

argument on the one hand, and the precise analysis of real cases which often do not or hardly respond to theoretical expectations on the other. This is also valid, although in a different measure, for both the approaches to the core-periphery relationship as mentioned above. Different studies on convergence seem, for example, to assign a relative relevance to the processes of accumulation of production factors. But the historical reality underlying the concept of «capital» tends to escape these generalisations, and in various national cases the modalities, also qualitative, of formation of capital appear important for the definition of the possibility of growth of the economic system. It does not seem coincidental that a notable aspect of public intervention in favour of diffusion of development processes should be in relation to the politics of credit²¹. As already mentioned, in Italy a research project of national interest has recently come to its conclusion, which looked at public interventions between 1922 and 1956, in the framework of which the research unit at the University of Trento examined the topic *Banking system role: from the functional specialization to the territorial diversification*. In the inter-war period, the restructuring of the bank system appreciably increased public presence in this sector, whilst the legal provisions dating from the years 1936-37 decreed the end of mixed banking, imposing a clear specialisation on banks. If comprehensive stability of the system was thus guaranteed, it is also true that the rigidity introduced was not always conducive to satisfaction of requests for credit from the economy. Starting from the 1950s, and in order to fulfil these demands, the system of regional *Mediocrediti* was created; institutes of a public nature which were obliged to facilitate financing for businesses in their area. In this volume, Andrea Leonardi has portrayed the general structure of the special credit institutes in Italy in the post-war period, whilst Cafaro and Locatelli have analysed the motivation for and general structure of the *Mediocrediti* system. Cinzia Lorandini, meanwhile, has focussed her attention on the business of the *Mediocredito* in the Trento region, from where arise, although not only, the connections between the institute's activity and local politics. And this is one of the aspects of the critical analysis which Silvio Goglio carried out on local credit institutes and their incentivising function with regard to production activities in the Italian experience.

As highlighted by Alberto Cova in his concluding remarks, an important added achievement of this conference was the possibility of a comparison

²¹ A. LEONARDI, *Il sistema bancario nella ricostruzione del Paese: tra vecchi e nuovi equilibri*, in A. COVA - S. LA FRANCESCA - A. MOIOLI - C. BERMOND (eds), *La banca* (Storia d'Italia. Annali, 23), Torino 2008, pp. 605-660.

on the question of reconstruction after World War II between the reality of a market economy and that of a planned economy. Recently, Albert Carreras underlined the comparison in precise terms of the paths taken by different European zones in their post-war reconstruction as seemingly not possible, given the current stand of studies, also because «the data on GDP, output of the so-called 'Eastern European countries' (those which were included in the zone under Soviet influence) are not comparable for those years with the rest of the continent (i.e. the part of Europe which had a market economy)»²². By means of the contributions of the scholars who met in Trento from Germany, Austria, Hungary, Poland, Croatia, Spain and Italy it was possible to open up a first chink in the wall which divided two historiographies and two different methods of investigation. The result of this opening will be the ability to present some fruits of the work, still considered by some to be unripe, such as those which arise from a first comparison, but undoubtedly it will also open up a route which, if entered into with conviction, could prove to be a path leading to undeniably positive results.

²² A. CARRERAS, *Presentazione*, in P. BATTILANI - F. FAURI, *Mezzo secolo di economia italiana 1945-2008*, Bologna 2008, pp. VII-VIII.

Institutional Innovations and Economic Growth in Europe in the Post-World War II Era

by Vera Zamagni

The 1950s and 1960s were a true «golden age» for European economic growth¹, both for the West and the East, as can be seen in Table 1. Never before had rates of growth been so substantial in Europe² and this performance lasted long enough not to be simply explained by the «recovery» after a major and destructive war. This paper aims at revisiting the major causes of such a brilliant performance, with particular focus on the differences between East and West and with an eye on the legacy left to the subsequent period.

1. *Similarities*

The first point to be made derives from the time-honoured but still valid conceptualisation by Alexander Gerschenkron and other scholars pointing to the «advantages of backwardness» that could accrue to Europe in view of its retardation with reference to the world leader, clearly represented by the USA. Europe had started to lose its leadership already with WWI and the disastrous settlement of it that crippled Germany and dislocated all the European economies; then it was further weakened by the 1929 crisis, receiving the final blow by WWII. There was a lot of room for «catching up» with the technological frontier through massive investments. Indeed, such investments were very high in Western Europe, but even higher in Eastern Europe, where – according to the statistical accounts – they reached incredible levels, sometimes beyond 50% of GDP.

¹ P. TEMIN, *The Golden Age of European Growth: a Review Essay*, in «European Review of Economic History», 1997, 1, part 1.

² The best comprehensive surveys have been produced in the twin volumes N. CRAFTS - G. TONIOLO (eds), *Economic Growth in Europe Since 1945*, Cambridge 1996 and B. VAN ARK - N. CRAFTS (eds), *Quantitative Aspects of Post-war European Economic Growth*, Cambridge 1996.

Table 1. *Rates of growth of per capita GDP 1950-1973*

	Per capita GDP level in 1950 (USA=100)	Rates of growth 1950-1973		Per capita GDP level in 1950 (USA=100)	Rates of growth 1950-1973
Austria	39	4.94	Albania	10	3.59
Belgium	57	3.55	Bulgaria	17	5.19
Denmark	73	3.08	Cecoslovakia	37	3.08
Finland	44	4.25	Hungary	26	3.60
France	55	4.05	Poland	26	3.45
West Germany	41	5.02	Rumania	12	4.80
Italy	37	4.95	Yugoslavia	17	4.49
Netherlands	63	3.45	Eastern Europe		3.79
Norway	57	3.19			
Sweden	70	3.07	Soviet Union	30	3.36
Switzerland	95	3.08			
United Kingdom	72	2.44	USA	100	2.45
Ireland	36	3.04			
Grece	20	6.21	Japan	20	8.05
Portugal	32	5.66			
Spain	25	5.79			
Western Europe		4.08			

Source: A. MADDISON, *The World Economy. A Millenial Perspective*, Paris 2001.

Table 2. *Percentage labour force in agriculture*

	1950	1973
Soviet Union	48	26
Czechoslovakia	40	18
Hungary	53	24
Romania	74	53
Bulgaria	82	32

Source: I. BEREND, *An Economic History of Twentieth-Century Europe*, p. 170.

In the West, a substantial support to this catching up was intentionally offered by the USA³ through the Marshall Plan and the other intensive economic relations that were developed by the multinationals⁴, by the defence industry and by cultural exchanges, so much so that we can speak of a process of «Americanisation» of Europe. This role of «facilitator» played by the USA was unknown in history and made the European imitation more rapid. In the East, there was another model – central planning – that had been developed in the 1930s in the USSR and, although over the long run it proved unsustainable, in the early stages it gave good results in terms of rapid industrialisation, as had happened in USSR in the 1930s⁵.

Besides the help coming from established models to be copied, there were at least three other causes at work to explain the rapidity of the European catching-up process, two of which are common to West and East, while the third is the one marking the differences. First, we have to

³ See H.G. SCHRÖTER, *Americanization of the European Economy: A Compact Survey of American Economic Influence in Europe since the 1880s*, Dordrecht 2005, when he writes: «After the Second World War [the Americans] definitely wanted to transfer their ... more efficient and superior solutions to Europe», p. 58.

⁴ «American foreign direct investment in Europe played a direct and indirect role in the transfer process ... A massive, direct transfer of American technology took place in connection with large issues, such as nuclear power generation or the assembly of advanced aircraft, but at the same time incremental transfers of a less spectacular nature occurred in all industries», *ibidem*, p. 61. See M. WILKINS, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*, Cambridge MA 1974.

⁵ See for the results of the initial five-year plans in USSR, R.W. DAVIES - M. HARRISON - S.G. WHEATCROFT (eds), *The Economic Transformation of the Soviet Union, 1913-1945*, Cambridge 1994. However, the USSR could only win WWII with the determining support of the USA, which provided substantial amounts of armaments and other commodities through the Lend Lease scheme, as was demonstrated by M. HARRISON (ed.), *The Economics of World War II*, Cambridge 1998.

mention the large reservoir of under-employed labour existing in Europe, most of which was to be found in agriculture⁶, ready to move to cities without great expectations in terms of wages, given the very precarious starting positions. This produced a vast flow of internal migration from the countryside to the cities, which is a well-known phenomenon for the West, but it is to be found in the East as well, as can be seen in Table 2. The second common cause is the reconstruction of the German economy, divided in two parts, one belonging to the West and the other to the East. Both parts played major roles in their respective areas in leading Europe in technological advancements and provided the stronghold for the new wave of European industrialisation.

But all these factors could not have been fully exploited without an institutional context shaped in such a way as to be conducive to coherent and sustained efforts. As Barry Eichengreen wrote: «Growth requires more than just markets ... It requires institutions capable of addressing coordination problems that cannot be solved at arm's length»⁷. The importance of this issue and the large differences between West and East impose a separate treatment of the type of institutions on which the European economies could rely.

2. *A new era in the West*

In the West the immediate post-war years witnessed the creation of coordinating institutions at various levels – national, European and world wide – which radically discontinued past routines. At the national level, the problem was how to avoid conflicts and uncooperative behaviour among classes and lack of coherence between State policies and private initiatives. The institutions put in place to face the issue of conflicts were of three types: a) a generalisation of the welfare state in such a way as to avoid the most common uncertainties and cushion the negative implications of migration, changing jobs and restructuring of enterprises; b) the effort to win the support of strong trade unions, offering them participation in the shaping of growth strategies (this implied the adoption of

⁶ This mechanism was first underlined by Lewis 1954 and systematised in the book by C. KINDLEBERGER, *Europe's Postwar Growth*, New York 1967.

⁷ B. EICHENGREEN, *The European Economy Since 1945. Coordinated Capitalism and Beyond*, Princeton NJ 2007, p. 40. Today institutional economics is a thriving branch of economics, led by various scholars, among them the economic historian D. NORTH, *Understanding the Process of Economic Change*, Princeton NJ 2005.

co-determination in West Germany in 1951/52 and of similar measures in Austria⁸, as well as the negotiation of «corporative» tripartite agreements in Norway, Sweden and the Netherlands), c) the extensive use of «industrial» policies, ranging from full planning of the economy as in France to the large presence of State owned enterprises in public utilities, finance, transport and strategic industries in France and elsewhere. Indeed, it can be argued that Keynesian policies were not fashionable in most of Western Europe before the 1970s, with the exception of UK and partially of Sweden. This impressive range of new national institutions produced not only coordination, but a stable context in which long-term investments could be more easily planned.

National efforts could however have been defeated if the international context had continued to be as «disarticulated» as Kindleberger had defined the world economy as being in the 1930s⁹. The major changes no doubt took place at the European level, starting with the EPU (European Payments Union) in 1950, an institution which only lasted a few years (it was discontinued in 1957, when the European currencies became fully convertible), but was recognised as crucial in showing the advantages of cooperation in such matters as balance of payments stability¹⁰. But the really strategic institution was the ECSC (European Coal and Steel Community, CECA), approved in 1951. Such an institution first of all offered a lasting solution to the basic problem of Franco-German enmity. The awareness of this was fully present in the words used by Robert Schuman in announcing to the world his proposal of May 9, 1950. Let us echo these words in the recollection by Dean Acheson, Secretary of State of the USA, who was present at Schuman's presentation:

«World peace cannot be safeguarded without the making of efforts proportionate to the dangers which threaten it. The contribution which an organised and living Europe can bring to civilisation is indispensable to the maintenance of peaceful relations. In taking upon herself for more than 20 years the role of champion of a united Europe, France has always had as her essential aim the service of peace. A united Europe was not achieved; and we had war. Europe will not be made all at once, or according to a single, general plan. It will be built through concrete achievements, which first create a *de facto* solidarity. The gathering together of the nations of Europe requires the elimination of the age-old

⁸ This process is known under the label of «Sozialpartnerschaft», in which both workers and employers exercise restraint in exchange for rapid economic growth.

⁹ C.P. KINDLEBERGER, *The World in Depression*, London 1986².

¹⁰ See B. EICHENGREEN, *Reconstructing Europe's Trade and Payments. The European Payments Union*, Manchester 1993 and J.J. KAPLAN - G. SCHLEIMINGER, *The European Payments Union. Financial Diplomacy in the 1950s*, Oxford 1989.

opposition of France and Germany. The first concern in any action undertaken must be these two countries. With this aim in view, the French government proposes to take action immediately on one limited but decisive point; the French government proposes to place Franco-German production of coal and steel as a whole under a common higher authority, within the framework of an organisation open to the participation of the other countries of Europe. The pooling of coal and steel production should immediately provide for the setting-up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims¹¹.

In the second place, the ECSC offered the method that could realistically be followed in Europe to bring about a process of integration. As Milward¹² pointed out: «[Western Europe] created an alternative pattern of reconstruction, a restricted but workable institutional framework for economic interdependence which has proved more effective than any previous peace settlement». Each one of the institutions was designed to resolve a particular and limited problem, not to attain an overall agreement, and each one of the steps of the process was carefully shaped in such a way as to produce advantages for all partners, in a positive sum game approach. The ECSC was also capable of shaping an institutional architecture that proved successful for later agreements: a technical committee, an assembly, a council of ministers and a court to resolve the disputes between the new institution and the member states. Finally, it was in the offices of the ECSC that the treaty of Rome signed March 25, 1957 was prepared, putting in place the customs union, the EIB (European Investment Bank), and Euratom. From then on, the path was open and the subsequent steps towards European integration were made in the full recognition that «national» interests were best served through a progressive shrinking of national sovereignty.

The third level of new coordinating institutions was the international one. The world had lived for centuries without any formal institution coordinating international economic relations and this had produced serious world crises. In an effort to avoid such major crises, the IMF (International Monetary Fund), the IBRD (International Bank for Reconstruction and Development) and the GATT (General Agreement on Tariffs and Trade) were created. Today we cannot imagine a world without coordination at the monetary and trade levels, although the former type of coordination is

¹¹ D. ACHESON, *Present at the Creation. My Years in the State Department*, New York 1969, pp. 383-384.

¹² A. MILWARD, *The Reconstruction of Western Europe 1945-51*, London 1984, pp. 476-477.

at present not entirely satisfactory after the demise of the gold exchange standard and the deregulation of financial activities. The IMF, born in the context of fixed exchange rates, is not adequate today to counteract crises in a regime of flexible exchange rates, but succeeded in keeping stability for all of the golden age period, with its multilateral coverage. The GATT was a major improvement with reference to the previous unilateral protectionist system and allowed the progressive liberalisation of the world markets of manufactured products¹³, multiplying world trade and opening up to new countries¹⁴. The IBRD started a new supportive approach with regard to not – yet developed countries. Behind these international economic institutions, the UN and NATO provided effective political and military protection.

Table 3. *Productivity per hour worked (USA=100)*

	1950	1973	1992
Austria	34	77	91
Belgium	54	88	112
Denmark	59	77	93
Finland	37	60	80
France	44	78	105
Unified Germany	-	-	93
Ireland	31	48	80
Italy	48	85	103
Netherlands	64	95	107
Portugal	20	48	55
Spain	25	52	88
United Kingdom	61	85	84

Source: data bank of the University of Groningen.

Because of this vastly improved institutional context, Western Europe could catch up not only quantitatively, but also qualitatively, with a rapid increase of productivity per hour worked, due to modernisation in technology and organisation, a trend that continued after the end of the golden age, as can be seen in Table 3. The crisis of the 1970s did decrease

¹³ Agricultural products and services were included in international negotiations only when the WTO (World Trade Organization) came into being in 1995.

¹⁴ B. EICHENGREEN remarks: «interpretations of Europe's growth as investment-led and export-led are two sides of the same coin. But this coin would not have had much currency in the absence of the institutions that facilitated the removal of barriers to trade», *The European Economy since 1945*, p. 39.

rates of growth substantially, but did not halt the catching up process. The USA-Europe gap in productivity was practically closed by 1992, in the span of 40 years (with the exception of Portugal), while the gap in per capita GDP continued to remain around 30%, as a result of a trend towards lower levels of employment and hours worked in Europe which has manifested itself since precisely the end of the European golden age.

3. *A forced accumulation in the East*

In Eastern Europe the five year plans based on physical targets brought about a tight coordination inside countries and also some overall coherence of the block, but at the cost of a rigid hegemony of the USSR. Following the Soviet model, investments were channelled towards heavy industry, which was largely missing (with some exceptions) in the backward Eastern European countries. The priority given to capital goods meant an increased output of coal, iron, steel and other metals. It was estimated that shares of capital formation on GNP at the beginning of the 1950s reached almost 50% in Poland and Czechoslovakia, with an average of 35% of the area (against 25% in Western Europe). This brought rates of growth of industrial production to extremely high levels for all of the 1950s, but it implied a restraining of consumption, an underinvestment in housing and in public utilities.

Some sort of regional integration was also designed for the Eastern block, through the creation of CMEA (Council on Mutual Economic Assistance, Comecon) in January 1949¹⁵. This was probably done in response to the introduction in 1947 of CoCom¹⁶ (Coordinating Committee for Multilateral Export Controls), through which USA and 16 other Western countries tried to block exports of technology to the Eastern block. After this, East-West trade collapsed¹⁷ and while for a period this produced the need for import substitution in the Eastern countries (and therefore higher growth rates), over the long run it multiplied the intrinsic difficulties of the planning mechanism to produce innovations in the civil field¹⁸. As Berend writes:

¹⁵ J.M. VAN BRABANT, *Socialist Economic Integration*, Cambridge 1980.

¹⁶ CoCom was abolished only in the 1990s.

¹⁷ M. MASTANDUNO, *Economic Containment and East-West trade*, Ithaca NY 1993 and G.K. BERTSCH, *East-West Strategic Trade, CoCom and the Atlantic Alliance*, Paris 1983.

¹⁸ A.C. SUTTON, *Western Technology and Soviet Economic Development 1930 to 1945*, Stanford 1971 and A.C. SUTTON, *Western Technology and Soviet Economic Development*

«The military sector ... was entirely isolated from the civil economy ... Salaries and various privileges (including special shops to buy otherwise non-existent goods) were incomparably better for those who worked in the military industry, which had a concentration of the best talents and experts»¹⁹.

Exchange among the countries of the Soviet block raised the issue of transfer prices, which was faced by the Bucharest agreement of 1958, according to which CMEA prices were to be adjusted every fifth year to the average of world's market prices of the previous five years (the Bucharest formula). Joint ventures and joint investment projects were established and monopolies were granted to certain countries to supply specific products to the entire area in an effort to promote the «international socialist division of labour», as Khrushchev proclaimed. In the 1960s there was even an effort to establish joint planning and the International Bank for Economic Cooperation was created in 1963. National decisions however contradicted this cooperative approach more than once and, worst of all, productivity was growing only very slowly. While between 1950 and 1992 (as we have seen in Table 3) productivity per hour worked increased 5 times on average in Western Europe, it only doubled in Eastern Europe²⁰, requiring the continuation of much harder physical toil and much longer hours of work in comparison to the West, without achieving a similar standard of living.

This unsatisfactory working of the system, which produced extensive but not intensive growth²¹, became apparent very early on and spurred a series of reforms, some of these quite early on. The pioneer was Yugoslavia with the introduction of the system of worker's self-management in 1950, which led to the abolition of compulsory plan targets, the partial re-introduction of prices and the halt of the collectivisation of agriculture. A second wave of liberalisations followed in 1965, with the establishment of commercial banks. Hungary followed after the 1956 revolution and a radical reform of agriculture was enacted. In 1965, the «New Economic

1945 to 1965, Stanford CA 1973 demonstrated that the failure of the Soviets in creating technological viability of their country depended crucially on central planning itself and on political dictatorship both denying individual responsibility and initiative.

¹⁹ I. BEREND, *An Economic History of Twentieth-Century Europe*, Cambridge 2006, p. 175.

²⁰ *Ibidem*, p. 177. Data are based on Maddison estimates.

²¹ «The centrally planned economy» – writes Berend (*ibidem*, p. 176) – «was an efficient model for backward agricultural countries in the early stage of industrialisation, since it offered a high rate of accumulation and rapid growth. Labour resources, however, dried up when surplus manpower shifted to the industrial sector».

Mechanism» abolished Soviet-type planning and Hungary was the only Eastern European country to enter the GATT in 1974²². Czechoslovakia approved a major reform in 1965, according to which firms could cash their profits, and wages were influenced by company productivity. When in 1967 the reform was operative, almost half of the investments were financed by companies' profits²³. Poland tried to introduce the Yugoslav approach and returned to private agriculture already in the late 1950s, but the continuous oscillation of policies made results even worse than under Soviet-style planning.

On the whole, reforms did not prove effective for two reasons: a) economically, they were half-hearted, and the blending of administrative and market incentives destroyed the coherent functioning of the system, without solving the major shortcoming, namely lack of technological innovation; b) politically, they were always accompanied by the demand for more freedom from the USSR, sometimes leading to popular protests that were brutally suppressed by tanks. A major crisis came in correspondence with the Western crisis in the early 1970s; according to the Maddison estimates, average growth rates of per capita GDP decreased substantially between 1973 and 1990 (from 4 to 1.9) in the West, but in the East they plummeted from 3.8 to 0.5. As a result, average income per capita in the East, which was 43% of the West in 1973 (about the same level as in 1950), had decreased to 34% in 1990. Paralysis reigned, investments in obsolete technologies could only make the situation worse and tensions accumulated up to the final demise of the system, which proved to have been economically unsound and politically unsustainable²⁴. The impact of this final blow up of the Soviet model was even more disastrous for the Eastern countries, which experienced negative growth rates in the first half of the 1990s, before radically recovering and changing their destiny.

4. *Concluding remarks*

It is possible to argue that the «golden age» of European economic growth included the whole continent, as is demonstrated by quantita-

²² And the IMF in 1982.

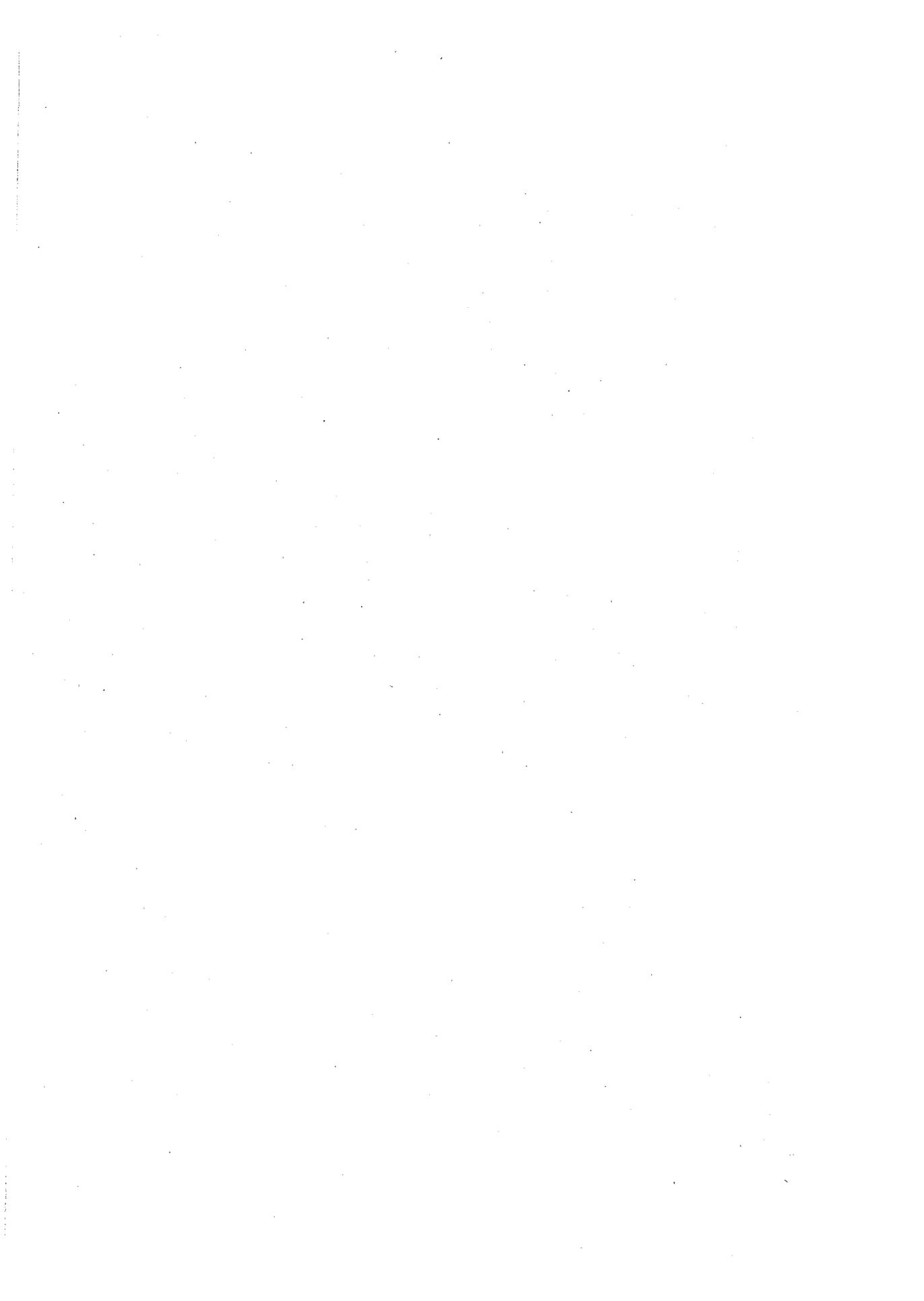
²³ M. KASER (ed.), *The Economic History of Eastern Europe 1919-1975*, Oxford 1986.

²⁴ It might be argued that it was the victory of WWII by the Soviet Union which lengthened the life of the Soviet system, by granting it a large international hegemony and substantial military power.

tive data. However, if investments and rates of growth were comparable in East and West, they were achieved under very different institutional contexts, producing a major divergence of performance in the longer run. In fact, Eastern growth was extensive, of the import substitution type, while Western growth coupled quantitative enlargement of capacity with great technological improvement, up to the point of catching up with the world leader. But especially, while the Eastern reforms tried without success simply to reproduce the efficiency of the market economy, Western Europe was busy building new institutions that would allow better and better coordination, overcoming the century-old conflictual relations and promoting prosperity and security for all.

As a result of this long effort at institution building it was possible for Western Europe to offer a viable path towards recovery to Eastern Europe after the fall of the Berlin Wall. It would be improper to speak of another Marshall Plan, although the resources made available in the end might be comparable (or superior). The main difference between the Marshall Plan and the integration of the Eastern European countries into the EU is that the latter process envisaged extended support (not concentrated over four years), with particular attention to institution-building in the new members, which retained a protagonism totally absent in the Marshall Plan. To explain how this was possible, it could be underlined that the EU institutions were devised in such a way as to face the new challenges without major changes, because joint decision-making had been in place since the very beginning of the EU and measures to help develop what was not yet in place (structural policies) as well as to soften the decline of agriculture (CAP) had been devised as permanent features of the Union.

We can therefore conclude that the innovative institutions put in place in Europe after the end of WWII succeeded where so many previous efforts had failed: in producing the progressive unification of Europe that, if not yet complete, has certainly become the greatest positive novelty of the XXth century.



Reconstruction Paths in Europe between 1945-1970

Planned and Market Economies Compared

by *Peter Csillik* and *Tamas Tarjan*

1. Introduction

It can be observed that in many countries the per capita GDP has fallen sharply since World War II and up to the early seventies they performed «miracles» in their economic growth and development. One may even formulate laws between their post-war low and their high rate of growth during their post-war reconstruction. One has to take into account that *a)* the higher path has already been followed before the war and the deeper fall suffered from that level; the quicker progress happened between 1945-1970 (see Gerschenkron hypothesis); *b)* all else remaining the same (*ceteris paribus*), market economies grew much more quickly than command economies did.

Let us first illustrate this through the table below: if one disregards the paths followed during the pre-war period, the command economies achieved approximately half of what the market economies achieved. The distance is measured by their relative positions (or backwardness) with respect to the technological leader, the United States; i.e. the left and right columns (titled «percentage of the USA») shows us the relative positions to the USA in 1945 and 1970, respectively; while in the middle, the «multiplier» column shows us the quotient between the right- and left-hand side percentages. The table shows us that the OECD countries performed twice as well as the former communist ones during the same quarter century.

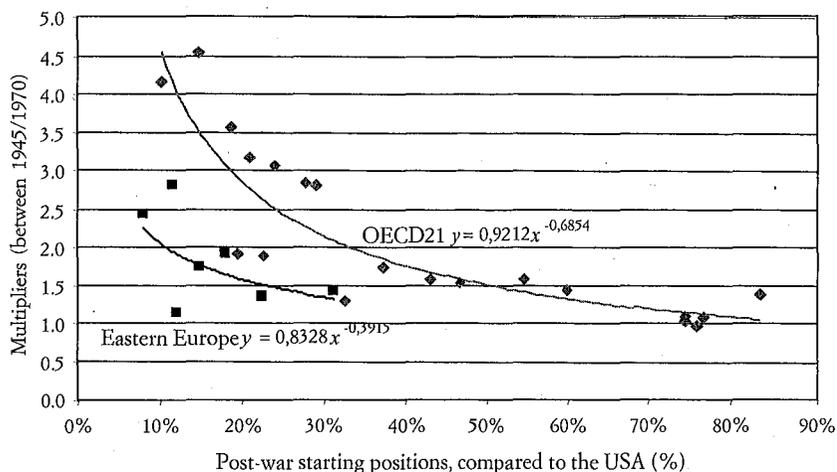
Let us now demonstrate our above statement through a concrete and typical example: Austria's post-war bottom GDP level in 1945 was 18.6% of that of the USA, while for 1970 it reached 66% with a multiplier of 3.5. Hungary had been in a comparable situation at the beginning of the post-war period, in 1945, with a position of 18% in 1945, but, during the post-war command economy's regime arrived at 34% and thus produced

Table 1. *The post-war multipliers of backward positions (compared to the USA between «1945»/1970) of selected OECD- and selected former communist countries in Eastern Europe*

OECD 21	GDP/capita	percentage	multiplier	percentage	GDP/capita
		of the USA		of the USA	
	«1945»			1970	
Greece	938	10%	4.2	42%	6,211
Japan	1,346	15%	4.5	66%	9,714
Austria	1,725	19%	3.5	66%	9,747
Portugal	1,804	19%	1.9	37%	5,473
sub geometric average		15%	3.4	51%	
Italy	1,922	21%	3.2	66%	9,719
Spain	2,102	23%	1.9	43%	6,319
Germany	2,217	24%	3.1	73%	10,839
France	2,573	28%	2.8	79%	11,664
Netherlands	2,686	29%	2.8	81%	11,967
Ireland	3,019	33%	1.3	42%	6,199
Finland	3,450	37%	1.7	65%	9,577
Norwy	3,980	43%	1.6	68%	10,027
Belgium	4,333	47%	1.5	72%	10,611
Denmark	5,066	55%	1.6	86%	12,686
Sweden	5,568	60%	1.4	86%	12,716
Australia	6,917	75%	1.1	81%	12,024
Mew Zeland	6,928	75%	1.0	76%	11,189
United Kingdom	7,056	76%	1	73%	10,767
Canada	7,133	77%	1.1	81%	12,050
Switzerland	7,752	84%	1.4	114%	16,904
United States	9,279	100%		100%	14,786

Eastern Europe	GDP/capita	percentage	multiplier	percentage	GDP/capita
		of the USA		of the USA	
	«1945»			1970	
Romania	735	8%	2.4	19%	2,853
Bulgaria	1,073	12%	2.8	32%	4,773
Albania	1,117	12%	1.1	14%	2,004
Ygoslavia	1,363	15%	1.7	25%	3,755
Hungary	1,668	18%	1.9	34%	5,028
Poland	2,077	22%	1.3	30%	4,428
Czechoslovakia	2,892	31%	1.4	44%	6,466
total geometric average		15%	1.7	27%	
United States	9,279	100%		100%	14,786

Graph 1. *The post-war multipliers of the backward positions (compared to US between «1945»/1970)*



only nearly half as much, i.e. a multiplier of 1.9 for 1970. More generally speaking, if one has a look at the table's «sub geometric average» row of the 4 selected OECD countries and the row of «total geometric average» of the 7 Eastern European ones, one may find the starting positions, as an average, for both categories at 15% but the related multipliers (in the middle of the table) are 3.4 and 1.7, respectively. The multiplier for the 4 OECD countries is twice as high as that for the 7 Eastern European countries. On the basis of this, we are able to judge the command economy's development half as successful compared to the market economy. Our approach may be plausible but it does not tell us anything about the pre-war paths; therefore we will return to it (i.e. the main development path, as if war had not taken place). Therefore, we will first introduce a suitable growth model and then deal with the causal explanations.

Our main problem, related to the former Ramsey-type models and the most recent ones, belonging to the «new endogenous growth theory», is that they are not able to depict the so-called follower country's growth path during the last one and a half centuries well enough. Regarding all of the above mentioned models, the per capita GDP and capital growth rates decline monotonically all during the convergence period to their steady states that sharply contradict the historical facts. The United States is the technological leader that has uniformly grown in its per capita output since 1870 – except in the years 1929-1946 – by an annual $x = 0.018$

rate. The 5 OECD countries that were more developed than the USA in 1870 (Belgium, the Netherlands, the UK, Australia and New Zealand) started to decline from 1870 onwards (compared to the USA) and all of them had arrived below the US-level by WWI and reached the bottom by the Great Depression; after that they became follower countries of the USA, just like the other followers. The stylised data facts show us that the followers pursue a strongly shaped S-path (disregarding the war periods and the years of the Great Depression) once in a while crossing their steady state line situated below but parallel to the US-straight line (on a log-scale).

Let us set up a growth model that in many respects is similar to the recent Aghion models but has some non-negligible differences: 1) The growth of the aggregate productivity should depend not directly on the extent of backwardness from the technology frontier but it should take into consideration the theory of an expanding variety of products, i.e. the fact that the distance between the frontier knowledge and the given level of knowledge should be directly proportional to the difference in their output levels; 2) The consumer wants to maximise not the present value (i.e. the discounted sum up to infinity) but sets out a much more modest target (which will be called myopic target later), he only wants to optimise today's and tomorrow's discounted sum of possible consumption for one period ahead; 3) The model should be able to model the post-war reconstruction periods, followed by war time recessions, as well.

2. The setting up of the model

The change in the economy's aggregate productivity parameter A_t will be¹:

$$A_{t+1} - A_t = \mu_n (\gamma - 1) A_t + \mu_m (\bar{A}_t - A_t)$$

and hence the growth rate will be

$$(1) \quad g_t = (A_{t+1} - A_t)/A_t = \mu_n (\gamma - 1) + \mu_m (a_t^{-1} - 1)$$

where: $a_t \equiv A_t/\bar{A}_t$

is an inverse measure of «distance to the technology frontier».

Writing the continuous time version of the above growth rate of the economy's aggregate productivity we obtain the Aghion growth equation:

¹ P. AGHION - P. HOWITT, *Appropriate Growth Policy: A Unifying Framework*, in «Journal of the European Economic Association», 4, 2006, 2-3, pp. 269-314, ch. 4, equation (2). [http://www.econ.upf.edu/~marimon/courses/aghion\(schumpeternov15\).pdf](http://www.econ.upf.edu/~marimon/courses/aghion(schumpeternov15).pdf); http://www.econ.brown.edu/students/Eren_Arbati/CH4-Schumpeterian%20Framework.pdf.

$$(2) \quad g_A \equiv A'/A = \mu_n (\gamma - 1) + \mu_m (\alpha^{-1} - 1)$$

If one chooses – as the technology frontier $\bar{A} \equiv \phi e^{xt}$ (where x and ϕ are suitable constants), then the equation (2) of Aghion has the form of

$$A' + [\mu_m - \mu_n (\gamma - 1)] A = \phi \mu_m e^{xt}$$

of which the solution is

$$A(t) = \{A(0) - \phi \mu_m / [\mu_m - \mu_n (\gamma - 1) + x]\} e^{[\mu_m - \mu_n (\gamma - 1)]t} + \phi \mu_m e^{xt} / [\mu_m - \mu_n (\gamma - 1) + x]$$

Let us call inverse growth equation the Aghion growth equation regulated by the inverse measure of distance to the Income frontier, \bar{Y} i.e.:

$$(3) \quad \gamma_A \equiv A'/A = \mu_n (\gamma - 1) + \mu_m (y^{-1} - 1)$$

where: $y \equiv Y/\bar{Y}$

If one chooses $\bar{A} \equiv \phi e^{xt}$ (where x and ϕ are suitable constants) and supposes that $\mu_n (\gamma - 1) \equiv x$, then equation (3) has the form of

$$\gamma_a \equiv a'/a = \mu_m (y^{-1} - 1)$$

Let us call direct growth equation the above Aghion growth equation but being regulated by the direct measure of distance to the Income frontier, \bar{Y} i.e.:

$$(4) \quad \gamma_A \equiv A'/A = \mu_n (\gamma - 1) + \mu_m (1 - y/\omega)$$

where: $y \equiv Y/\bar{Y}$ (and ω is a suitable constant that later on will be a key parameter in our theoretical reasoning, but for the moment, one does not have to deal with it.)

If one chooses $\bar{A} \equiv \phi e^{xt}$; $\bar{Y} \equiv e^{xt}$ and supposes that $\mu_n (\gamma - 1) \equiv x$, and $q \equiv \mu_m/\omega$, the economy's aggregate productivity parameter A will be:

$$(5) \quad \gamma_A \equiv A'/A = x + q(\omega - y) \Rightarrow A = A_0 \exp [xt + q \int_0^t (\omega - y) dt]$$

Since $a \equiv A/\bar{A}$ then

$$(6) \quad \gamma_a \equiv a'/a \equiv q(\omega - y) \Rightarrow a = A_0 \exp [q \int_0^t (\omega - y) dt] / \phi$$

We assume a Cobb-Douglas production function:

$$(7) \quad Y = A^{1-\alpha} \cdot K^\alpha$$

where $0 \leq \alpha \leq 1$. Output can be used for consumption or investment in capital. We assume that the stock of capital depreciates at the rate δ .

The economy's resource constraint is

$$(8) \quad Y = A^{1-\alpha} \cdot K^\alpha = C + sY$$

where sY is the gross investment in capital. The changes in the stock of capital equal gross investment less depreciation

$$(9) \quad K^* = sY - \delta K$$

The myopic rule for optimal consumption. Suppose that consumers want to maximise the sum of utility of their possible consumption solely for today and tomorrow, after having discounted the latter by a discount rate ρ , where the utility of consumptions is the power function with a power of $1-\theta$, ($\theta > 0$). Let the possible consumption for today consist of the potential consumption of the actual capital stock and the not-saved part $(1-s)$ of the income of today; while the possibility to consume for tomorrow consists of the capital stock of today, having been depreciated at a rate $\delta > 0$, and the income of tomorrow plus the saved part of today (s) of the income having been increased by an real rate of return r .

$$U(s) \equiv [K + Y\tau(1-s)]^{1-\theta} + e^{-\rho\tau} [K(1-\delta\tau) + Y\tau(e^{r\tau} + e^{r\tau}s)]^{1-\theta}$$

= max_s where τ means just

e.g. one day.

Let us maximise the above utility for the period of $[0, \tau]$; ($\theta > 0$):

$$(10) \quad \partial U / \partial s = - (1-\theta)[K + Y\tau(1-s)]^{-\theta} Y\tau + (1-\theta)[K(1-\delta\tau) + Y\tau(e^{r\tau} + e^{r\tau}s)]^{-\theta} Y\tau e^{(r-\rho)\tau} = 0$$

$$(11) \quad s = [(e^{(r-\rho)\tau} / \theta - 1 + \delta\tau) K / (Y\tau) + e^{(r-\rho)\tau} / \theta - e^{r\tau}] / (e^{(r-\rho)\tau} / \theta + e^{r\tau})$$

$$(12) \quad \lim_{\tau \rightarrow 0} s = 0.5[(r-\rho)/\theta + \delta] K/Y$$

Applying equation (9) for the thus obtained limit of the optimal saving rate, $\lim_{\tau \rightarrow 0} s$,

$$(13) \quad \gamma_k \equiv (\ln K)^* = sY/K - \delta = (0.5/\theta)(r - \rho - \delta\theta), \text{ where } r \equiv \partial Y / \partial K = \alpha Y/K$$

$$(14) \quad Y/K = (A/Y)^{(1/\alpha-1)} ; Y/K = (A/K)^{(1-\alpha)}$$

$$(15) \quad \gamma_k = sy/k - x - \delta = (0.5/\theta)(r - 2x\theta - \rho - \delta\theta) = (0.5/\theta)[\alpha y/k - 2x\theta - \rho - \delta\theta] = (0.5/\theta)[\alpha (a/y)^{(1/\alpha-1)} - 2x\theta - \rho - \delta\theta],$$

Let us define $\bar{A} \equiv \phi e^{xt}$, $\bar{Y} \equiv e^{xt}$, $\bar{K} \equiv \kappa e^{xt}$, $\bar{C} \equiv \chi e^{xt}$; and thus $a \equiv A/(\phi e^{xt})$; $y \equiv Y/(\omega e^{xt})$; $k \equiv K/(\kappa e^{xt})$; $c \equiv C/(\chi e^{xt})$ hold, respectively. Let us also suppose that for the parameters $1 \equiv \kappa^\alpha \phi^{(1-\alpha)}$ holds as well.

$$(8^*) \quad \gamma_a = q(\omega - y)$$

$$(15^*) \quad \gamma_k = (0.5/\theta)[\alpha (a/y)^{(1/\alpha-1)} - 2x\theta - \rho - \delta\theta]$$

$$16. \quad \gamma_y = \alpha \gamma_k + (1-\alpha)\gamma_a$$

Thus the equations for the steady state are:

$$(8^*) \quad y^* = \omega$$

$$(13^*) \quad r^* = (2x\theta + \rho + \delta\theta) \Rightarrow \gamma_k = 0.5 (r - r^*)/\theta$$

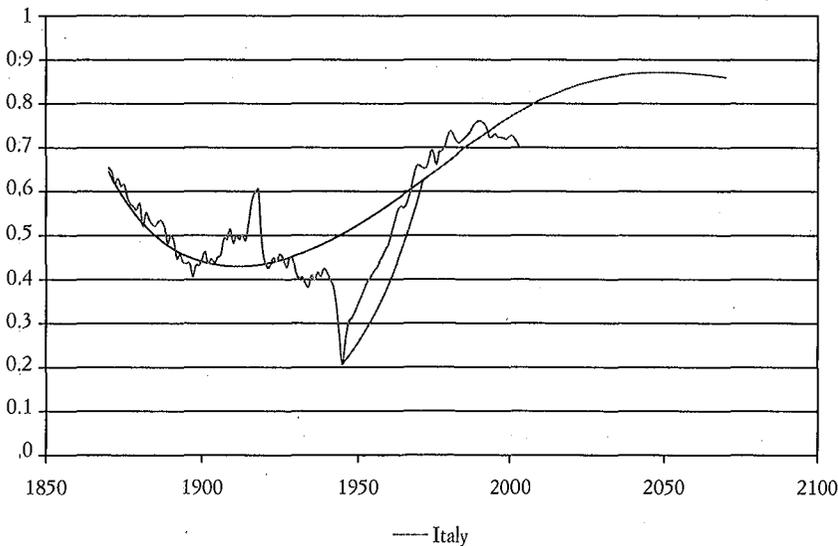
$$(15^*) \quad \alpha = (2x\theta + \rho + \delta\theta) k^*/y^*$$

Our model path approaches the technological leader's horizontal unit line (at level 1) in a strong S-shape that may be considered a great leap forward.

3. Analysis by the model

The post-war reconstruction period, from 1945-1970, forms the central element of our paper. This period is accompanied by a very low rate of replacement i.e. the economies exploit the capital as long as possible. The choice of $\delta = 0$ does not seem absurd, because a lot of machinery was in use after the end of the war. This was even truer for the SME sector. The output path diagrams show us that the real and model paths «coincide» satisfactorily between 1945 and 1970 and both of them would follow a path even if the war had not happened at all.

Graph 2. *The growth path and the reconstruction path of Italy*



Let us now illustrate the message of our paper by the growth path of Italy.

a. In 1870, Italy had been standing at two-thirds (64.4%) of the per capita GDP of the United States. Between 1870 and 1905 its economy, compared to the USA, did not progress but sharply declined. In 1870 Italy had a very low output level related to its starting capital stock, thus, in this period the economy consumed that relatively high capital stock. According to our model, capital only grows if the real rate of return $r > r^*$, i.e. the country disposes of a more favourable output to capital ratio than the leader, the USA. In our model, capital includes both physical and human capital. The growth rate of capital is $\gamma_k = 0.5 (r - r^*)/\theta$, where r is the real rate of return and θ means the risk aversion of the consumer, to formulate it in a different manner $\gamma_k = 0.5 \alpha (y/k - y^*/k^*)/\theta$. The economy consumes its previously accumulated capital up to the point where the freely available knowledge, stemming from the technological leader, becomes sufficiently large to compensate (and thus cease) the capital consumption.

b. The growth formula of freely available knowledge, $\gamma_a = q(\omega - y)$, shows that in a declining economy the extent of additions to knowledge grows and later on can compensate the decrease of capital. After 1920, the economy was driven both by the high real rate of return, r , and by the growing additions to knowledge, γ_a .

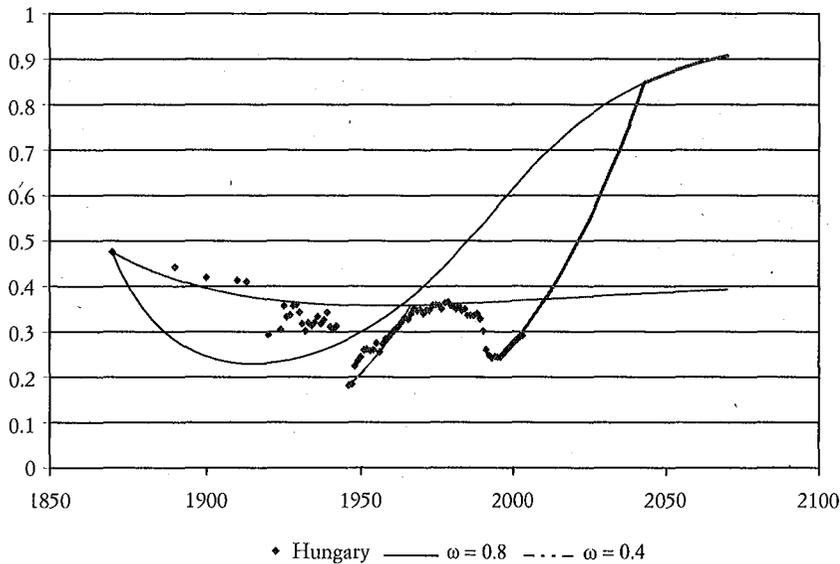
c. After the year 2000 the excess of the real rate of return counterbalanced the obsolescence of knowledge and by around 2040 both the capital and knowledge will shrink to reach the horizontal line, ω , of the steady state.

d. Italy's post-war reconstruction period from 1945-1970 is especially interesting for us because the economy boomed with a zero rate of replacement returning to its former S-path. Over a quarter century the Italian economy has thus tripled in size compared to the United States from its post-war low.

Hungary

a. Let us now have a look at a former command economy like Hungary. On the basis of Madison's historical data facts the above diagram shows what would have happened if, in 1945, the former market economy had not changed into a command economy. Hungary would have passed along the above S-curve if neither the war nor the forced conversion to a com-

Graph 3. *The growth path and the reconstruction path of Hungary*



mand economy had happened; in other words, if ω had been at $\omega = 0.8$, as happened in Western Europe. (In the mid 1960s the S-curve is crossed by a nearly horizontal line that is the path if ω had been at only $\omega = 0.4$.)

b. As a consequence of the war, Hungary's per capita GDP decreased sharply in 1945. After the war, the economy followed a reconstruction path towards the crossing point of the blue line (of $\omega = 0.4$) and the green S-curve (of $\omega = 0.8$), and maintained it up to the end of the 1960s. After 1970, for two decades, Hungary (as a command economy) followed the blue and not the green line. In 1995, followed by a half decade of transitional recession, Hungary started its «structural reconstruction» path to a market economy. If one continues that line (see the nearly vertical line started in 1995) Hungary will reach its S-curve (of $\omega = 0.8$), by around 2040.

4. *A comparison and detailed analysis of planned economies*

As the key element of our model, ω , has been not mentioned until now. We consider ω , as an indicator of the softness of budgetary constraint,

a concept elaborated by János Kornai. Kornai² presents a hierarchical model with five levels. The lowest level is *a*) the monopolist power of the Marxist party which determines *b*) the monopoly of the state (public) property and as a consequence *c*) the dominance of bureaucratic coordination which by *d*) soft budget constraint leads to *e*) shortages and aspiration for over-investments. Within the model the elements of the lower levels have a direct impact on all the elements of the upper levels. A budget constraint is called soft when the management of an enterprise wishes to spend more than the enterprise's revenue because of possible state aid as the government supports enterprises which operate at a loss. This contributes to the appearance of rush, which was characterised by Kornai as follows:

If we want to achieve very fast growth rate in the near future, there are three available intertemporal methods of acceleration:

- Sacrifice (we forgo a present consumption flow, and establish a productive stock from the savings, for instance instead of eating butter, we export it, than we create a new factory using the income from exportation; it is no burden on, nor damaging to the future).
- Postponement (we forgo a stock-formation due in the present, but we do not renounce forever, just postpone the action, for example the linking of suburban houses to the public utility networks can partly be postponed, this is a burden on, but not damaging to the future).
- Neglect (we forgo present consumption of a flow or present formation of consumption capital; this is both a burden on and damaging to the future).

In developing the notion of «rush», Kornai drew mainly on the experiences gained from 1949-1953 in the Hungarian economy. Rush is only one of the 'ideal-types' of growth path, the opposite of the harmonic growth's ideal type and the real paths lie between them. Rush demands great sacrifices from current generations, and puts a burden on future ones. Capital formation is privileged over consumption. Quality lags behind quantity. Sufficient reserves for flexible adaptation are lacking. There are shortages in material, energy, spare parts, capacity, labour; this shortage situation leads to tensions. Rush appears in backward countries. In the framework of rush the share of investment is higher and especially in branches where the output/capital ratio is high. Too great sacrifices cannot

² J. KORNAI, *Rush versus Harmonic Growth*, Amsterdam 1972.

Table 2. *Characteristic disharmonies of rush*

No.	Requirement of harmony	Sacrifice	Postponement	Neglect
1	Raising of consumption	xx		
2	Proportionate satisfaction of consumers' needs	xx	xx	
3	Incentive and equitable distribution of income			
4.1	Full employment			
4.2	Protection health		x	
4.3	Care for all people			
4.4	Public security			
5.1	Social contribution to the rising of children			
5.2	Equal opportunities in education			
5.3	Mobility			
5.4	Social equality of women			
5.5	Increasing leisure time	x		
6.1	Fast development of education		x	
6.2	Qualitative harmony between of the demand of production for specialists and the supply of specialists		x	x
7.	Structural proportionality in non-competitive production	x	x	
8.1	Up-to-dateness of production technologies			
8.2	Improvement of quality	xx	xx	x
8.3	Promotion of research and development			
9.1	Equilibrium of the balance of payment		x	
9.2	Qualitative harmony between exports and production		x	x
10	Careful maintenance of the reproducible physical capital	x	x	
11	Protection of environment, of nature		x	x
12	Continuous care for reserves		xx	

Source: J. KORNAI, *Rush versus Harmonic Growth*.

be demanded for too long a period without creating political difficulties. The tasks postponed accumulate and sooner or later turn into neglect. These may lead to economic friction, losses and even to serial shocks ending in exhaustion. After the year 1953, Hungarian growth moved toward a harmonic path, and during the sixties, almost all indicators of Table 1 improved, however transportation, telecommunication and housing did not develop. The shift from rush to harmonic growth was slow and in many details inconsistent and even relapsing; old postponements and neglect continued. The transition is not really planned; it is not simply a slowdown, but an additional slow-down due to postponements. The most conspicuous form of repeated relapsing into the mistakes of rush is the «running ahead» of investments, i.e. tension between demand for investments and supply available for implementation. The investment tension begins in the planning phase, central investments are frequently overambitious, in addition the «pressure from below» is extremely strong, the stock of incomplete investments grows.

Investment tension also leads to shortages on the market of consumption goods. «Suction» is the precursor of rush. Investment tensions of the 1950s were studied by Tamás Bauer a famous Hungarian economist. According to Bauer³, investments were over-forced under the socialist regime. During the early cycle rush means many newly launched investment projects until – through the decrease of living standards – it hits the opposition of society. At this point, a temporary constraint of investments occurs. The cycles following are characterised by respect for the attained living standard and required higher investment outlays instead of delaying the growth of consumption and worsening the balance of trade. The high deficit in the balance of trade then leads to the constraints of investment.

Investment decisions can be split into two processes; aggregating plan proposals coming from below (building up the plan – breaking down of the plan) then approving them in a modified form. This process is repeated several times. Establishment of target figures concerning performance and limit figures determining the allocation of resources are connected only at two levels, at the top level, in national balances and at the very bottom, in the factories. Of course bargaining is also present at the intermediate levels. Input-output coefficients planned at factory level and their relation to the national balances is information of crucial

³ T. BAUER, *Investment Cycles in Planned Economies*, in «Acta Oeconomica», 21, 1978, 3, pp. 243-260.

importance. In the field of investments the aggregate investment claims of the lower level exceeds the level of investment considered feasible by the centre, investment planning therefore concentrates on allocating annual limits, and approving individual investments is secondary. Enterprises break through central control by the so-called hooking on to the plan, which means that they hide their investment claims by under-estimating investment outlays producing a fragmentation of investment. In the presence of higher investment engagement it has better chances in the struggle for higher annual limits in the following years; the centre either increases the investment ratio, or slows down the investment projects in progress. The phases of the cycle are called: run-up, rush, halt, slowdown. One can distinguish between consumption-symmetrical (in the '50s) and export symmetrical-cycles (later). When the approval coefficient decreases, so does the investment ratio, but consumption is increasing or balance of trade is improving. Most of the investment is related to construction and the process lasts several years. The elements are investment actions; investment increases the number of projects in progress, and the total planned investment outlays, so the speed of implementation slows down, fragmentation of investment increases. In the case of tension in the uses of national income, the growth of individual consumption decreases, stocks of materials and products are lower, and an external indebtedness occurs. Tensions are shifting.

During the 1950s, in Hungary the investments of the first five-year plan (1950-1954) were raised, it was planned to invest 2.5 times the volume of the previous three-year plan's investment. Production growth was planned to be 280% regarding «heavy» industries and 145% for «light» industries. More new investment projects were begun, many investments started without appropriate documentation. Fragmentation of investments and shortages of investment goods (such as materials, labour, machines, and equipment) appeared; investment plans were not fulfilled. Uncompleted investments as a percentage of annual investment performance grew rapidly (1950: 24%, 1952: 50%, 1955: 92%). A decrease in consumption was the source of the investment expansion. The investment activity compared to 1949 grew in 1951/52 and 1956, but decreased from 1953-1955, while real wages decreased in 1951/52, and grew from 1953-1956. After 1953, the investment to GDP-ratio oscillated, but consumption did not decrease any further.

Returning to Kornai, the softness of budgetary constraint is the key element. In our model ω indicates the degree of softness of budgetary constraint.

Conclusions

Because of WWII many market economies and the later planned economies, as well, lost their capital stock and their output performance fell sharply compared to the pre-war levels. We have designed a growth model where the speed of learning is proportional to the backwardness [$\gamma_a = q(\omega - y)$], while the growth of capital is proportional to the difference between the rates of return [$\gamma_k = 0.5 (r - r^*)/\theta$, rate of return r and rate of return r^* of the technological leader]. Our model has made the institutions' efficiency-boosting power explicit, which has been measured as a proxy by growth between 1945 and 1970. According to our view Kornai's notion of the «soft budgetary constraint» makes it possible to explain the large differences between the performances of market economies and planned economies. We have shortly summed up the so-called rush of planned economies in order to compare these economies.

Reconstruction and Resumption of Development in the Yugoslav Republics after World War II

by *Ivo Bićanić*

I. INTRODUCTION

Post World War II Yugoslav growth after the brief period of reconstruction can be divided into two sub-periods. The first is a shorter sub-period that lasted from 1948 to 1960. This is a sub-period of economic acceleration with increasing and eventually high growth rates. The second one that followed was a drawn-out period of deceleration and cycles that lasted until the country's decomposition in 1989. This paper is concerned only with aspects of the first sub-period.

The paper is divided into four sections. The first provides an overall view (bird's eye) of growth during the complete first period of economic acceleration, i.e. from 1948 to 1960. The next three sections provide an analysis of the three fundamental institutional set-ups underlying the period. Thus the second section, after a brief description of reconstruction, deals with the building of a centrally planned «command» economy. The second section describes the search for and the first «Self-management Paradigm». The third section sets the stage for the subsequent deceleration stage. The paper ends with some concluding remarks.

II. YUGOSLAV GROWTH 1945-1960

Reliable and complete statistics based on the system of material balances about the Yugoslav economy exist from 1952 onwards. For the period after 1947, when reconstruction was declared complete and the first five-year plan started, there is incomplete data. During the 13-year period from 1947 to 1960, economic growth accelerated to extremely high yearly growth rates, both in absolute and comparative terms. This impressive acceleration is visible from the data in Table 1. By the end of the period, these high growth rates were some of the highest in the

world. Since the acceleration was followed by a drawn-out period of deceleration not without reason the fifties have been called the «Golden Age of Self Management».

Table 1. *Growth rates 1948-1960*

	Average yearly growth rate		
	1948-1952	1953-1956	1957-1960
Social product	2.4	8.8	12.6
Social product p/c	1.0	7.2	11.3
Employment	2.5	7.9	7.2

Source: J.R., *Privreda Jugoslavije 1945-1960* [The Yugoslav Economy 1945-1960], in «Jugoslovenski pregled», 5, 1961, 4, pp. 157-162, also as *Yugoslav Economy 1945-1960*, in «Yugoslav Survey», 2, 1961, 5, pp. 647-659.

Even though the period of acceleration was brief and lasted only 13 years (and probably cannot even be called «modern economic growth» in Kuznets's sense), it was long enough to irreversibly change the nature of Yugoslav society and economy. It transformed the society from a backward agricultural rural society into a growing urban industrial one and the economy underwent a major structural transformation that the mentioned change implies. The basic data of these two processes are given in Tables 2 and 3.

Table 2. *Changes in the social structure of the population 1953-1961*

	1953	1961
Share of non-agricultural population	33.00	50.00
Share of urban population	21.00	28.00
Illiteracy rate (share of persons >10 years of age)	25.40	19.70
Secondary education (share of holders >20 years of age)	3.50	12.00
P/c Household electricity consumption kWh	20.60	80.80
Radios per 1000 inhabitants	39.60	98.20
Physicians per 1000 inhabitants	3021	1336
Increase in net real wage	100	154

* population census 1948

** refers to 1956

*** refers to 1950

Source: *Yugoslavia*, 1965.

Table 3. *Structural changes in the Yugoslav economy 1939-1960*

	1939	1953	1960
Share of mining and industry in social product	26.8	33.0	45.5
Share of agriculture in social product	44.3	36.9	25.5
Employment	920	1,837 (1,167)*	2,972
Increase in employment (1939=100)	100	241	323
Employment in mining and industry (in 000)	n/a	562**	1,072
Per capita energy production	75	175	471
Share of industry products in exports	48	57	75

* refers to 1947

** refers to 1952

Source: *Jugoslavija 1945-1964 – Statistički pregled* [Yugoslavia 1945-1964 – Statistical Survey], Beograd 1965; rows 1, 2, and 7: J.R., *Privreda Jugoslavije 1945-1960*.

However, even though during this period growth fundamentally changed the nature of the society and economy, these changes were not trouble-free. They involved economic and social costs which with hindsight many find difficult to justify. The economic costs were the high investment rates (provided in Table 4) and the price in living standards they involve. The social costs that followed growth acceleration are much more controversial. The economic acceleration was accompanied by a one-party system. This brought with it a significant loss of actual democratic and civil rights and an expansion of the state into the dominant agent, political and economic; for a political history of the period see D. Bilandić's history of Yugoslavia¹.

Table 4. *The investment and economic price of high growth rates*

	Average yearly growth rate		
	1948-1952	1953-1956	1957-1960
Average yearly aggregate investment share	31.6	31.7	35.0
Share of ind. and min. investment in fixed assets	56.4	59.1	42.8
Share of agriculture investment in fixed assets	7.7	7.0	15.8

Source: J.R., *Privreda Jugoslavije 1945-1960*.

¹ D. BILANDIĆ, *Historija Socijalističke Federativne Republike Jugoslavije 1945-1985: glavni procesi* [History of the Socialist Federative Republic of Yugoslavia 1945-1985: main process], Zagreb 1985.

Post-war growth includes another feature. During this period, there was extensive institutional uncertainty. This uncertainty involved frequent institutional changes, usually in the name of some form of social engineering. There were two such major efforts of social engineering during this period. The first was the building of a centrally planned socialist «command economy». The second was a deconstruction of the previously built command economy and its replacement by a socialist «self managed economy». While for the first, there was a blueprint (albeit one imported from the Soviet Union) for the second there was none, so the institutional uncertainty was even greater than in the first period. Because of the fundamental importance of these institutional changes, each will be dealt with briefly in the next two sections. The description will not be exhaustive but will take place from a growth perspective.

III. WAR DAMAGES, RECOVERY, AND CENTRAL PLANNING

Following a brief description of the period of recovery and reconstruction, this section will concentrate on the record of accomplishment of the period of central planning in Yugoslavia that lasted from 1947 to 1952.

1. *Reported war damages*

Yugoslav war damages, as registered with the Allied Commission were huge². 1.7 million lives were lost. This was almost 11% of the pre-war population and in relative terms, it was the second highest among the allied nations. Just over a fifth of homes (20.7%) and companies (22.8%) with almost two thirds of industrial capacity were severely damaged or destroyed in the war. Especially important were losses in communications, transport, and livestock. Total reported losses were 46.9 billion \$ (1938 exchange rates give 44 dinars to 1 dollar). Such high losses can be attributed to the continuous military operations from 1941 to 1945 and efforts to subdue a successful National Liberation Movement (due to which – in spite of puppet states and annexations to Germany – Yugoslavia was part of the Allied forces).

² REPARACIONA KOMISIJA PRI VLADI FNRJ, *Ljudske i materijalne žrtve Jugoslavije u ratnom naporu 1941-1945* [Human and Material Losses in Yugoslavia in the War Effort 1941-1945], Beograd 1945.

2. *The post-war recovery 1945-46*

During 1945 and 1946, the country faced the immediate task of post-war reconstruction. The reconstruction was often conducted locally and could call upon the enthusiasm of the population. On a national level the main priorities were transport and infrastructure followed by the reconstruction of large industrial plants. This reconstruction was declared complete by the end of 1946 so that the first Five Year Plan 1947-1952 (1946) started a new process of economic development.

Table 5. *Economic recovery*

	1939	1946	1947
National income	100	90	107
Industrial production	100	79	121
Machine production	100	121	241
Consumer goods	100	84	130

Source: P.K., *Razvoj radničkog samoupravljanja* [The Development of Workers Self-management], in «Jugoslovenski pregled», 1, 1957, 1, pp. 15-22.

Company independence during this period was minimal. Firms were run by a state agency established in 1945 (DUND, Državna Uprava Narodnih Dobara, State office for the management of national assets). In 1946, part of the running of firms was transferred to the Ministry of Industry which determined production levels and allocated inputs. After 1946 new firms could be established only by government decree. The firms which were established during the period of reconstruction were national firms (e.g. for bus transport, textiles, retail etc.).

3. *The first transformation: designing a centrally planned command economy*

The main political party in the country was the Communist Party of Yugoslavia (CPY). The CPY had organised the successful war of liberation (the partisan movement) and came to power in 1945, initially through a power-sharing regime but it quickly took all political power into its hands and later introduced a one party system. This political change is outside the scope of the paper. At the time the economic programme of the CPY was to establish a centrally planned «command economy» along the lines practised in the Soviet Union. This implied state ownership of capital and non-capital assets, the administrative control of production and

distribution by the state so that prices were administrative and markets lost their economic allocative functions.

In Yugoslavia, establishing a state sector through the state ownership of assets involved two related but not identical processes. The first concerns the non-agricultural sector. Here the private sector was, for all effective purposes, eliminated in a short decisive move. The second involved agriculture where establishing state-run agricultural production was a drawn-out process and involved partial decisions and backtracking and at the end permitted a limited but important private sector.

Capital assets in the non-agricultural sector were either confiscated (in 1945), sequestered (in 1945 and 1946) or nationalised (from 1946 to 1948). The January 1946 Constitution institutionally limited private property and nationalisation and the formation of the state sector was based on two laws, one passed in December 1946 and the second in April 1948. The first law regulated nationalisation in industry and banking and the second law nationalisation in trade and crafts. Private banking was abolished by decree in 1946. In industry the establishment of the state sector was completed by the end of 1946 (see Table 6 for the dynamics in 1946). In retail, crafts, and small restaurants the process was slower and lasted until 1948. In 1945 45% of industry and 82% of retail trade was privately owned, in 1946 the respective percentages were 20% and 49% and in 1948 the private non-agricultural sector disappeared³, see Table 6. In 1948, the main economic ideologue of the CPY Boris Kidrič claimed «... from now there will practically be no industrial firm in Yugoslavia which will not belong to the socialist sector of our economy»⁴. Much later, there was a very limited and partial economic liberalisation. It allowed a limited private sector to develop in crafts and small restaurants (the limits concerned the value of assets and included an employment cap) but the remainder of the economy remained in state/social ownership and with extensive institutionally defined privileges and monopolies that lasted until 1989. In 1989 privatisation started. It involved two laws, the first «equalised the position of all forms of ownership» that levelled the playing field and the second regulated partial privatisation, which

³ All data from M. DOBRINČIĆ et al., *Privredni sistem FNRJ* [The Economic System of the FNRJ], Zagreb 1951.

⁴ P. RASTOVAČAN, 'Naša sciejalistička izgradnja u svjetlu privrednog zakonodavstva' [Socialist construction in the light of commercial legislation], pp. 205-254, in S. ZUGLIA (ed.), *Zbornik Pravnog fakulteta u Zagrebu* [Collected papers of the Zagreb Faculty of Law], Zagreb 1951, p. 296.

defined a regulated and gradual privatisation that was initiated by the enterprises themselves. By the end of 1948, there was a completely state owned industry and distribution system that could underpin a centrally planned command economy. There were no economic agents outside the direct control of the state.

Table 6. *The ownership structure of industry in 1946*

		January	June	December
State sector	Value of assets	55	72	100
	Employment	57	67	100
Private sector	Value of assets	13	9	0
	Employment	11	12	0
Sequester	Value of assets	32	19	0
	Employment	32	21	0

Source: M. FILIPOVIĆ, *Stanje naše industrije do perioda planske privrede* [The State of our Industry until the Period of a Planned Economy], Beograd 1949.

Table 7. *The ownership structure of industry in 1946*

		1945	1946	1947	1948	1949
Share of retail outlets (shops)	State	1.7	4.5	13.3	41.4	48.0
	Coop.	9.1	20.1	25.1	46.6	42.0
	Private	89.2	75.4	54.2	2.3	1.0
	Social	-	-	7.3	9.7	9.0
Share of volume of trade	State	3.0	19.0	38.0	54.0	59.0
	Coop.	12.0	32.0	41.0	34.0	30.0
	Private	85.0	49.0	12.0	2.0	0.7
	Social	-	-	9.0	9.0	9.2

Source: R. BIČANIĆ, *Ekonomska politika FNRJ* [The Economic Policy in FNRJ], Zagreb 1962, p. 107.

The fate of agriculture was different. Post-war agricultural policy started with an abolition of peasant debts, agrarian reform, colonisation, and the establishment of state farms, which forced peasants into state co-operatives. After the collectivisation policy failed there was a backtracking on cooperatives, another agrarian reform that privatised some land but introduced regulations into the market sector through price control, compulsory deliveries and limited access to markets.

The first policy decision of the post-war government concerned the peasant debt that was wiped out by decree in 1945. By August 1945 the agrarian reform started. The 1.6 million hectares that made up the Agrarian reform fund and were allocated for redistribution came from various sources: 41% of the land was confiscated from the German minority, 15% from large landowners, 11% from the church, etc. (others shares were below 10%). The reform redistributed the land so that 51% went to peasants (there was an agrarian maximum between 20 and 35 hectares), 18% to state farms and 24% was land for reforestation. Of the 316,000 families who benefited almost 180,000 already had land, 71,000 were landless rural families and there were 66,000 colonist families (over 300,000 people were resettled). The success with which the structure of land ownership was changed is given in Table 8. Changes in agriculture were not limited to the agrarian reform. They continued through enforced collectivisation (in 1945 there were 31 state cooperatives and in 1949 there were almost 7,000), see Table 9. By 1948, private commercial agriculture had disappeared and the land that remained in private ownership was in such small peasant plots that they allowed only self-sufficiency farming⁵.

Table 8. *The changing structure of Yugoslav agriculture*

		1947	1949	1951	1955	1959
Share of agricultural land	State	1.2	5.7	5.0	5.7	5.7
	Coop.	0.9	14.0	20.0	3.1	4.9
	Private	97.9	80.3	75.0	91.2	89.4
No. of cooperatives		638.0	6238.0	5804.0	688.0	

Source: Ownership structure: R. BIČANIĆ, *Ekonomska politika FNRJ*, p. 107; number of cooperatives: *Jugoslavija 1945-1964*, p. 111.

Table 9. *Cooperatives and share of private agriculture in agricultural production*

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
No. of cooperatives	14	280	638	1217	6238	6913	5804	4255	1165	894	688

Source: *Jugoslavija 1945-1964*, p. 111.

⁵ Data from M. DOBRINČIĆ et al., *Privredni sistem FNRJ*.

Attempts to introduce a command economy into agriculture failed and the LCY used drought years as an excuse for a policy change involving major backtracking. In the early fifties, two processes started. The first was backtracking on collectivisation and self-sufficient private agriculture. Many cooperatives were disbanded so their number fell from almost 7,000 in 1948 to below 700 in 1955. Table 9 provides data regarding the number of cooperatives and share of private agriculture in total agriculture. Regarding private agricultural production, private agriculture was allowed to develop in a controlled fashion. From 1950 on livestock and meat products from the private sector could be freely traded. In 1952, trade in private sector cereal production was liberalised. By 1953 compulsory sales of private sector products to state firms had been phased out. However, concurrent with the liberalisation of production there was another agrarian reform in 1953. This reform reduced the agrarian maximum to 10 hectares under the pretext that with so much land private farmers had to be self-sufficient and would not need to hire labour so there would not be any worker exploitation. This time all the land in the Agrarian fund (275,000 hectares) was used only to increase the size and number of state farms. In spite of these constraints the private sector developed, indeed in some products it dominated. The changes in agriculture were partly due to the 1951 and 1953 droughts (see Table 10), partly to the failure of state cooperatives to generate peasant productivity and partly it played a role in the general political package involving a new type of socialist society that included self-management. The land ownership policy of a 10-hectare maximum remained unchanged until 1990, except that in the eighties renting land by the private sector was tolerated.

Table 10. *Drought and agricultural «crises»*

		1951	1952	1953	1954
Aggregate agricultural production	Year-on-year change	143	69	144	89
	% of 1954-1963 average	77	54	77	69
Production of cereals	Year-on-year change	162	55	192	78
	% of 1954-1963 average	78	43	82	64

Source: *Jugoslavija 1945-1964*, p. 98.

The central planning system and command economy inaugurated in the January 1946 constitution was further institutionalised through the organisation of firms which was regulated in a law of July 1946. The

actual everyday production in all types of firms was run by the director but he or she received instructions from an «administrative-operative manager» who was a civil servant and worked in a government office. These managers had a hierarchy and their position depended on the company's category: local, regional, republic, or of national importance. The administrative-operative managers defined the firm's rules, plans, and personnel policy and coordinated its activity with other firms under their control (all firms of one level regardless of their sector were under the same manager). They also coordinated their activities with other managers at their or other levels. In 1947, there was a partial reorganisation by which the running of some firms was transferred to republican administrative-operative managers. As early as 1948, it was noticed that this kind of central planning led to a mushrooming of bureaucracy so that in 1950/1951 most federal administrative-operative managers were abolished and their functions transferred to the republican level (the federal level coordinated and influenced decisions through «councils»).

The remaining institutional framework of central planning and the command economy concerned the introduction of uniform accounting standards (a law adopted in July 1946), price regulation of national and republic prices (law of December 1946), registration of the re-sale of land and private assets (law of June 1947), and the limitations imposed on the trade in private agricultural products (law of February 1948). Remaining retail trades (small shops) were nationalised by May 1948. They were then leased back to previous owners under very restrictive conditions so that most refused and sought alternative employment with the result that the private sector disappeared in retailing. The same was done to restaurants in April 1949. The real estate trade was further regulated (law of March 1948). The disappearance of the private retail trade led to the administrative control of distribution (law of February 1948).

4. *The first Five-Year Plan 1947-1952*

With reconstruction declared completed in 1946 and the institutional framework for a centrally planned command economy in place, the stage was set for the first Five-Year Plan. The plan was drawn up for the period from 1947 to 1952 and it was passed as a law⁶.

⁶ SAVEZNA PLANSKA KOMISIJA, *Zakon o petogodišnjem razvoju narodne privrede FNRJ 1947-1951* [The Law on the Five Year Plan of the Development of the National Economy of the FNRJ 1947-1951], Beograd 1947.

The first Five-Year Plan aimed at increasing the value of production 2.4 times over pre-war levels and the state sector by 5 times. This goal was to be achieved through the plan's 4 main aims:

- a) eradicating economic and technical backwardness (which implied investing in industry, especially heavy and ferrous industry, agriculture and electrification);
- b) increasing and strengthening the economic and defence capabilities of the country (leading to a bias towards heavy industry);
- c) strengthening and further developing the socialist sector of the national economy and new production relations, favouring the socialist sector at the expense of the private sector (an uneven «playing field» and nationalisation);
- d) increasing the general welfare of workers in all three sectors of the economy.

Increases in productivity were defined as the main source of accumulation (growth). The plan's benchmarks were 1939 levels⁷.

In the first two years of the plan (1947 and 1948) the goals were met and in the 'good' tradition of socialist planning even surpassed. At the time Yugoslavia looked like a well-run centrally planned command economy, see Table 11. In 1948, there was a major external shock. As a result of the political rift between Yugoslavia and the Soviet Union, the latter imposed an economic embargo. All economic ties to the Soviet Union and other socialist countries were cut-off overnight. Since Yugoslavia depended heavily on the other socialist countries, it was obvious the plan could no longer be implemented. Table 12 shows the fall in national income and per capita income after the embargo. Furthermore, these events changed the national and political priorities so defence and military matters came first. This in turn made a re-allocation of investments increasingly important. The changed circumstances become clear if the plans implementation during the first and second two-year period are compared. During the first two years of the plan national income grew 14.8% per annum 1947-1949, then 1950-1952 it fell by 5% yearly. Eventually the political authorities saw that the plan was irreversibly off track and the first five-year plan was officially abandoned in 1950.

⁷ M. DOBRINČIĆ et al., *Privredni sistem FNRJ*.

Table 11. *The first Five-Year Plan implementation*

	1947	1948	1949	1950	1951	1952
National product*	100	119.4	131.8	121.1	127.6	112.4
p/c nation. product*	100	117.9	128.6	116.5	121.0	105.0

Source: *St. St., *Narodni dohodak 1947-1956* [National Income 1947-1956], in «Jugoslovenski prehled», 1, 1957, pp. 465-469.

Table 12. *Two periods in the first Five-Year Plan implementation*

	Average growth rate 1947-1949	Average growth rate 1950-1952	Average growth rate 1947-1952
National income*	8.6%	-5%	1.9%

Source: *St. St., *Narodni dohodak 1947-1956*.

IV. SEARCHING FOR AND DEFINING THE FIRST SELF-MANAGEMENT PARADIGM

In 1950, the same year as the formal abandonment of the first Five-Year Plan, in an arguably more important decision the CPY decided to start implanting a completely different socialist paradigm: workers' management (later called self-managing socialism). By this, the country entered its second effort of social engineering in only five years. The main idea was that workers should manage (hence worker's management and self-management) the assets at their disposal (hence state ownership was replaced by social ownership) and bear the consequences of their decisions (hence markets and no command economy) while society should increasingly withdraw from interfering (hence the withering away of the state) and have only indicative role (hence social planning replaced central planning). In implementing this «grand scheme» and new paradigm the LCY was not going to let anyone interfere with its leading role (hence a one party system). To what extent this was a reaction to an external shock (the Soviet Union and its allies' economic embargo and the disappointment with «socialist brotherhood») and to what extent a result of internally generated change remains controversial and outside the scope of this paper. Two things are extremely important regarding the new paradigm. The first is that it was incompatible with a centrally planned command economy and meant that it had to be dismantled. And the second is that no blueprint for its development existed; it was a novel idea with no precedent.

The reorganisation of firms was based on a law of June 26, 1950. This law introduced self-management into most firms (infrastructure and public utilities were exempt) regardless of size. As a result, in 1950 in 6,319 firms that employed almost 1 million workers there were elections for workers' councils. In these elections 114,313 workers, of which more than three quarters were blue collar workers, were elected to various self management bodies. In 1954, the system was extended to all firms since workers' councils were elected in previously exempt firms (railways, post office, public utilities etc.). From 1950 on, Yugoslav economic history represents a sequence of efforts of social engineering aimed at conceiving a consistent, coherent, and efficient economic model that would implement the basic principles of self-managing socialism. The period after 1960 is outside the scope of the paper, but in the period considered here, with this effort of institutional adjustment, two different sub-periods can be distinguished. The first sub-period was from 1950 to 1956 and it could be labelled «dismantling a command economy and searching for the paradigm». The second sub-period was from 1957 to 1960 and its appropriate label is «the first Self-management Paradigm».

1. Abandoning central planning and the search for a new paradigm

The search for a new paradigm and the institutional changes it inspired did not take place in a favourable economic environment. The economic embargo (imposed in 1948) continued and there were two years of severe drought (in 1952 and 1954, see Table 10). The former led to trade redirection and the acceptance of western aid. The latter called for the adoption of «crises management» policies and the rethinking of agricultural policies that ultimately led to backtracking on collectivisation, a new agricultural reform and trade system with partial liberalisation of private agriculture. Overall, in the period from 1950-1952 the economy experienced negative growth rates and agriculture collapsed (for agricultural production see Table 10, for national income Table 11).

In the economy, the idea of socialist self-management was quite obviously incompatible with a command economy and central planning. During the early period of self-management, the central plan was abandoned and from 1952 to 1953 the command economy was replaced by a system of «Accumulation and Funds». Perhaps a more appropriate label would be «muddling through» since there was no general time frame («action plan» in modern parlance) motivating the institutional changes or an idea what the economic system should look like. In this system, exchange took

place for money in markets but at regulated prices. Production, however, was organised by partially independent firms. The state intervened in the economy in four fundamental ways. First, through prices (where agricultural prices were kept low so agriculture subsidised industry, the infamous «price scissor» practiced in every socialist economy). Second, the allocation of company revenue was regulated by a system of proportions (i.e. the share for each accounting item such as wages, production costs, depreciation, etc.). Third, the state was the sole investor which was managed through investment funds (the contribution to the accumulation of each firm was sector specific).

Finally, the centralisation of banking was completed by the introduction of a one-tier banking system. The scope of company level decision-making and thus «self-management» in this system was through two kinds of decentralised decisions. The first was in the organisation of production for given proportions. The second was the guided distribution of surpluses beyond the production levels (usually defined as quantities delivered to other firms) determined by the state. For revenue earned after completing these planned deliveries the enterprise was free to allocate excess revenue following some general rules (e.g., it could employ new workers only if its production exceeded the planned deliveries, it could not significantly increase wages but could provide local public goods to its employees if its revenue exceeded plans, etc.). The incentive system for the firms and the managers was the distribution of surplus; the state was firmly in control of investments.

Obviously, the system of Accumulation and Funds could only be an interim one. In 1954, there was a change and the system of Accumulation and Funds was replaced with a more liberal system that allowed firms more freedom. Instead of company and sector specific accumulation that determined how much each sector and/or firm had to pay into the fund, a general 4% asset tax was introduced whose proceeds went into investment funds. Most of these resources went to the General Investment Fund. This fund was set up at the federal (national) level. Much less went into the republican and communal investment funds. The allocation of investment resources between the three kinds of funds is given in Table 13. Foreign trade was highly regulated with imports requiring permits and exporters' foreign currency earnings were ceded to the state at fixed and non-market fixed clearing exchange rates.

Table 13. *The structure of investment funds*

	1956	1957	1958	1959	1960
Federal fund	40	34	38.3	42.8	37.1
Republ. fund	9	8	7.1	8.0	7.0
Local fund	22	26	16.6	17.4	17.5

Source: Compiled from A. P., *Investicije u 1957 godini* [Investment in 1957], in «Jugoslovenski pregled», 2, 1958, pp. 261-162; Ing. A. S., *Privreda u 1958 godini* [The Economy in 1958], in «Jugoslovenski pregled», 4, 1959, pp. 11-16; V. C., *Privreda u 1959 godini* [The Economy in 1959], in «Jugoslovenski pregled», 5, 1960, pp. 63-68; S.R. - D.Č., *The National Economy in 1960*, in «Yugoslav Survey», 2, 1961, 5, pp. 660-672.

2. *The first Self-management Paradigm and second Five-Year Plan*

The hybrid system of the early fifties was finally replaced by the first «Self-management Paradigm» of the late fifties. The first Self-management Paradigm was a coherent economic system defined by 1956 when the country embarked on implementing its second Five-Year Plan. Of course, the economic changes followed political ones since the changes of the mid fifties also included major political changes (a new party programme with the symbolically important name change from CPY, Communist Party of Yugoslavia, to LCY, League of Communists of Yugoslavia).

The economic system introduced in the mid fifties retained state investments (financed by the 4% fixed asset tax with most of the resources thus collected going into the Federal Investment Fund, see Table 13), regulated foreign trade (with import permits and compulsory ceding of export proceeds), and price controls (biased against the private sector and in favour of capital-intensive sectors) but it augmented company independence.

Thus the company internal distribution was regulated in such a way that firms could decide about the size of the wage fund (and thus company investments above the payment into the investment funds) and on wage differentials (the differentials were indirectly regulated through recommendations). In essence, the firm's income was broken into two parts. The first went to the «socio-political community» (i.e. outside the firm) and the second was left to the discretionary decisions of workers' councils. The latter under the name of «the material base for self-management» became a proxy variable for the extent and successful implementation of self-management because it determined the amount and share of resources left to firms.

The new institutional framework was in place in 1956 when the second Five-Year Plan for the period 1957-1962⁸, became operative. This five-year plan was extremely ambitious and aimed at an average growth rate of the social product above 9%, see Table 14. The general goals of the second Five-year Plan were

- a. to increase the material basis for self-management (increase the share of company revenue left to the discretionary decisions of self-management bodies and thus expand their control over resources);
- b. achieving high investment rates and distribution of investments was to be left to the state institutions with the dominance of central government;
- c. to balance the structure of investments among sectors (i.e. redress previous goals in favour of balanced growth, i.e. not favour heavy and ferrous industry but invest in agriculture and consumer goods and thus satisfy the demand coming from increased employment);
- d. to develop an optimal expansion of foreign trade (but not liberalise foreign trade);
- e. to achieve a significant increase in living standards.

The plan's goal of balanced growth meant that it envisaged significant investments in agriculture and light industry. The high growth rates announced by the plan were achieved. The plan was so successful that in 1960 – one year ahead of schedule – it was declared fulfilled and completed. The high growth rates of the 1956-1960 period are explained⁹ by a. the more efficient use of previously constructed factories that resulted from a better organisation of production and from economies of scale (the first was attributed to incentive effects of workers' self-management); b. the completion of incomplete plants from the previous period (for various reasons major investment projects were left incomplete so minor investments had large effects); c. the shift of investments in favour of maintenance, reconstruction and modernisation of existing equipment (again, smaller investments would have larger effects); d. the shift to

⁸ See *Društveni plan privrednog razvoja Jugoslavije 1957-1961* [The Social Plan for the Economic Development of Yugoslavia in 1957-1961], in «Službeni list FNR», 53/57, 1957.

⁹ See V.M., *Društveni proizvod i nacionalni dohodak 1956-1960* [Social Product and National Income 1956-1960], in «Jugoslavenski pregled»5, 1961, 10, pp. 403-407 also published as *Social Product and National Income 1956-1960*, in «Yugoslav Survey», 2, 1961, 7, pp. 967-976.

Table 14. *The Second Five-Year Plan implementation*

		1957	1958	1959	1960	1961	1962
Average planned growth rate of national income		9.1					
National income	Plan target, rate of growth	111	104	112	108	113	116
	Implementation (% of target)	111	98	105	98	92	89
Average planned growth rate of industrial production		11.12					
Industrial production	Plan target, rate of growth	113	111	111	114	112	113
	Implementation (% of target)	103	100	102	101	96	94
Average planned growth rate of agricultural production		7.1					
Agricultural production	Plan target, rate of growth	-	96	120	101	115	123
	Implementation (% of target)	-	91	110	89	84	81
Average planned growth rate of personal consumption		7.3					
Average planned investment rate in fixed assets		9.1					

Source: yearly target and implementation V. VASIĆ, *Ekonomska politika Jugoslavije* [Economic Policy of Yugoslavia], Beograd 1964; other data M. MIHAILOVIĆ - V. BOŠKOVIĆ, *Savezni društveni plan za 1957 godinu* [The Federal Social Plan for 1957], Beograd 1957.

establishing small and auxiliary plants (replacing large «socialist giants», i.e. vertically integrated firms); and e. the increase of the quality of the distribution network (the efficiency gain from expanding markets). To this, one should add the positive effects of investments in the infrastructure and the effects of the partial liberalisation of private agriculture. As Table 14 shows the high target growth rates were successfully achieved so that by 1960, the planned production levels had been achieved.

V. THE SEEDS OF DECELERATION

In 1960, the Yugoslav economy seemed poised for another optimistic five-year plan. The previous one was declared fulfilled a year ahead of schedule, growth rates were high by any comparison, and living standards

were improving. Because of these successes the structural and growth expectations for the 1960-1956 planning period were largely an extrapolation and prolongation of previous trends. However, in the institutional framework for the economy there were changes as the paradigm was developed. The general direction of these changes in the economy was in the direction of further liberalisation. Thus, first elements of two-tier banking were introduced, non-tariff trade barriers were somewhat relaxed, and the firms discretionary rights over its income distribution extended (in the early fifties it amounted roughly to one third, by the early sixties around two thirds of the social product). The changes were expected to provide a further growth dividend and especially to support the incentives of firms to invest.

Events, however, went in quite a different direction. In production, bottlenecks appeared as some planned firms from the previous period were not finished. This was especially present in the production of consumer goods, the production of non-ferrous metals, and the wood industry. Especially important was the excess demand for consumer goods caused by increasing employment and rising real incomes. This pressure on prices was further increased by droughts in agriculture (in 1961) leading to a fall in agricultural production. The institutional reforms had led to unforeseen adjustment costs and coordination problems. As a result, prices rose and growth rates plummeted. The data in Table 15 clearly show the change between the 1957-1960 and 1960-1965 period. An alternative interpretation¹⁰ used cycle theory to explain the economic downturn.

In contrast to the downturn of the late forties and early fifties when the major force behind the slowdown was an external shock (the economic embargo and drought) this slowdown was internally generated (the external shock of the drought had secondary importance).

The third Five-Year Plan for the period from 1960 to 1965 was never formally abandoned but already by the early sixties, it was obvious that the economy was sufficiently off track to make it unimplementable so it was quietly forgotten. The failure of the early sixties led to a rethinking of the self-management economic system along two completely opposed lines. There was no clear winner so the unresolved ideological dilemmas led to a sequence of political compromises over a longer period. The first approach was one that advocated a return to more control over

¹⁰ See B. HORVAT, *Ekonomska nauka i narodna privreda* [Economic Science and the National Economy], Zagreb 1968.

Table 15. *The economic slowdown of the sixties*

	Average yearly growth rates	
	1957-1960	1961-1965
Social product (1972 prices)	11.3	6.8
Social product p/c	10.2	5.7
Retail prices	3.0	11.1
Industry and mining	14.1	10.9
Agriculture	9.2	-0.1

Source: *Statistical Yearbook of Yugoslavia*, 1980.

the economy and increased state involvement. The second view was quite different and aimed at developing self-management and increased worker control over resources. In the immediate future the latter won the political infighting and led to the social-economic reform of 1965. This reform led to major pro-market changes but the influence of the former approach never quite disappeared. Consequently this meant that the economy never implemented full-blown reforms, in 1965 or later. The result was that in the entire ensuing history the institutional framework of self-management continued along a dual path and a kind of institutional «muddling through». But, regardless of the institutional changes the high growth rates of the fifties were never replicated.

VI. CONCLUDING REMARKS

In the fifties (more precisely from 1952-1960) the highest growth rates ever were recorded in Yugoslav history. This period represents a point of discontinuity with previous secular growth (the 1926-1939 average growth rate was 2.15% while the 1951-1960 growth rate was 6.5%) and with the subsequent period. These remarkable growth rates were a significant departure from today's growth recipes. They were not achieved in institutional stability, indeed there were major efforts of social engineering. They were not achieved through entrepreneurial initiatives but by state dominance. They were not achieved in a democratic environment but in a one party system. They were, however, achieved by balanced sectoral growth and choice of winners.

There are two more important features of the high growth rates of the fifties. The first is that they did not seem to change the position of

Yugoslavia on the European development gradient. Yugoslavia started the period as a marginal European economy and ended it in the same place (the only change was the political introduction of socialist self-management). The second feature is that these high growth rates cannot be considered «modern economic growth» in Kuznets's sense. Kuznets defines «modern economic growth» as extended periods of sustained high growth rates with structural change in an acceptable environment. While there were structural changes, half a decade is not long enough to justify a description of «sustained high growth rates» and the environment certainly is not what Kuznets had in mind.

Post-War Recovery in the South of Italy

Dishomogeneous Development and Regional Differences

by *Ezio Ritrovato*

The many studies of the different levels of economic development, the so-called gap, between the south of Italy, or the *Mezzogiorno*, and central and northern Italy have come to represent a fundamental part of national historiography and, even more so, of the literature of southern Italy. A significant number of these works in the last fifty years¹ has concentrated on government policies of intervention in favour of the *Mezzogiorno*, and on the effectiveness of the initiatives promoted by those policies in contributing to a rapid convergence of the levels of development of the north and south of Italy, in an attempt to bring to an end that economic and social dualism which for almost a century and a half has been the unresolved impasse of the *questione meridionale*.

In the final decades of the last century, however, alongside the progressive emergence of regional analysis as a model for interpreting the economic development of a country or of a wider geographical area², a similar

¹ The large number of periodical summary reports (*Informazioni-SVIMEZ* and *Studi SVIMEZ*), produced by SVIMEZ in the years of the special intervention represent an essential source of data and analyses on the effects of the policy of post-war recovery in the regions of the south. Equally fundamental are the numerous contributions of Pasquale Saraceno, as well as the journals «Nord e Sud», «Meridiana», «Mezzogiorno d'Europa» (published by the ISVEIMER), the «Rivista Economica del Mezzogiorno» (published every three months by SVIMEZ) and the lively historical reconstruction in S. CAFIERO, *Storia dell'intervento straordinario nel Mezzogiorno (1950-1993)*, Manduria - Bari - Roma 2000. Extended bibliographical references are also to be found in recently published books, which form a useful synthesis of the political debate aroused by the «questione meridionale»; from unification until the present day. Cf. G. GALASSO, *Il Mezzogiorno da «questione» a «problema aperto»*, Manduria - Bari - Roma 2005; C. PETRACCONI, *Le «due Italie». La questione meridionale tra realtà e rappresentazione*, Roma - Bari 2005; P. BARUCCI, *La condizione del Mezzogiorno - ieri, oggi e domani - tra vincoli ed opportunità* (Quaderno di Informazioni SVIMEZ, 21), Roma 2003.

² In this regard, Andrea Colli has annotated some contributions to the theorisation of regional analysis, with a «Pollardian» approach, in A. COLLI, *Lo sviluppo economico regionale in prospettiva storica: note in margine a un convegno*, in «Proposte e ricerche», 35, 1995, pp. 67-90.

approach to the study of cases of dishomogeneous territorial development found growing favour, in order to identify and explain the «internal gaps» of the most backward areas³. This approach justifies an analytical examination which, as in the case briefly analysed here, highlights the different levels of growth of the various regions of the Mezzogiorno in their process of modernisation after World War II. After the emergency of the initial post-war reconstruction⁴, which had the purpose of reactivating the industrial structure of central and northern Italy, the development programmes of the Mezzogiorno took advantage of the financial resources of the Marshall Plan and the work of men such as Rodolfo Morandi, Francesco Giordani and Pasquale Saraceno, who were the founders and driving forces of the newly-created Association for the Development of Industry in the Mezzogiorno (SVIMEZ), the inspiration and leading element in the massive special intervention programme launched in 1950 by Law 646 which set up the Cassa per il Mezzogiorno⁵ (Fund for the South).

The recovery policy for the areas of the south was entrusted to the Cassa until 1986 when it passed to the Agency for the Promotion of

³ The territorial diversity, the presence of «particularly depressed areas» within depressed areas, with reference to the Mezzogiorno, have been considered by a number of authors. The most famous image is without doubt that of «meat and bone», given to us by M. ROSSI-DORIA, *Scritti sul Mezzogiorno*, Torino 1982, pp. 51-79 but, in addition to the well-known volume by V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, Bologna 1979, which describes the economic evolution of the eight regions of the south and the controversial results of 25 years of special intervention, also to be noted are I. TALIA, *Il Mezzogiorno nel Mezzogiorno*, in «Rassegna Economica», 6, 1969, pp. 1417-1427; A. GIOLITTI, *Regioni, Mezzogiorno e programmazione*, in «Rassegna Economica», 5, 1970, pp. 1.179-1.196; *Il dualismo territoriale interno al Mezzogiorno*, in «Informazioni Svimez», 3, febbraio 1976, pp. 120-125; P. DE VITA, *Aree emergenti del Mezzogiorno: una verifica quantitativa*, in «Rassegna Economica», 1, 1981, pp. 217-235; S. GATTEI, *Il divario nelle condizioni ambientali e civili del Mezzogiorno e del centro-nord negli ultimi trent'anni*, in «Studi Svimez», 8-9, 1982, pp. 314-323; N. BOCCELLA, *L'eterogeneità della struttura del Mezzogiorno*, in «Nord e Sud», 4, 1985, pp. 31-43; G. BOTTAZZI, *I divari interni al Mezzogiorno e il rovesciamento delle gerarchie spaziali*, in «Meridiana», 10, 1990, pp. 141-181; P. COPPOLA, *Regioni, rappresentazioni e capacità di governo*, in «Meridione. Sud e Nord nel mondo», 2001, 1, pp. 68-71.

⁴ Cf. G. SAVARESE, *Note sulla «ricostruzione» in Italia*, in «Quaderni storici», 34, gennaio-aprile 1977, pp. 249-274; P. BARUCCI, *Il dibattito sulla politica economica della ricostruzione (1943-47)*, in «Rassegna economica», 1976, 3, pp. 609-638.

⁵ For a concise but exhaustive reconstruction, with useful bibliographical references, of the international setting, of the role of the institutions and of the political and economic exponents who promoted the idea of a «Fund for special works of public interest in the south of Italy», cf. L. D'ANTONE, *L'«interesse straordinario» per il Mezzogiorno (1943-60)* (Meridiana, 24), Roma 1995, pp. 17-64.

Development of the Mezzogiorno (Agensud); this in turn was abolished by Law 488 in 1992 marking the definitive closure of the experience of the special intervention. Forty-two years of Italian history, in the course of which the centrality of the *questione meridionale* was gradually diluted by binding European deadlines and commitments, or in worldwide problems of economic globalisation. Forty-two years which, as has been observed recently, saw the passage from an initial period of twenty years in which there was «a certain success of the policies launched» to a second «of substantial failure»⁶. It is on those first twenty years, from 1950 to 1970, and on the causes of the dishomogeneity of development levels which the regions of the south had attained by the beginning of the 1970s, that we will dwell here, and we will seek to explain some long term effects still present in regional productive structures today which can convincingly be traced back to the activities of the Cassa per il Mezzogiorno.

A further, generally accepted, chronological division subdivides the first twenty years of the special intervention in southern Italy into an initial phase (1950-1957) when the policy of the Cassa per il Mezzogiorno concentrated 77% of the funds it distributed to financing infrastructures, reclamation and land improvement works, with the aim of supporting agriculture and contrasting unemployment. In the subsequent phase (1958-1965) the policy of industrialisation based on «development poles» was launched – through the promotion of industrial Consortia. This absorbed around two thirds of the total expenditure and deepened the internal gaps within a Mezzogiorno which, at the end of the war, floundered in a state of backwardness that was already manifestly dishomogeneous. Finally came the «phase of concentration of investments and privileges reserved for industry. This phase became more marked after 1971, and was characterised by intervention limited to the areas of global development, an expression that aimed to go beyond the development poles without declining into the widespread dispersal of funds of the initial stages»⁷.

⁶ Cf. E. FELICE, *Divari regionali e intervento pubblico. Per una rilettura dello sviluppo in Italia*, Bologna 2007, p. 77.

⁷ Cf. *Rendiconto della politica meridionalistica*, in «Informazioni Svimez», 3, febbraio 1976, p. 116. The same period is subdivided, more briefly but with the same meaning, into «pre-industrialisation (1950-1957), industrialisation (1958-1965) and finally penetration (or attempted penetration) of regional policy in wider national planning». Cf. E. FELICE, *Divari regionali e intervento pubblico*, p. 77. In the summary by P. SARACENO, *Sottosviluppo industriale e questione meridionale. Studi degli anni 1952-1963*, Bologna 1990, p. 155: «the intervention launched with the establishment of the Cassa per il Mezzogiorno

The internal division of the Mezzogiorno therefore began to be related to the special intervention policy at the very phase when it was encouraging the industrialisation of the southern regions which, with Law no. 634 of 1957, benefited from new financial resources assigned to the Cassa per il Mezzogiorno, as well as specific laws that favoured the investments of companies with state participation and a greater collaboration of the entire Italian credit system⁸. After the success of the first «pre-industrialisation» phase, which aimed prevalently «to create the external economies on the supply side and the market conditions on the demand side, for the development of the industrial production of the area»⁹, rapid industrialisation was programmed to bring to the Mezzogiorno a greater share of the multiplicative effects generated by the expenditure to modernise agriculture and infrastructure¹⁰ and to contrast mass emigration. The latter was the only alternative to hunger for four million people of the south – one in five – who between 1950 and 1970 were obliged to leave their homes to seek work in the north of Italy or abroad (Table 1).

is based on a rapid preparation of the infrastructures required by a process of modern development, on an action of reform of the agricultural structure and on an intensification of the process of industrialisation». Cf. also F. VENTRIGLIA, *Quindici anni di politica per il Mezzogiorno*, in «Rassegna Economica», 2, 1968, pp. 364-367; G. GAETANI D'ARAGONA, *Dualismo e intervento pubblico nel Sud*, in «Mezzogiorno d'Europa», 1, 1992, pp. 63-69.

⁸ Law 634 of July 29, 1957, «did not only mean the extension of the special intervention programme of the Cassa per il Mezzogiorno from twelve to fifteen years with the increase of its resources by more than 760 billion lire, but above all it meant real progress on the difficult road to coordination between ordinary investment (that which was the responsibility of the State Administrations) and special investment (that of the 'Cassa'); it also meant the definition of a reserve, in relation to the population of the south with respect to the national total, of a fixed proportion of the overall expenditure of the state; it established a reserve of 40% of the investments of businesses with state participation and finally inaugurated a policy of territorial concentration of investment, especially those in industry. In order to finance this, in addition to a contribution from the 'Cassa', the whole Italian banking system was called on». Cf. F. VENTRIGLIA, *L'evoluzione dell'economia del Mezzogiorno: 1951-1963 (parte prima)*, in «Rassegna Economica», 1966, 2, p. 399.

⁹ Cf. S. CAFIERO, *La politica di industrializzazione del Mezzogiorno in quarant'anni di intervento straordinario*, in «Rivista economica del Mezzogiorno», 1990, 4, p. 765.

¹⁰ On the effects of the multiplicatives of the special intervention in the first years of the activity of the activity of the Cassa, cf. F. PILLOTON, *Effetti moltiplicativi degli investimenti della Cassa per il Mezzogiorno nel periodo 1951-55*, in SVIMEZ (ed.), *Il Mezzogiorno nelle ricerche della SVIMEZ*, Roma 1968, pp. 421-435.

Table 1. *Migratory balance of the regions of the south on absolute and percentage values (1951-1971)*

Region		Migratory balance 1951-1961		Migratory balance 1961-1971	
Abruzzo	(24%)	-180.856	(14%)	-127.212	(10%)
Molise	(37.7%)	-84.359	(20.7%)	-61.946	(17%)
Campania	(16.2%)	-283.406	(6.5%)	-466.300	(9.7%)
Apulia	(20.4%)	-314.320	(9.7%)	-365.439	(10.7%)
Basilicata	(32.5%)	-83.578	(13.3%)	-123.926	(19.2%)
Calabria	(33.7%)	-348.472	(17%)	-341.540	(16.7%)
Sicily	(21.5%)	-386.841	(8.6%)	-610.723	(12.9%)
Sardinia	(16.5%)	-78.145	(6.1%)	-147.991	(10.4%)
Southern Italy	(22%)	-1.759.977	(9.9%)	-2.245.077	(12,%)

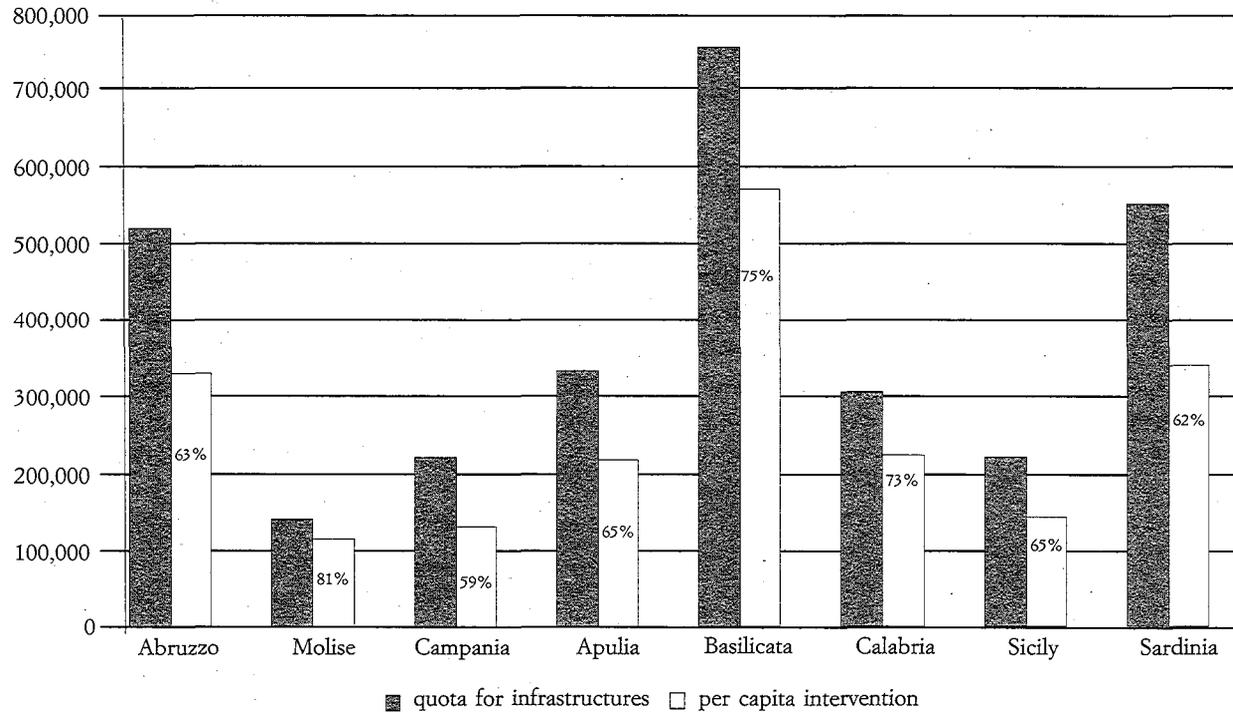
Source: SVIMEZ (ed.), *Un quarto di secolo nelle statistiche Nord-Sud (1951-1976)*, Milano 1978.

Although the total increase of the migratory flows confirms the failure of one of the principle objectives of the special intervention in the first twenty years, from another perspective it shows how, in the passage between the first and second decade, some regions accumulated very substantial negative totals, registering values much higher than the average for the whole Mezzogiorno (Table 1). These regions were Molise, Basilicata and Calabria, where there was deep-rooted poverty and which were afflicted by a chronic lack of links with the rest of the country and were held back by their backward agriculture with its unjust contracts and parasitical *latifondo* (large land estates). In order to break down these centres of anachronistic underdevelopment, the special intervention policy in these regions concentrated on improving internal communications, reclamation and development of mountain areas, and the construction of aqueducts and sewage systems, allocating more than 70% of expenditure to infrastructural growth (Graph 1).

In general, the reasons for the limited effects of these policies on the per capita regional income are to be found essentially in the lack of a local industrial apparatus, with the result that the investments made for the formation of capital in the Mezzogiorno largely resulted in additional demand for the industry of central and northern Italy¹¹, with different effects on employment levels both between the two national macroareas

¹¹ Cf. P. SARACENO, *Il vero e il falso sugli aiuti del Sud*, in «Corriere della Sera», Juli 14, 1974.

Graph 1. Cassa for southern Italy – Per capita intervention (in lira) up to 1975 and quota for infrastructures



and between the different regions of the south. In fact, in the twenty years 1951-1971 the numbers employed in the Mezzogiorno fell by 8.6%, passing from 6.5 to 5.9 million, while in northern and central Italy they increased by 2.1%. Evidently, in the south the reduction in agricultural employment, which fell from 3.7 to 1.8 million¹², was not compensated by an increase in industry or in the tertiary sector, even though in those years some regions did assume an occupational structure sufficiently in line with the national average, and this enabled them to make significant improvements in the levels of per capita income (Graph 2).

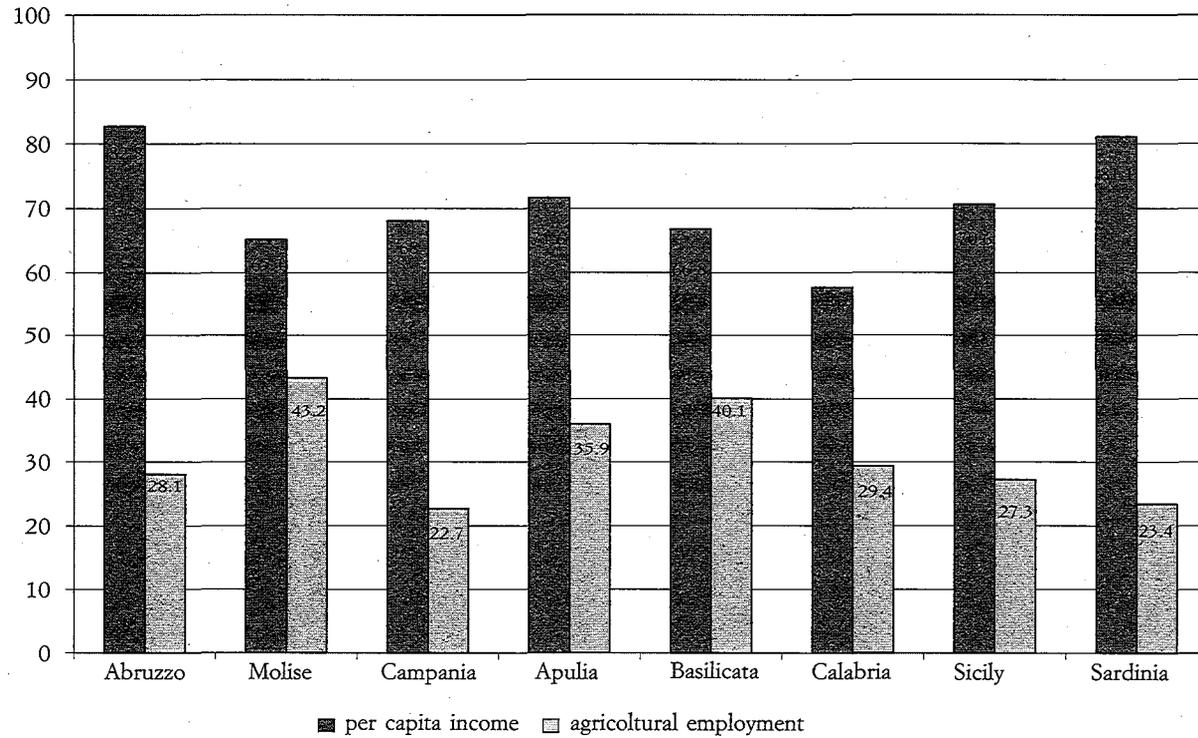
The existence of an inverse relationship between higher per capita incomes and agricultural employment – clearly seen in Abruzzo, Sicily and Sardinia – appears less in Apulia and Calabria, for different reasons, historically linked to a primary sector structure that has favoured Apulian agriculture, the modernisation of its grain growing and its specialised tree cultivation, with a strong propensity to exportation. In addition, in the 1960s the special intervention in Apulia concentrated important initiatives in the steel and petrochemical sectors which, for better or worse, radically transformed the productive structure of the provinces of Taranto and Brindisi¹³. On the other hand, the physical geography of Calabria, the backwardness of its agriculture, and the distance from international trade circuits, associated with the lack of a policy to develop and strengthen the manufacturing sector by providing incentives to industry¹⁴, condemned the rural population to an emigration which depopulated the Calabrian

¹² In the same period the percentage employed in agriculture in relation to the total employed fell from 56.7 to 31%, while in central and northern Italy it passed from 37.6 to 13.4%. Cf. SVIMEZ, *Un quarto di secolo nelle statistiche Nord-Sud (1951-1976)*, Milano 1978, p. XXXVII.

¹³ For the industrial development of Apulia in the first twenty years of the special intervention, cf. F. DEL PRETE, *Puglia*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, Bologna 1979, pp. 407-430 and, among others, L. MASELLA, *L'industrializzazione della Puglia. Una ricognizione storiografica*, in «Annali di storia dell'impresa», 11, 2000; M. COMEL, *La Puglia industriale del XX secolo. Una rassegna storiografica*, in «SinTesi», 3, 2003; M. PIZZIGALLO, *Storia di una città e di una «fabbrica promessa»: Taranto e la nascita del IV centro siderurgico (1956-1961)*, in «Analisi storica», 4, 1989, 12-13. For the 1970s cf. I. DRUDI - C. FILIPPUCI, *Il sistema industriale della Puglia*, Bologna 1988.

¹⁴ Cf. P. TINO, *L'industrializzazione sperata*, in P. BEVILACQUA - A. PLACANICA (eds), *Le regioni dall'Unità a oggi. La Calabria* (Storia d'Italia), Torino 1985, p. 850. On the situation of the Calabrian industrial sector in the mid-1970s, cf. P. DE VITA, *L'industria manifatturiera in Calabria al 30 giugno 1974*, in «Informazioni Svimez», 3, febbraio 1976, pp. 147-167; R. FANFANI, *Calabria*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, Bologna 1979, pp. 542-562.

Graph 2. *Per capita income in index numbers (Italy = 100) and agricultural employment (%) in 1974*



countryside¹⁵. The two regions therefore represent isolated exceptions to the relationship which, also in the Mezzogiorno, linked economic development and increase of income with reduced levels of agricultural employment, exceptions which were obviously not sufficient to undermine the arguments of Pasquale Saraceno and those who, like him, indicated in industrialisation the «principle objective» of the special intervention, «it being, among the lines of development, that which can contribute most to the elimination of the gap»¹⁶.

In fact, after the initial phase of investment for the improvement of agricultural production and infrastructures, with the indirect objective of making industrial settlement convenient, from 1957 the special intervention concentrated on objectives of rapid industrialisation which should have raised the productivity of the regions of the south¹⁷. A series of laws were issued between 1957 and 1971¹⁸ which established capital account contributions, tax allowances and, in particular, the obligation on companies with a state participation to locate 60% of their new activities and 40% of their overall activities in the south. Of great importance was the establishment of the «Consortia for the areas of industrial development» which, with the financial support of the Cassa per il Mezzogiorno, were

¹⁵ The data relating to the gross saleable production of agriculture in the years 1951, 1961 and 1973, show how in those years Apulia, with a productive surface of 1,864,000 hectares had 6.7%, 7.5% and 8.6% of the national production. Calabria, on the other hand, with a surface of 1,450,000 hectares, produced respectively 4%, 3.4% and 3.5%. Cf. P. DE VITA, *L'industria manifatturiera*, pp. 232-268. Also, from 1951 to 1973 the added value of agriculture in Apulia almost doubled, while in Calabria it increased only by 40%. Cf. ISTAT - Collana d'informazioni, *Il valore aggiunto dell'agricoltura per regione (1951-1977)*, 1, 1979, pp. 53-55.

¹⁶ Cf. P. SARACENO, *L'unificazione economica italiana è ancora lontana*, Bologna 1988, p. 66.

¹⁷ In this regard, in a famous article, entitled *Il Mezzogiorno e il tempo lungo*, which appeared in the «Corriere della Sera» of August 21, 1960, Luigi Einaudi contested the effectiveness, in the short term, of the investments in agriculture and infrastructures, declaring that «to expect reforestation, roads, reclamation and schools to give immediate bountiful results in ten or even twenty years is an illusion when it is not merely demagogic humbug».

¹⁸ In addition to Laws no. 634 of 1957, no. 555 of 1959, no. 717 of 1965 and no. 853 of 1971, it should also be recalled that there was a measure of 1968, by which the firms which invested in the Mezzogiorno were exempted from the payment of a share of the social charges that were charged to the state. The intention of this was to compensate the effects of the abolition of the provincial wage differences (the «wage cages») to favour the establishment of high labour intensive businesses. Cf. S. CAFIERO, *La politica di industrializzazione del Mezzogiorno*, p. 768.

entrusted with the creation and management of the works necessary to adapt the territory to the requirements of the new productive settlements.

In this second period of the special intervention the percentage of industrial investments by the Cassa rose from the 9% of the total invested in the five years 1951-1955 to 63% of the total in the five years 1966-1970. In reality, however, the industrialisation programmes affected the regions of the Mezzogiorno with territorial differences of intensity, operational modality and economic results, and in the end these intensified the aspects of dishomogeneity. As early as the early 1960s, the simple concentration of the first interventions in some regions only, contributed to the creation of new internal gaps in the south. There was progress in the modernisation process in Apulia, Campania, Sicily, and Sardinia, the regions where the most important initiatives were located promoted by the Cassa per il Mezzogiorno and companies with state participation such as IRI, ENEL and EFIM.

In implementing the policy of industrialisation through «development poles», Apulia with 22.5%, Sardinia 22.3%, Sicily 20.8% and Campania 15.3% together absorbed more than 80% of the Cassa's financing. The heavy industry sector was favoured, in particular the basic chemical and steel industries¹⁹. Thus, the period between the end of the 1950s and the early 1970s saw the birth of the great Italsider steel-making centres of Taranto and Naples, the petrochemical poles of Brindisi (Montecatini), Syracuse (Edison), Gela (Anic), Porto Torres (SIR), accompanied by mechanics, chemical, paper and car factories.

There was a completely different character, in the industrialisation developed by the special intervention in Abruzzo and Molise, two regions which up to the early 1960s benefited more or less in the same way from the first phase of the special intervention for agricultural and infrastructural modernisation. In the following decade, however, their development diverged markedly: in Abruzzo an intense process of industrialisation was launched, also with large scale installations – but in the sectors of mechanics and textiles – which brought employment to 92,000 people, with an average annual increase of 2.2% between 1961 and 1974, much greater than that attained by the Mezzogiorno (0.5%) and even

¹⁹ An additional intra-regional concentration should be considered which assigned to the Naples area two thirds of the funds for Campania, to the areas of Palermo and Syracuse two thirds of those for Sicily and to the province of Taranto two thirds of the funds for the industrialisation of Apulia. Cf. D. VITERBO, *Dal telaio al robot. Nuovi percorsi dell'industria italiana e pugliese*, Bari 1994, p. 110.

more than that of northern and central Italy (0.9%)²⁰. Apart from the large amounts of public finance, such exceptional growth was favoured not only by the convenient closeness to the markets of northern Italy, but above all by the choice of an industrialisation model that favoured medium and small-sized firms and light industry, with a wide territorial distribution and a low level of environmental impact.

Unfortunately, in the case of Molise, the experience of the special intervention evolved differently, at least in the first twenty years. The long delays in launching industrialisation caused a 20% fall in employment in the manufacturing industry between 1951 and 1971, contrary to the trend in the rest of the Mezzogiorno, with the sole exception of Calabria. In addition, the stagnation in the industrial development of Molise fuelled the migratory flows, contributing to that «weakening of the propensity for innovation, change and social recovery which the suffocating pervasive mechanisms of welfare and patronage [...] came to determine in the population». Such an uncomfortable vision justifies a conclusive evaluation that considers the twenty post-war years, for Molise, as being «the culmination, fortunately for the subsequent generations, of the phase of passage ... from its traditional, ancient, though modest, participation in the national and international economic system, to its effective economic, social and cultural isolation»²¹. In compensation, in the course of the 1970s, Molise changed direction decisively, with a marked improvement of both agricultural and industrial conditions – one thinks of the Fiat works at Termoli – such as to determine a return to a positive balance in migratory movements after a century of constant depopulation²².

On the level of the effectiveness of the special intervention, a similar path was followed by Basilicata in the first post-war decades, and this explains the enduring gap compared with the most developed areas of the Mezzogiorno. The substantial failure of the phase of industrialisation, prevalently entrusted to the chemical and mechanics sectors and concentrated at the poles of Potenza, Val Basento and Metaponto, is largely to be attributed to the alternation of «phases of quantitative and qualita-

²⁰ Cf. S. GATTEI, *L'industria nelle regioni del Mezzogiorno: l'Abruzzo*, in «Studi Svimez», 1985, 4, pp. 958-961.

²¹ Cf. G. MASSULLO, *Dalla periferia alla periferia. L'economia del Novecento*, in G. MASSULLO (ed.), *Storia del Molise*, Roma 2006, p. 496.

²² Cf. N. LOMBARDI, *Il Molise fuori dal Molise*, in G. MASSULLO (ed.), *Storia del Molise*, Roma 2006, p. 629; see also R. SIMONCELLI, *Molise*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, Bologna 1979, pp. 283-301.

tive expansion of the overall productive units, with phases of stagnation and crisis»²³. In a similar context, the programmes for the utilisation of unemployed manpower and for the reduction of migratory flows resulted, on one hand, in an increase of some seven thousand among those working in industry, but with a loss of over two hundred thousand residents who emigrated between 1951 and 1971. Also in Basilicata it was not until the 1970s that there were signs of the establishment of endogenous and self-supporting forms of development such as the upholstered furniture district of Matera and its linked industries of the Murgia area, where traditional artisan skills, product quality and the adoption of advanced technology combined to determine the international success of some companies in the sector.

The maintenance of a leading position in the per capita income classification by Sardinia and Sicily²⁴, the two regions which have a special statute, reflects better starting conditions. In the case of Sardinia these were founded on the essential contribution of coal extraction, and were progressively accompanied by the development of tourism in the summer months but, above all, by intense industrialisation in the petrochemicals sector²⁵. Sicily, on the other hand, initially benefited from a fleeting «oil fever» which, in the wake of the exploitation by oil companies like Gulf Oil and ENI of what were revealed to be limited deposits, favoured the establishment of large refineries. Stimulated by the special intervention policies, petrochemical plants were set up at Gela, Augusta, Priolo and Porto Empedocle. The assisted initiatives in the petrochemical sector, and the abnormal increase in the possibilities of work offered by the regional administration, without doubt had the merit of sustaining the per capita income of the two regions in the first twenty post-war years.

²³ Cf. A. LERRA, *Per una storia dell'industria in Basilicata*, in L. AVAGLIANO (ed.), *L'Italia industriale nelle sue regioni. Bilancio storiografico*, Napoli 1988, p. 256.

²⁴ For an extensive bibliography on the industrialisation of the two islands, see G. BARONE, *Sicilia*, in L. AVAGLIANO (ed.), *L'Italia industriale nelle sue regioni. Bilancio storiografico*, Napoli 1988, pp. 269-276, and M.S. ROLLANDI, *L'industria estrattiva in Sardegna (1848-1939) tra pubblicistica e storiografia*, in L. AVAGLIANO (ed.), *L'Italia industriale nelle sue regioni*, pp. 277-310; S. LA FRANCESCA, *Industria e impresa in Sicilia e Sardegna*, in A. DI VITTORIO - C. BARCIELA LOPEZ - G.L. FONTANA (eds), *Storiografia d'industria e d'impresa in Italia e Spagna in età moderna e contemporanea*, Padova 2004, pp. 359-374.

²⁵ Cf. S. RUJU, *Società, economia, politica dal secondo dopoguerra a oggi*, in L. BERLINGUER - A. MATTONE (eds), *Le regioni dall'Unità a oggi. La Sardegna* (Storia d'Italia), Torino 1998, pp. 849-858. On the contents and effects of the «Plan for the economic and social rebirth of Sardinia», approved in 1962, cf. O. GOBBATO, *Sardegna*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, pp. 678-695.

But the price to pay in the years that followed was to be a heavy one, and it came with the dramatic repercussions of the oil crisis, with the «alarming gap between the economic resources committed and the modest effect on employment: a gap which makes intolerable the enormous cost of environmental decay»; in brief, all the limits typical of industrialisation without development²⁶.

This industrialisation focused on plants with a high capital intensity and reduced utilisation of manpower; they were imposed from above and, being self-sufficient and having a productive cycle that was entirely linked to a parent company or to companies working in central and northern Italy, they were totally unrelated to the territory. These plants were vividly defined as «cathedrals in the desert»: they were set up in order to activate the «development poles», but they failed to bring development. This was because they produced intermediate goods that created no linked industries for the supply of components and semi-finished products and, in the regions where they were located, for the most part they accentuated the processes of rural depopulation and uncontrolled urbanisation, with the inevitable deterioration of the metropolitan areas²⁷. The only beneficiaries, from the occupational point of view, were the building and tertiary sectors: in the case of the latter, between 1959 and 1975 there was the same employment increase as was recorded in central and northern Italy (25%), but this was «not for service organisations related to activities of production, but for services correlated to the activity of consumption»²⁸.

As a whole, the data related to the regional per capita income in 1951 and in 1974 would suggest that in the first twenty years the special intervention did not modify the income classification of the regions of the south, leaving virtually unaltered the positions of the early post-war years, the only exceptions being Abruzzo and Campania (Table 2). The positive specificity of growth in Abruzzo has already been described here, while

²⁶ Cf. G. GIARRIZZO, *Sicilia oggi (1950-86)*, in M. AYMARD - G. GIARRIZZO (eds), *Le regioni dall'Unità a oggi. La Sicilia* (Storia d'Italia), Torino 1987, pp. 618-651.

²⁷ Cf. P. URBANI, *Prime riflessioni sugli interventi straordinari nelle aree metropolitane del Mezzogiorno*, in «Rivista giuridica del Mezzogiorno», 1989, 1, pp. 37-46; see also V. CAO-PINNA, *Quadro generale degli aspetti positivi e negativi dello sviluppo economico e sociale delle regioni meridionali, dal 1951 al 1975*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, pp. 43-50; G. CELLA, *Industrializzazione e emigrazione: il caso del Mezzogiorno nel decennio 1961-1971*, in «Rassegna Economica», 1974, pp. 1085-1087.

²⁸ Cf. *Rendiconto della politica meridionalistica*, in «Informazioni Svimez», 3, febbraio 1976, p. 119.

in the case of Campania industrial historians seem to agree in attributing the slowing down of regional development to forms of deindustrialisation – understood as «the loss of relative weight of traditional industries, not counterbalanced by a vigorous expansion of the most modern sector of the manufacturing field»²⁹ – which was accompanied «by the expansion of private business and the public administration. An ‘inferior’ tertiary sector, because it lacked a corresponding productive base ... a tertiary sector that consists of that abnormal phenomenon, which is the elephantiasis of the public administration»³⁰.

Table 2. *Net per capita income in 1951 and 1974 in index numbers (Italy = 100) and position in the classification of southern regions*

Region	Net per capita income 1951	Net per capita income 1974
Abruzzo	66.5 (5)	82.8 (1)
Molise	56.9 (7)	65.1 (7)
Campania	69.3 (2)	68.0 (5)
Apulia	67.3 (4)	71.6 (4)
Basilicata	58.2 (6)	66.8 (6)
Calabria	56.8 (8)	57.7 (8)
Sicily	67.4 (3)	70.6 (3)
Sardinia	78.9 (1)	81.1 (2)
Southern Italy	66.8	70.1

Source: elaboration from SVIMEZ (ed.), *Un quarto di secolo nelle statistiche Nord-Sud (1951-1976)*, Milan 1978.

Therefore, in a framework of substantial stability of the initial regional gaps, at the end of the first twenty years of the special intervention Abruzzo and Campania were the only regions of the south to have modi-

²⁹ Cf. M. D'ANTONIO - U. MARANI, *Crisi e riconversione industriale (1950-1975)*, in F. BARBAGALLO (ed.), *Storia della Campania*, vol. 2, Napoli 1978, p. 485. Cf. also G. BONDI - A. DAMIANI, *L'industria tradizionale*, in *Territorio e risorse in Campania*, vol. 1: *Tra marginalità e crescita*, Napoli 1978, pp. 47-57; G. BONDI - P. COPPOLA, *Lo spazio dei poli e dei nuclei industriali*, in *Territorio e risorse in Campania*, vol. 1: *Tra marginalità e crescita*, pp. 105-125; S. VINCI, *Campania*, in V. CAO-PINNA (ed.), *Le regioni del Mezzogiorno*, p. 326.

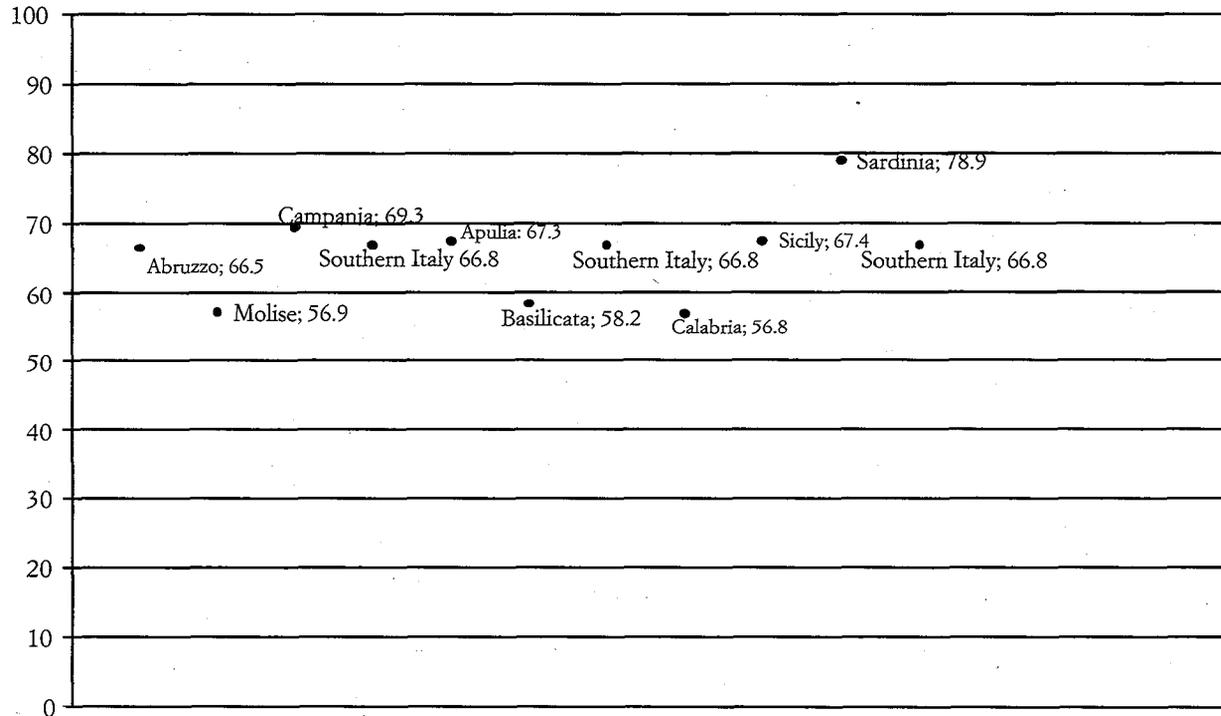
³⁰ Cf. G. BRANCACCIO, *L'Italia industriale nelle sue regioni. Bilancio storiografico. La Campania*, in L. AVAGLIANO (ed.), *L'Italia industriale nelle sue regioni. Bilancio storiografico*, Napoli 1988, p. 238. On the «terziarisation» of employment in Campania, cf. P. COTUGNO - E. PUGLIESE - E. REBEGGIANI, *Mercato del lavoro e occupazione nel secondo dopoguerra*, in P. MACRY - P. VILLANI (eds), *Le regioni dall'Unità a oggi. La Campania (Storia d'Italia)*, Torino 1990, pp. 1181-1182; G. BOTTAZZI, *I Sud del Sud*, pp. 157-158.

fied their positions in the per capita income classification in opposite directions compared to 1951. This suggests a first consideration on the effectiveness of the policies for the recovery the Mezzogiorno, not so much in creating the conditions for solid and lasting forms of development, as in the limiting of the dishomogeneity in the levels of wealth which, owing to the persistent conditions of socio-economic stagnation, in 1951 obliged a Calabrian, for example, to make do with an average income 38% lower than that of an inhabitant of Sardinia. There is no doubt that after twenty-three years of special intervention, the standard of living of the Calabrian had improved³¹, but his income had increased only imperceptibly in relation to the national average and, in addition, he had 43% less than an Abruzzese, who had arrived close to the per capita standards of Italy as a whole (Table 2). Also in transferring the numerical values to a dispersion graph, compared to 1951 (Graph 3) a lesser concentration is noted around the average for the Mezzogiorno in 1974 (Graph 4); there was therefore greater dishomogeneity between the different regions, also confirmed by the calculation of the standard deviation with respect to the average for the south, which gives a value of 7.3 for 1951 and 7.7 for 1974.

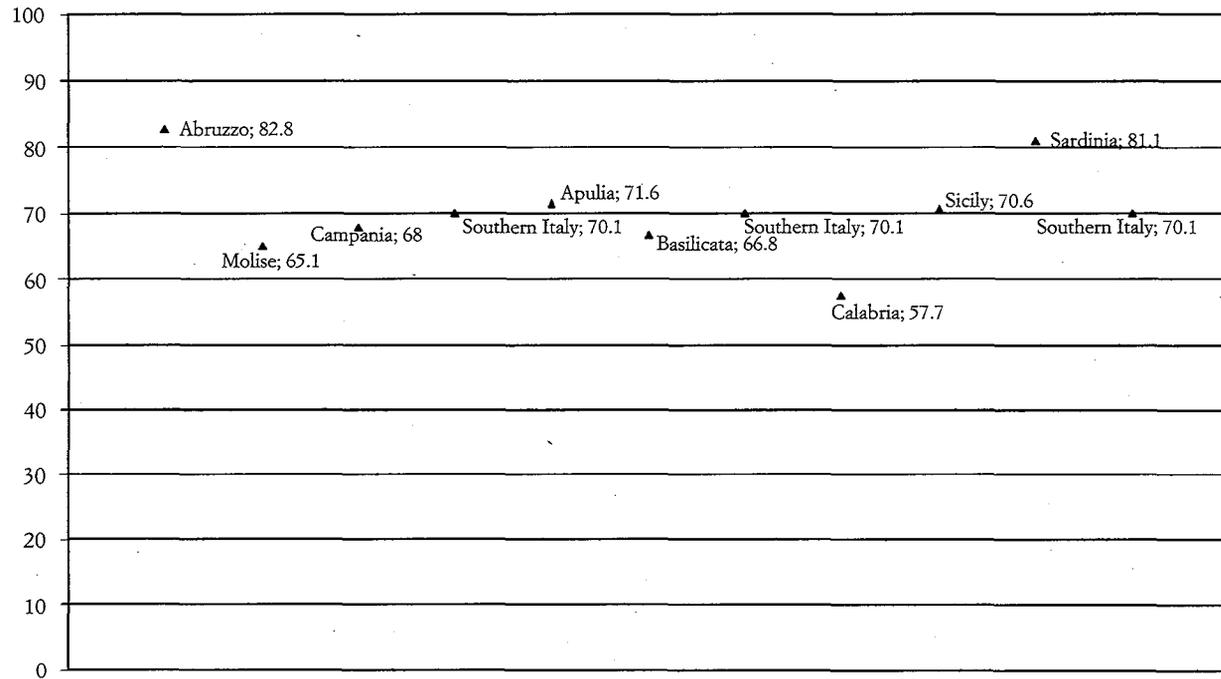
Also marked, but this time with a significant reduction compared to 1951, is the gap within the Mezzogiorno if we analyse the standard of living in the different regions, utilising a synthetic indicator of five non-alimentary articles of consumption (expenditure on radio-TV licences, tobacco, entertainment, electricity consumption for lighting, index of motorisation). In clear accord with Engelian conclusions on the decrease of the percentage of alimentary expenditure in relation to the increase of income, the graphic representation of the values – in index numbers with respect to the national average of 100 – shows in visual terms the improvement of the levels of life in the most disadvantaged areas, but they still remain too distant from the most successful regions like Abruzzo and Sardinia (Graphs 5 and 6). Beyond the many considerations that have fed the long debate on the effects of the special intervention policies, the analysis of dishomogeneous development and intra-Mezzogiorno gaps must in any case take account of an undoubted general improvement of the standard of living in all the regions of the south, in an overall context that is still well summed up by the metaphor of «meat and bone» proposed by Manlio Rossi Doria.

³¹ Cf. P. SYLOS-LABINI, *L'evoluzione economica del Mezzogiorno negli ultimi trent'anni*, in «Studi SVIMEZ», 1, 1985, pp. 5-9.

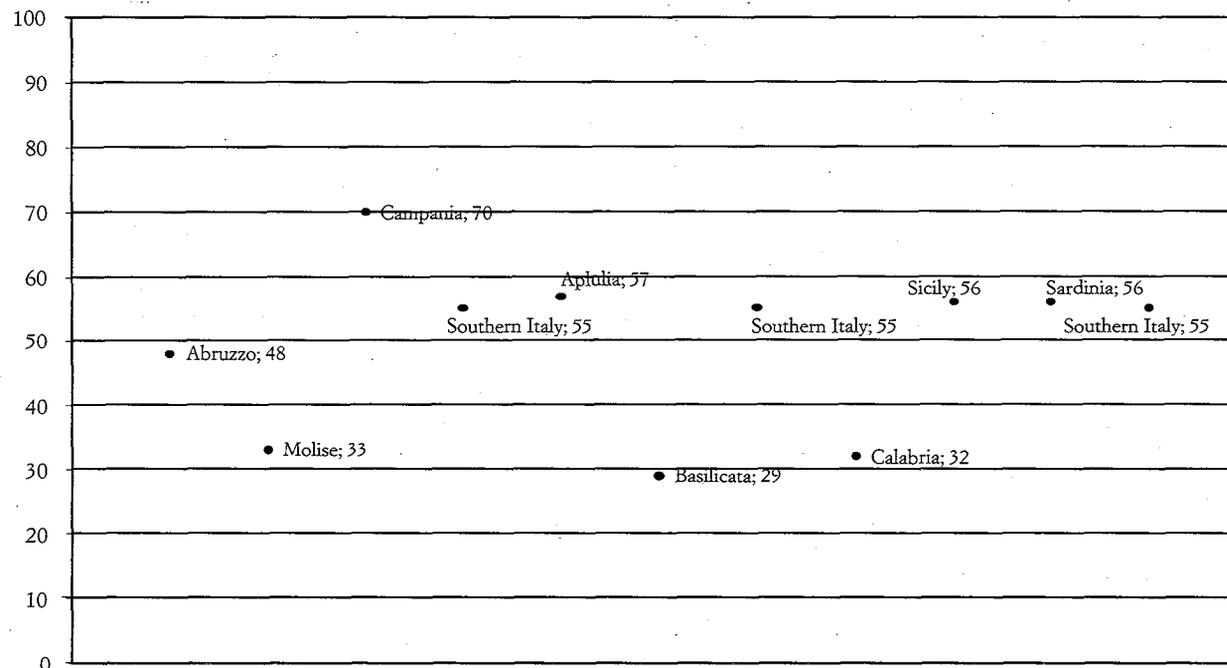
Graph 3. Regional per capita income in 1951 in index numbers (Italy = 100)



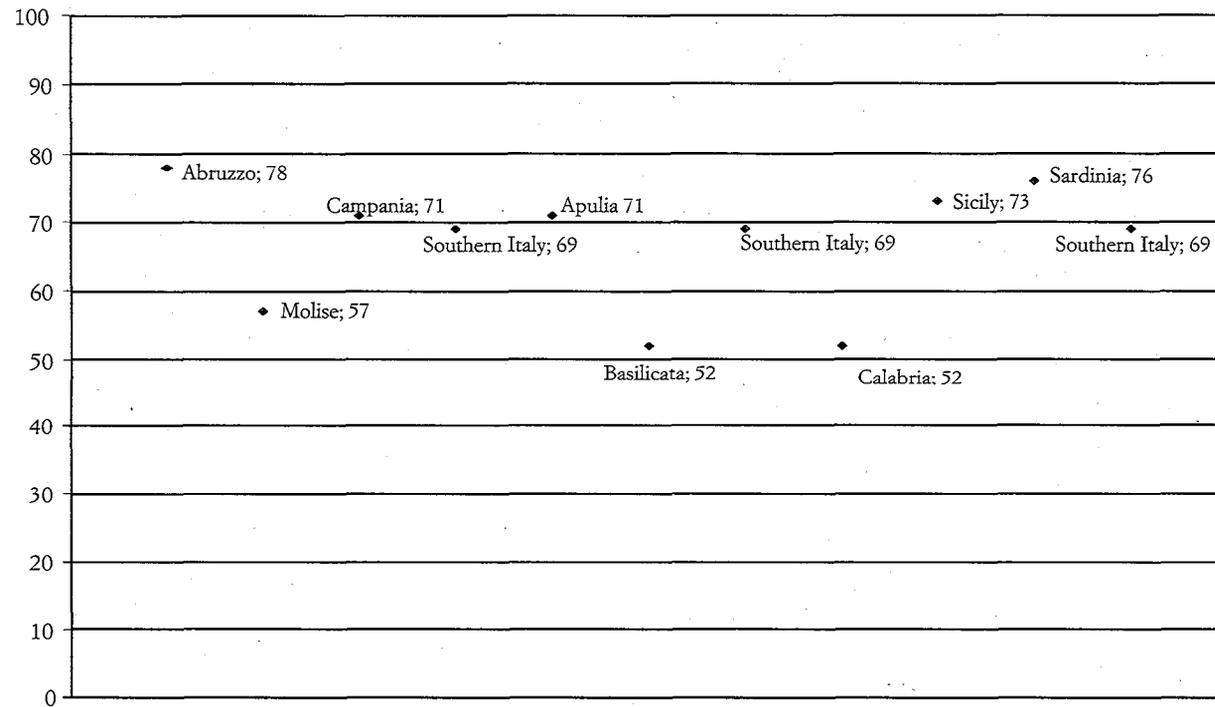
Graph 4. Regional per capita income in 1974 in index numbers (Italy = 100)



Graph 5. *Index numbers of some non-alimentary expenses and articles of consumption in 1951 (Italy = 100)*



Graph 6. *Index numbers of some non-alimentary expenses and articles of consumption in 1974 (Italy = 100)*



Also the substantial failure of industrialisation through «development poles», effected in the first twenty years of the Cassa per il Mezzogiorno, may today be reconsidered in the light of the long-term effects on the social and productive structure of the regions involved. From that point of view, the locating of new industrial plants, though with huge contradictions and deficiencies on the level of the general programming of development, may have contributed to the creation of the basic pre-conditions for the formation of an industrial culture and a climate that stimulates entrepreneurial initiative which, at a distance of some years, have favoured the territorial aggregation in districts of many small and medium-sized businesses of the traditional manufacturing sector.

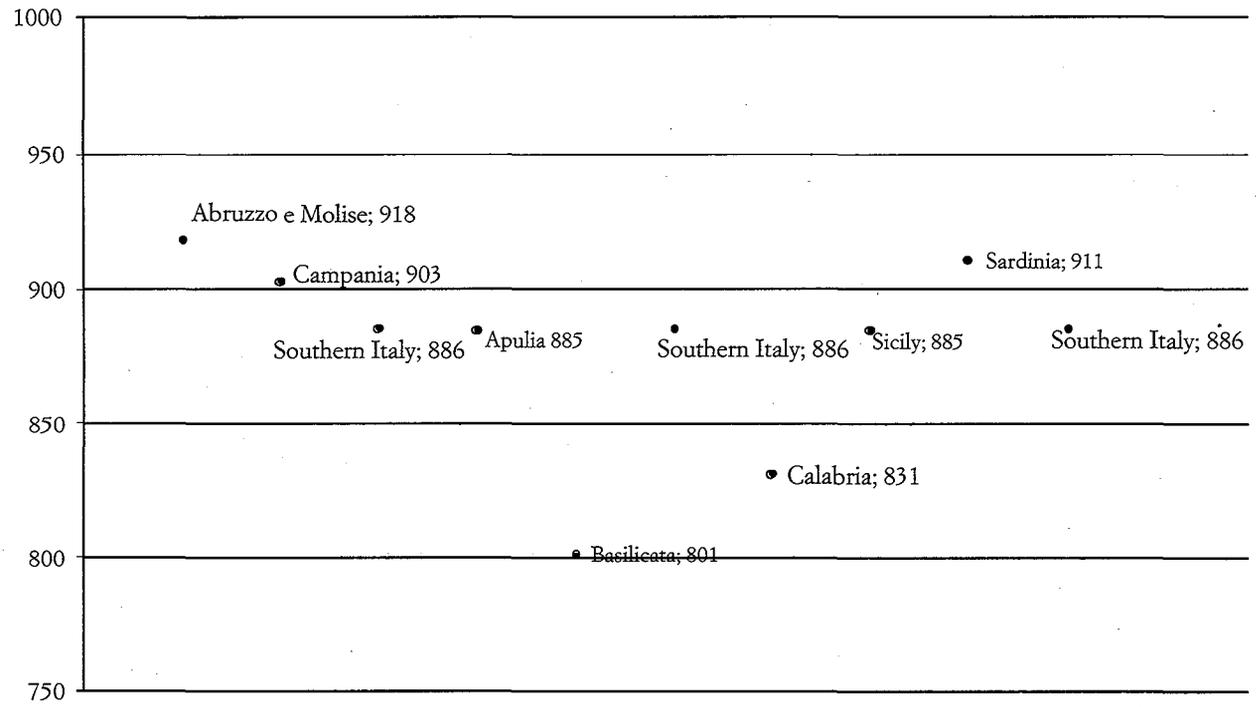
In the Mezzogiorno, the industrial districts «as a whole mark the maturing of a path to development which is an alternative to the foundations of the politically regulated industrialisation of the previous decades»³², and in the final years of the last century they were revealed as an effective instrument for the redistribution of development to overcome the dualistic pattern (agriculture in the south, industry in the north) which has characterised the economic history of Italy³³. And is it only by chance that some of those regions which were most affected by the first phase of industrialisation – Campania, Apulia, Sicily and Abruzzo³⁴ – have successfully created autonomous forms of aggregation of businesses in the *Made in Italy* sector? If this further aspect of regional dishomogeneity can be considered a long-term effect of the special intervention policy, it would seem an argument worth further study and one to be entrusted to the evaluations of economists.

³² Cf. M. COMEI, *Percorsi di industrializzazione leggera: piccole imprese dell'area barese tra marginalità e nuove opportunità (1911-1981)*, in «Annali di storia dell'impresa», 2000, 11, p. 195.

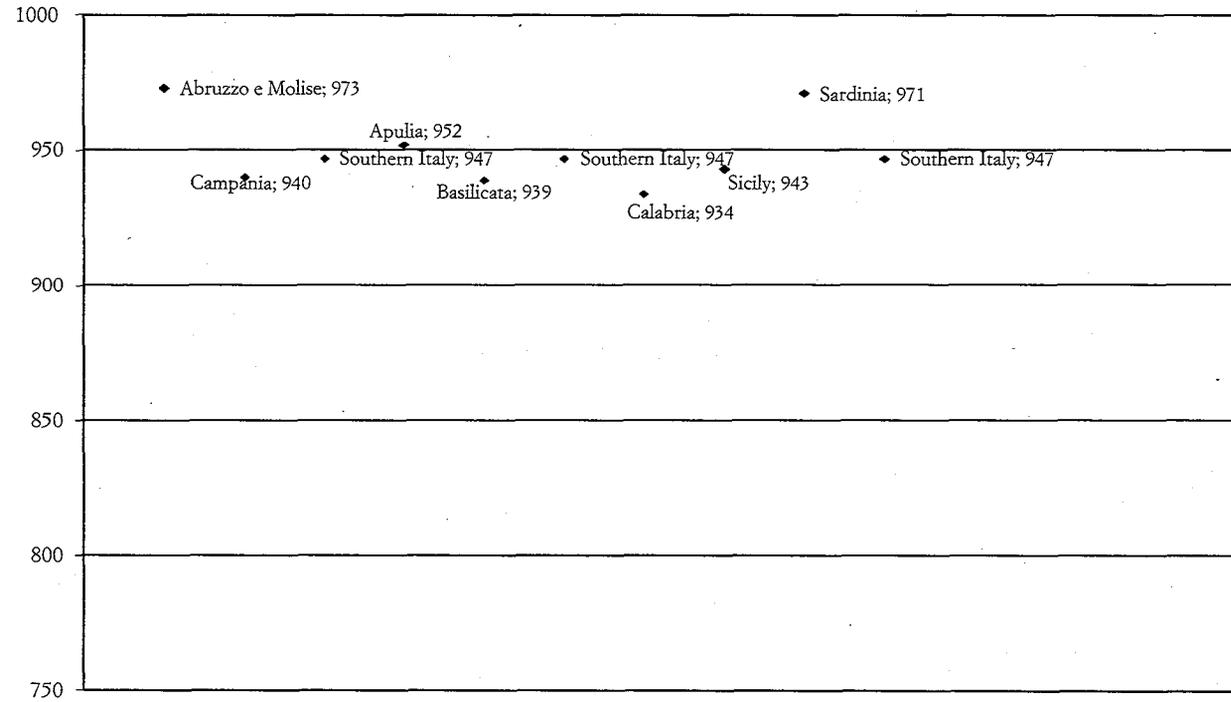
³³ On the economy of the industrial districts of the Mezzogiorno, there are significant contributions by the economist Gianfranco Viesti: these include: G. VIESTI, *Come nascono i distretti industriali*, Roma - Bari 2000; *Mezzogiorno dei distretti*, Roma 2000; *Lo sviluppo possibile. Casi di successo internazionale di distretti industriali nel sud d'Italia*, in «Rassegna Economica», 1, gennaio-marzo 1995; *Distretti industriali: le politiche in Italia e il «caso Puglia»*, in «Bari Economica», 5, 2003. Some interesting contributions are collected in «Rassegna Economica» 2001, an edition dedicated entirely to the industrial districts in the Mezzogiorno.

³⁴ In 1971, 64.6% of the manufacturing employment of the south was concentrated in Campania, Apulia and Abruzzo. Cf. N. BOCCELLA, *L'eterogeneità della struttura del Mezzogiorno*, p. 33.

Graph 7. *Regional HDI in 1951 in index numbers (Italy = 1000)*



Graph 8. *Regional HDI in 1971 in index numbers (Italy = 1000)*



In concluding this brief study on internal gaps in the Mezzogiorno – in some way to be linked to the policy of post-war recovery – it is interesting to note the counter-trend of a composite index which associates a traditional economic parameter, such as per capita income, with non-monetary indicators such as «life-expectancy» and «educational level». This is the human development index (HDI)³⁵, which is the subject of recent studies and has been officially adopted by the United Nations: it «has the advantage of assuming a greater ethical (and political) merit, as it provides a measurement not only of the absolute value of wealth, but also in part of its distribution»³⁶. The level of this index for the regions of the south in 1951, shows strong dishomogeneity in the dispersion graph, in the context of a serious situation of general backwardness of the south of Italy (Graph 7). After twenty years, the situation appears very different both as regards the convergence of the south of Italy with the national average of the index, and in the marked reduction of the internal gaps that were recorded in 1951 (Graph 8).

This is a reassuring finding, which is partly to be attributed to the particular composition of the index, in which the component «income» has a lesser weight than «life expectancy» and «educational level», but which still denotes a significant advance in the quality of life in the regions of the south that is not recorded by traditional income parameters. In this process of social development, in the context of the special intervention, a significant role was probably played by the expenditure quota classified under «technical support and civil development», which included hospital works, education and professional qualification³⁷. Initiatives which were

³⁵ Cf. L. CONTE - G. DELLA TORRE - M. VASTA, *The Human Development Index in Historical Perspective: Italy from Political Unification to the Present Day* (Quaderni del Dipartimento di Economia Politica, 491), Siena 2007.

³⁶ Cf. E. FELICE, *Divari regionali e intervento pubblico*, pp. 139-155. Already in 1982, Sandro Gattei used a *Mean index of civil and environmental conditions in the regions of the Mezzogiorno* which considered child mortality, the availability of hospital beds, the presence of health personnel, the availability of housing and of classrooms, the level of school attendance, radio and television licences, expenditure on entertainment, the number of cars, the development of road and rail networks, the number of bank branches and the density of telephones Cf. S. GATTEI, *Il divario nelle condizioni ambientali e civili del Mezzogiorno*, pp. 307-323.

³⁷ A heading which from 1956 to 1975 absorbed overall 283 billion lire, in non-inflation-corrected lira. See the data on the commitments and expenses of the Cassa per il Mezzogiorno in the chapter «Technical progress and civil development» in SVIMEZ (ed.), *Un quarto di secolo nelle statistiche Nord-Sud (1951-1976)*, Milano 1978, pp. 896-901.

often, and not always mistakenly, considered a waste of resources on welfare, and an easy target for critics of the policies adopted to favour the south, to whom, however, a more than adequate response seemed to be given not so much by the increase of industrial employment or of per capita income, as by the pronounced and homogeneous improvement of the environmental and civil conditions of the Mezzogiorno.

Occupation and Economic Development

Eastern and Western Austria in a Comparative Perspective

by *Franz Mathis*

After World War II, Austria was – as is well known – divided into four occupation zones by the allied powers. The French zone included the western provinces Vorarlberg and Tyrol except eastern Tyrol, the British zone comprised eastern Tyrol and the southern provinces Carinthia and Styria, the United States established their occupation zone in the provinces Salzburg and Upper Austria without the so called «Mühlviertel» north of the Danube, while the Soviets occupied the Mühlviertel and the eastern provinces Lower Austria and Burgenland. The federal capital Vienna was split into four occupation zones, with the exception of its central first district including the most important government offices, which was jointly controlled by all four occupying powers.

For the purpose of this paper we shall solely distinguish between the Soviet occupation zone in the east and the three western zones in the rest of the country, as there was hardly any difference in the treatment of the economy by the three western powers. The attitude and the policy of the Soviets, however, differed substantially from the others. Thus, the goal of this paper is to analyse to what extent the different occupation policies of the Soviets on the one side and the western powers on the other influenced and maybe even determined the economic development in the east and in the west of Austria.

There is no doubt that due to the different policies at least for some time the east clearly lagged behind the west in its economic development. And yet, it is still open and in the end hard to tell how much of the relative backwardness was indeed a consequence of Soviet occupation lasting until 1955 or of other conditions unfavourable to the east. Even this paper will not be able to give a definite answer, although it will try to come as close as possible.

I.

Let me begin with the initial situation immediately after the end of the war. Both the west and the east of the country suffered a lot from war damage, although it was much heavier in the east than elsewhere. 71% of all the damage done to the manufacturing production capacities could be observed in Lower Austria as well as 53% of all the bomb damage. 140 manufacturing units were totally destroyed¹. Vienna was no better off: The air raids between the autumn of 1944 and March 1945 destroyed 41% of all Viennese houses, more than 5% were totally destroyed. The city's train system and other infrastructure were also strongly affected².

The small province of Burgenland was less hit by air raids, but had to suffer instead from massive military fighting on its territory during the last weeks of the war³. More than 5,000 homes were totally or partially destroyed, another 5,000 were damaged. Here, too, many factories and other manufacturing units, but also farms, bridges, roads as well as telephone and electricity equipment were destroyed. Furthermore, in all three provinces – Lower Austria, Vienna and Burgenland – the Soviets dismantled and seized a great number of machines, goods and raw materials⁴.

In western Austria, although it was also affected by allied bombing, the larger part of the manufacturing units was spared from air raids; railways and other means of transportation were not nearly as hard hit as in the east; and with regard to agriculture, less livestock was lost. Thus, as a consequence of different wartime damage, the conditions for economic recovery were clearly less favourable in the east than in the west of the country⁵.

The difference between the two parts of Austria was additionally heightened by the attitude of the occupying powers regarding reparation for their own losses. At the conference of the allies in Potsdam in August

¹ A. KOMLOSY, *Die niederösterreichische Wirtschaft in der 2. Republik*, in M. DIPPELREITER (ed.), *Niederösterreich. Land im Herzen – Land an der Grenze* (Geschichte der österreichischen Bundesländer, 6), Wien 2000, pp. 271-428, here p. 293.

² P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, vol. 3, Wien 2006, pp. 545-548.

³ K. BACHINGER, *Geschichte der gewerblichen Wirtschaft des Burgenlandes*, Eisenstadt 1973, p. 141.

⁴ K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 141.

⁵ R. SANDGRUBER, *Ökonomie und Politik. Österreichische Wirtschaftsgeschichte vom Mittelalter bis zur Gegenwart*, Wien 1995, p. 454.

1945, it was agreed that the so-called German property should be confiscated for reparation purposes. The western powers soon resigned from their claims and handed over the German assets to be held in trust by the Austrian government. The Soviets, however, put them under their control in June 1946 and used them according to their own goals. As a consequence, the nationalisation of formerly German property, which was passed by the Austrian parliament in 1946, became effective only in the western occupation zones. In the Soviet zone, this was not the case until the end of occupation in May 1955⁶.

Thus, in Lower Austria, Vienna and Burgenland more than 300 mining and manufacturing units as well as 140 farms were put under immediate Soviet control and administration, including the Austrian oil industry, at the time one of the largest in Europe, and the «Donaudampfschiffahrtsgesellschaft», the leading shipping enterprise on the Danube⁷. Furthermore, the Soviets seized most of the vehicles of the transport industry, which almost had to start from the beginning again⁸. Finally, the process of dismantling, which had begun immediately after the end of the war, was continued and carried out much more rigorously than in the other zones. Complete manufacturing units were disassembled and shipped to the Soviet Union⁹.

By the end of the occupation period, in Lower Austria the people employed in the manufacturing units run by the Soviets still accounted for between a fourth and a third of all employees in manufacturing including the oil industry¹⁰. Further units and employees were situated in the Viennese districts under Soviet administration, that is in the 2nd, 4th, 10th, 20th and 21st as well as, later on, in the 22nd and 23rd districts, and to a much lesser degree in Burgenland¹¹. This province lagged far behind the

⁶ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 330; P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 667.

⁷ O. KLAMBAUER, *Ein Überblick über Entwicklung und Organisation des USIA-Konzerns*, in *Die USIA-Betriebe in Niederösterreich. Geschichte, Organisation, Dokumentation*, Wien 1983, pp. 1-79, here p. 11.

⁸ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1957* (Jahrbuch der Handelskammer Niederösterreich), Wien 1958, p. 32.

⁹ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 293; P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 557.

¹⁰ For partly varying figures see: A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 330; *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955* (Jahrbuch der Handelskammer Niederösterreich), Wien 1956, p. 102.

¹¹ P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 554.

other provinces with regard to industrialisation and had only few manufacturing units to be put under Soviet control. Only five manufacturing units were seized and only three were included in Soviet administration in this province. On the other hand, the large estates of the Esterhazy family were also put under Soviet control¹². Upper Austria's Mühlviertel is hardly ever mentioned in the publications referring to the units run by the Soviets. Obviously, it played only a minor role in their administration, which is also the reason why it will not be included in this paper.

The firms seized by the Soviets were put under a central administration and called USIA-businesses, according to the initials of the administration's name. They became above all directed towards the economies of the Soviet Union and her satellite countries in eastern Europe, although they also produced goods for the Austrian and, to a lesser extent, even for western European markets in order to get the foreign exchange necessary for imports¹³. The USIA-businesses stood, for the most part, outside the control of the Austrian authorities. They paid neither taxes nor customs, damaging not only the Austrian economy as a whole but also the firms outside Soviet administration, with which they were but loosely connected¹⁴. The same is true for the retail shops which were established by USIA all over Lower Austria and in parts of Vienna. They were provided with goods from the USIA-businesses and those imported from eastern Europe and offered these goods at low prices both to the occupying troops and the local population¹⁵. Besides, the Soviets seized a number of inns and hotels for their own housing needs; they were lacking when it came to rebuilding tourism, which had been interrupted by the war¹⁶.

It is true that the immediate interference of the Soviets in the economy of their occupation zone secured a certain level of production and employment in their businesses, although to a lesser extent than was the case with other firms both inside and outside the Soviet zone. The Soviets limited the investments indispensable for expansion, modernisation, and rising productivity to what was absolutely necessary to keep up production, with the sole exception of the oil industry, which enjoyed substantial invest-

¹² K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 143.

¹³ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 331.

¹⁴ *Ibidem*, p. 330; R. SANDGRUBER, *Ökonomie und Politik*, p. 456.

¹⁵ P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 557.

¹⁶ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1953* (Jahrbuch der Handelskammer Niederösterreich), Wien 1954, p. 217.

ments¹⁷. This way, higher employment figures were as much prevented as a rise in productivity necessary for successful, long-term development. Besides, as a consequence of their one-sided orientation towards the Soviet Union and the other centrally planned economies in eastern Europe, the USIA-businesses could not participate in the general economic upswing experienced by western Europe. The much more positive development of Austrian enterprises in the western occupation zones made clear what opportunities integration into the rapidly growing markets of western Europe could have offered¹⁸.

The USIA-businesses were not the only firms that lacked stronger integration into the markets of western Europe and the faster economic growth in the western parts of Austria. This also applied – at least to a certain degree – to those firms in eastern Austria which were not under Soviet control. Lower Austria, Vienna and Burgenland were completely surrounded by Czechoslovakia and Hungary, which like other satellite countries of the Soviet Union became increasingly isolated from the west. Between August 1945 and May 1946, 40% of all Austrian exports and imports were traded with Czechoslovakia, by 1955 it was only 1.6%¹⁹. As until the end of the war, foreign trade in Austria's eastern provinces was directed towards the eastern rather than to the western European countries, they were much harder hit than the western provinces by the interruption of the traditional foreign trade with the east. At the same time, the new geopolitical situation made it much more difficult for the former than for the latter provinces to redirect their foreign trade towards the west of Europe. And not only trade with eastern Europe was heavily reduced, but also trading with the western occupation zones in Austria itself was hampered by strong barriers, which it took some time to abolish²⁰.

An additional handicap for the eastern provinces resulted from the differing investment strategies of Austrian enterprises and entrepreneurs. Both the presence of Soviet occupation troops and the new peripheral position of the three eastern provinces discouraged many of them from investing heavily in this part of the country. Instead, Austrian as well as foreign

¹⁷ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 332.

¹⁸ Cf. F. MATHIS, *Big Business in Österreich. Österreichische Großunternehmen in Kurzdarstellungen*, Wien 1987; F. MATHIS, *Big Business in Österreich II. Wachstum und Eigentumsstruktur der österreichischen Großunternehmen im 19. und 20. Jahrhundert. Analyse und Interpretation*, Wien 1990.

¹⁹ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 334 f.

²⁰ R. SANDGRUBER, *Ökonomie und Politik*, p. 454.

entrepreneurs – many of them German refugees from Czechoslovakia – set up businesses in the west rather than in the east. Furthermore, some entrepreneurs even transferred parts of their production from the Soviet to the western occupation zones, an additional setback for the economy in eastern Austria. Already before the end of the war, raw materials and stocks were moved from the eastern region, in which more fighting was going on, to the west. In Upper Austria, for example, in the summer of 1946, there was an estimated number of about 1,100 manufacturing units – before the war it had only been between 500 and 600. Only about 100 of the new businesses were established during the war²¹. Another consequence of all this could be seen in the development of large businesses with more than 1,000 employees. In 1930, there were 13 of them with 20,500 people in Lower Austria and only 3 such businesses with 3,400 people in Upper Austria; in 1959, there were 15 such businesses in each of the two provinces, with 28,000 employees in Lower and 43,000 in Upper Austria²².

The same discrimination against Austria's east became obvious in the aid granted to both parts of the country by Austria's government. Although the provinces already at a disadvantage due to different occupation policies and a less favourable geopolitical position were more in need of public support than the others, the opposite happened²³. An unproportionally high share of Marshall Plan funds was channelled to the western provinces²⁴. Up to October 1950, the Soviet occupation zone received only 16.5% of these means, although it accounted for 46% of Austria's working force²⁵. Lower Austria with about a fifth of Austria's population was granted only 7.3% of all Marshall Plan means distributed in Austria until 1955²⁶, less than 0.5% were directed to Burgenland with 4% of Austria's population²⁷. All this resulted in a completely unbalanced per capita distribution of Marshall Plan funds, which in Salzburg was twelve, in Upper Austria

²¹ *Ibidem*, p. 455.

²² *Ibidem*, p. 457.

²³ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 293.

²⁴ Cf. P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 668.

²⁵ R. SANDGRUBER, *Ökonomie und Politik*, p. 453.

²⁶ *Die gewerbliche Wirtschaft Niederösterreichs 1955*, p. 104.

²⁷ W. JANDRISITS - K. PRATSCHER, *Die Wirtschaft des Burgenlandes*, in R. WIDDER (ed.), *Burgenland. Vom Grenzland im Osten zum Tor im Westen* (Geschichte der österreichischen Bundesländer, 6), Wien 2000, pp. 527-582, here p. 532.

and Carinthia about four to five and in Styria almost three times as high as in Lower Austria and Vienna, both of which received about equally little support from the European Recovery Program²⁸. The seven Viennese districts under Soviet occupation received no Marshall Plan funds at all²⁹.

The reason for such an extremely unbalanced treatment of the eastern provinces was the policy of the United States, which sought to prevent any Marshall Plan funds from flowing into economies and enterprises under Soviet control. Therefore, the Soviet occupation zone was granted Marshall Plan funds only when it could be proved that the production of goods they were used for was not to supply the Soviet Union or the eastern European countries under Soviet influence³⁰. Besides, already better developed regions were preferred, from which especially backward Burgenland had to suffer³¹. In Lower Austria, the relatively small amounts of Marshall Plan funding were distributed primarily to the textile industry, mining and the paper industry, whereas the iron and metal industries, the chemical industry and others with a large number of USIA-businesses received almost nothing. The USIA-businesses themselves were virtually excluded from any Marshall Plan aid³².

Thus, to sum up what has been said so far, in many ways the economies of the eastern provinces were at a clear disadvantage when compared with the west of the country. Firms under direct control of the Soviets suffered from their one-sided orientation towards eastern Europe as well as from only little investment on the part of the Soviets, the economy outside Soviet control was handicapped by the interruption of its traditional foreign trade with the east and by relatively weaker integration into the economic upswing of western Europe. On top of this, the USIA-businesses received virtually no and other firms substantially less aid from the Marshall Plan than was the case in the west of the country. What consequences this discrimination had for the overall economic development of the various regions – both during the ten years of occupation and possibly in subsequent years – will be discussed in the second and third parts of the paper.

²⁸ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 332.

²⁹ P. CSENDES - F. OPLL, *Wien. Geschichte einer Stadt*, p. 563.

³⁰ R. SANDGRUBER, *Ökonomie und Politik*, p. 453.

³¹ K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 171.

³² A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 332 f; R. SANDGRUBER, *Ökonomie und Politik*, p. 453.

II.

As in other European countries, the economic development of Austria after 1945 was characterised by the continuing and expanding industrialisation process which had begun in the 19th century but was interrupted between the two World Wars. Therefore, the development of the manufacturing industry will be dealt with first. Its level may be measured by the number of people actively employed in manufacturing. If one compares the numbers of 1936, one of the last pre-war years, with those of 1955, it becomes clear that growth was much slower in Lower Austria, Vienna, and Burgenland than in the other provinces³³.

And yet, it has to be taken into account that the relative growth – with the exception of Burgenland – was most pronounced in the provinces which had only been little industrialised before. Others such as Vorarlberg and Styria, which were already industrialised to a greater extent, saw more moderate growth, although still stronger than Lower Austria and Vienna. In Lower Austria, the number of people employed in manufacturing barely doubled between 1936 and 1955, in Vienna it rose by only about 60%. In Burgenland, there was stagnation on an especially low level³⁴. As a consequence of faster development in the west, as early as in 1947 only 49% and in 1954 46% of all people employed in manufacturing could be found in Lower Austria, Vienna, and Burgenland – before the war it had been 60%³⁵.

The clearly slower growth in the eastern provinces was to a great extent, although not exclusively, due to the relatively low degree of investment in the businesses under Soviet control. Only the oil industry succeeded in producing more than five times as much crude oil in 1954 than in 1946³⁶. Some of the USIA-businesses had meanwhile been shut down, others operated with out-of-date machinery and insufficient use of their capacities, only a few could be called flourishing enterprises by the end of the occupation period³⁷. Although the number of people working in the USIA-businesses rose conspicuously in the late forties, afterwards it

³³ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1957*, p. 30.

³⁴ *Ibidem*.

³⁵ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 344.

³⁶ E. BEZEMEK, *Dokumentation der Betriebe des USIA-Konzerns*, in *USIA-Betriebe in Niederösterreich*, pp. 80-340, here: 328.

³⁷ *Die USIA-Betriebe in Niederösterreich*, p. XVII.

stagnated until the end of occupation³⁸. According to a list published by the Österreichisches Institut für Wirtschaftsforschung, in 1955 there were still more than 200 businesses with almost 58,000 employees under Soviet control, most of them – 195 businesses with almost 52,000 employees – in manufacturing including the oil industry. They accounted for about a fourth of all people employed in manufacturing in Vienna and the Soviet occupation zone as a whole, or for almost 12% of all of Austria³⁹.

Besides modern manufacturing, tourism developed as a second pillar of Austria's economic modernisation. After the war, it was characterised by an unprecedented and rapid growth. Tourism was particularly important in the western provinces Vorarlberg, Tyrol, and Salzburg, but also in Carinthia. It played a definitely minor role in the other provinces, which was due to the special attraction of the Alps both in summer and in winter, but also to the different occupation policies and the different geopolitical positions after the war.

The presence of the Soviets, who hindered rather than encouraged economic development, discouraged potential guests from travelling to Lower Austria and Burgenland. The system of central planning in the neighbouring countries of the east and the reduced freedom to travel to the «capitalistic» west resulted in a complete lack of tourists from the east, who had accounted for the greatest part of foreign guests in Lower Austria and Burgenland before⁴⁰. Besides, tourism within Austria was hampered by allied lines of demarcation up to the summer of 1953⁴¹. And finally, part of the housing available for tourism was used by the Soviets and badly affected.

Furthermore, only little Marshall Plan aid to restore and expand the tourist infrastructure arrived in the Soviet occupation zone. It was mainly meant to expand the number of beds for foreign tourists, who played only a minor role in this part of the country. In 1955, in Lower Austria only 4% and in Burgenland only 10% of all beds were used by guests from abroad⁴². Between 1950 and 1955, only 7.5% of all Marshall Plan funds

³⁸ O. KLAMBAUER, *Ein Überblick über Entwicklung und Organisation*, p. 45.

³⁹ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 22; different figures in O. KLAMBAUER, *Ein Überblick über Entwicklung und Organisation*, p. 46 f.

⁴⁰ K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 161.

⁴¹ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1953*, p. 217.

⁴² *Ibidem*, 1955, p. 139; K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 161.

for tourism were granted to the Soviet occupation zone⁴³. Although Lower Austria had about 15% of all accommodation in Austria, it received only 2.4% of all loans from the European Recovery Program designated to tourism, which were distributed to only 17 hotels and inns – fewer than in any other province⁴⁴.

All this, of course, had its effects on the number of nights spent by tourists. While Lower Austria had accounted for more than a fourth of all nights registered in Austria before the war, in 1950 it was only 18% and in 1955 but 14%. Among foreign tourists alone, Lower Austria's share dropped from about 7% to 1% of all nights⁴⁵. To what extent this loss resulted above all from the province's new peripheral position along the Iron Curtain and the lack of tourists especially from the east, becomes obvious from the fact that it could not be compensated by a rise in nights spent by German, Belgian, Danish, and Swedish tourists⁴⁶. Burgenland was another province which did not benefit from the development of tourism nearly as much as western Austria. Whereas already in 1952/53, tourists spent more nights in Austria than before the war, Burgenland reached only 40% of its pre-war level two years later⁴⁷.

Finally, besides manufacturing and tourism, trade was also affected by the negative effects of Soviet occupation. The retail stores established by the Soviets bought most of their goods duty-free from the eastern European countries and paid no taxes, enabling them to offer these goods at lower prices than the Austrian competitors. Although Austrian trade representatives tried to keep the Austrian consumers out of the Soviet shops, success was only partial. And no matter how big the hardly estimable losses were that Austrian shopkeepers had to suffer, they did not stop complaining about the unfair competition⁴⁸.

There is no doubt that all the disadvantages discussed so far had an adverse impact on the eastern provinces' level of development by the

⁴³ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 321.

⁴⁴ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1953*, p. 219 f.

⁴⁵ W. WILTSCHEGG, *Niederösterreich* (Die Bundesländer Österreichs), Wien 1967, p. 30; cf. *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 203.

⁴⁶ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 206.

⁴⁷ W. JANDRISITS - K. PRATSCHER, *Die Wirtschaft des Burgenlandes*, p. 536.

⁴⁸ E. BEZEMEK, *Dokumentation der Betriebe des USIA-Konzerns*, p. 319; *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 139; K. BACHINGER, *Geschichte der gewerblichen Wirtschaft*, p. 161.

end of occupation in 1955. And yet, it is not possible to define exactly how much of the slower development was due to occupation and how much to the new unfavourable geopolitical position or even to the initially heavier wartime losses. It is clear, however, that with regard to overall economic development several indicators suggest a relative lagging behind the western provinces⁴⁹.

In 1956, in Lower Austria per capita income tax, which reflects the economic power of the self-employed, was slightly more than half as high as the Austrian average; in Vorarlberg, the most western province, it was three times as high⁵⁰. A similar picture is conveyed by the situation of the employed people as shown in the per capita wage tax. In Lower Austria, the wage tax was less than a third of the Austrian average⁵¹. Not quite as substantial was the difference with regard to the per capita sales tax, a good criterion for the amount of economic activities in general. It was somewhat more than half the Austrian average in Lower Austria⁵². The economic level of development after ten years of Soviet occupation also became obvious in people's incomes and in their ability to set aside part of those incomes. As late as in 1956, the per capita savings were only about half as high in Lower Austria as in all of Austria⁵³. As a consequence of slower growing incomes people could buy fewer durables such as cars. Lower Austria's share of cars registered in Austria dropped from about a fourth in 1937 to only 19% in 1955⁵⁴.

III.

After discussing the immediate effects of Soviet occupation on the economies of the three eastern provinces, it is the long-term consequences that will be dealt with in the third part of the paper. Here, too, it should be taken into account that Austria's east was not only at a disadvantage because of Soviet occupation, but also due to its new geopolitical position, which certainly affected the economic catching-up after the withdrawal of

⁴⁹ Cf. W. WILTSCHEGG, *Niederösterreich*, p. 10.

⁵⁰ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1957*, p. 33.

⁵¹ *Ibidem*.

⁵² *Ibidem*.

⁵³ *Ibidem*; cf. W. WILTSCHEGG, *Niederösterreich*, p. 11.

⁵⁴ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 24.

the Soviets in 1955. The population, for example – an important indicator of overall economic development – continued to decline in Lower Austria, Vienna, and Burgenland, and it was not until the eighties that it began to rise again. The rest of Austria experienced a constant population growth of 28% between 1951 and 1996, which was almost ten times as high as in the east⁵⁵.

One reason for the slow recovery of the east and the continuing lead of Austria's west were the problems which the former USIA-businesses faced after they were handed over to the Austrian government⁵⁶. They had primarily been geared towards supplying the eastern European countries and the Soviet retail stores, and were now confronted with the difficult challenge of competing on the Austrian market, not to mention the partly unsolved status of ownership. Besides, due to the transfer of formerly produced goods into the western provinces, some of them were forced to change their range of products or even to shut down production units⁵⁷.

On the other hand, in order to facilitate the transformation, the Austrian government now provided loans from the European Recovery Program and initiated additional assistance⁵⁸. A number of investments held back during occupation were now carried out. But still and at least for the moment, the backwardness vis-à-vis the west of the country could not be substantially reduced. It was not until the sixties that a particularly dynamic wave of industrialisation set in, which above all benefited from a transfer of production lines from the city of Vienna into the surrounding regions of Lower Austria⁵⁹.

Tourism, too, was far from catching up with the western provinces. As late as in 1965, the pre-war level of nights spent by tourists in Lower Austria was not reached again; the province's share had meanwhile fallen to 8% of all nights registered in Austria⁶⁰. All in all, it was not until

⁵⁵ M. SCHARD, *Der demographische und soziale Wandel in Niederösterreich. Eine dualistische Betrachtungsweise*, in M. DIPPELREITER (ed.), *Niederösterreich*, pp. 139-269, here p. 142.

⁵⁶ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 295.

⁵⁷ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, pp. 95-97; O. KLAMBAUER, *Ein Überblick über Entwicklung und Organisation*, pp. 68 ff.

⁵⁸ *Die gewerbliche Wirtschaft Niederösterreichs im Jahre 1955*, p. 96.

⁵⁹ A. KOMLOSY, *Die niederösterreichische Wirtschaft*, pp. 296 ff.

⁶⁰ W. WILTSCHEGG, *Niederösterreich*, p. 30.

the eighties that Lower Austria came back to the Austrian level of, for example, incomes earned by employed persons⁶¹.

In Burgenland, the structural change from a primarily agrarian and little developed to an industrial and service society had not yet set in during Soviet occupation⁶². In 1957, per capita incomes in Burgenland were only two thirds of the Austrian average⁶³. After the withdrawal of the Soviets, a Verein zur Förderung der burgenländischen Wirtschaft was founded, with the intention of helping manufacturing firms to invest in the province and to create the investment incentives lacking before⁶⁴. Due to such attempts, it was possible to raise the province's non-agricultural production, a rise which constantly surpassed the Austrian average between 1961 and 1978⁶⁵. The number of people employed in manufacturing almost doubled between 1955 and 1966⁶⁶. A similar and unprecedented upswing could be observed in tourism. In 1980, the number of nights spent by tourists, which had reached pre-war levels by the end of the fifties, was almost five times as high as in 1955⁶⁷.

Other indicators of economic development show that by and large the process of catching up has meanwhile been successful⁶⁸. In 1991, the share of people working in agriculture was 9,3% in Lower Austria and 8,2% in Burgenland, hardly higher than in other provinces such as Styria with 8,6 and Upper Austria with 7,4%. All four provinces have in common that they include much more arable land than the smaller provinces Vorarlberg, Tyrol, Salzburg and Carinthia, which explains their smaller shares (of between 2.4% and 5.8%) of the active population working in agriculture⁶⁹.

⁶¹ CREDITANSTALT-BANKVEREIN (ed.), *Niederösterreich* (Die österreichischen Bundesländer, 4), Wien 1987, p. 41.

⁶² W. JANDRISITS - K. PRATSCHER, *Die Wirtschaft des Burgenlandes*, p. 527.

⁶³ *Ibidem*, p. 357.

⁶⁴ *Ibidem*, p. 537.

⁶⁵ *Ibidem*, p. 538.

⁶⁶ *Ibidem*, p. 548.

⁶⁷ *Ibidem*, p. 555.

⁶⁸ Cf. A. KOMLOSY, *Die niederösterreichische Wirtschaft*, p. 280.

⁶⁹ F. MATHIS, *Neun Wege – ein Ziel. Zur Wirtschaftsgeschichte der österreichischen Länder im 19. und 20. Jahrhundert*, in «Geschichte und Region/Storia e regione», 10, 2001, pp. 13-41, here pp. 36-38.

Different natural and geographical conditions may also explain the varying importance of tourism in Austria's provinces. If the smaller provinces in the west had and still have much higher per capita numbers of nights spent by tourists than Styria, Burgenland, Lower and Upper Austria, it is mainly due to two factors: the more attractive Alpine landscape covering a larger part of the smaller provinces and the shorter geographical distance of the primarily German tourists with sufficient purchasing power. The smaller numbers in the east can – due to their weaker purchasing power – not nearly be compensated by tourists from eastern and south-eastern Europe.

Among the provinces with less tourism, however, in recent years the differences were only minimal, no matter which occupation zone they had belonged to. And as the gap between the western and the south-western tourist provinces Vorarlberg, Tyrol, Salzburg and Carinthia on the one side and the provinces with less tourism on the other did not widen before the fifties, different natural endowments and different geopolitical positions must have been much more decisive for more or less tourism than ten years of occupation⁷⁰.

A somewhat different picture emerges with regard to the process of industrialisation, which in parts of Austria dates back to the 19th century. In this respect, Vienna and Lower Austria – but also Vorarlberg in the extreme west – were more advanced on the eve of World War II than the other provinces. After the war, however, and due to both different occupation policies and geopolitical changes, the process of industrialisation – contrary to the western provinces – clearly slowed down in Lower Austria and parts of Vienna as well as in Burgenland.

Between 1934 and 1951, the relative share of people employed in the secondary sector of non-agricultural production rose by only 1.5 percentage points in Lower Austria and by about 4 percentage points in Vienna and Burgenland, in the other provinces, however, by between 8 and 10 percentage points⁷¹. This changed abruptly during the fifties, when the share rose by almost 8 points in Lower Austria and by nearly 10 points in less industrialised Burgenland, but by only between 2 and 6 percentage points in the other provinces – Vorarlberg excluded. The following decades saw in all provinces the transformation from an industrial to a service

⁷⁰ Cf. F. MATHIS, *Die österreichische Wirtschaft. Grundlagen und Entwicklungen*, in R. STEININGER - M. GEHLER (eds), *Österreich im 20. Jahrhundert*, pp. 415-453, here: p. 451.

⁷¹ F. MATHIS, *Die österreichische Wirtschaft*, p. 449.

society. The relative shares of the secondary sector, which – except in Vienna and Vorarlberg with over 50% – had meanwhile reached between 33% and 44%, rose only slightly, and even fell after the seventies and the eighties with growing shares of the services sector at the same time⁷².

All in all, after the seventies Lower Austria's share in Austria's gross domestic product was about 15 to 16%, which was slightly less than its 19% share in population⁷³. This, however, was due to its unchanged geopolitical position at the periphery rather than to the ten years of occupation. As late as in 2004, the per capita gross regional product of Lower Austria was about 81% and that of Burgenland only about 70% of the Austrian average⁷⁴.

On the other hand, it should be borne in mind that for years a large number of people from Lower Austria and Burgenland were employed in Vienna. Therefore, the statistics show their product in Vienna, although the incomes earned from their work should be attributed to Lower Austria and Burgenland. This is the reason why, for example, in both these provinces the numbers of private cars per 1,000 inhabitants are much higher than the Austrian average – another proof for the successful catching-up of maybe not so much the regions' economies but at least of the people's incomes in this part of the country⁷⁵.

Finally, it may be summarised that initially different occupation policies in the Soviet and in the western zones resulted in a distinct slowing down of the industrialisation process in Lower Austria and Vienna, and prevented a successful start of such a process in Burgenland. At the same time and due to the integration into the rapid economic development of western and central Europe, industrialisation was clearly accelerated in Austria's western provinces. In the years after the end of occupation, it was not so much the former occupation policies but rather the peripheral geopolitical position along the Iron Curtain and close to the less developed eastern European countries that hindered faster economic growth in Austria's eastern provinces. Both Lower Austria and Burgenland still lag behind the average Austrian level of development as regions. The federal capital Vienna, however, only parts of which had been occupied by the Soviets, developed in a clearly different way. Today, Vienna's per capita regional

⁷² *Ibidem*, p. 449.

⁷³ CREDITANSTALT-BANKVEREIN (ed.), *Niederösterreich*, p. 142.

⁷⁴ *Der Fischer Weltatmanach 2008*, Frankfurt a.M. 2007, p. 365.

⁷⁵ STATISTIK AUSTRIA (ed.), *Statistisches Jahrbuch Österreichs 2003*, Wien 2003, p. 396.

product clearly surpasses the Austrian average – in 2004 by 40%⁷⁶ –, quite to the benefit of not only the Viennese themselves but also to the benefit of a number of people working in Vienna but living outside the city in the surrounding regions of Lower Austria and Burgenland.

⁷⁶ *Der Fischer Weltatmanach 2008*, p. 365.

Rural Spain during the Franco Regime (1939-1975)

by Ernesto Clar and Fernando Collantes

I. INTRODUCTION

This essay deals with the transformations the Spanish rural economy and society underwent during the dictatorship of Francisco Franco (1939-1975). Does it make sense to talk about rural Spain in a book devoted to European marginal areas? Yes, it does, for two reasons. First, most of Spain's rural communities face severe environmental conditions. More than 40% of the country's surface area is considered to be mountainous territory according to legal criteria¹. And most of the rest of the rural territory is considered to be a «less favoured area» by the public agencies responsible for implementing compensatory rural policies². Still, there is a second, economic reason for talking about rural Spain as a marginal area: the traditional base of the rural economy, agriculture, has persistently shown productivity levels that are clearly below the country's average³. (This is particularly significant in a Mediterranean country in which the average level of productivity has traditionally lagged behind European standards.) Therefore, both environmental and economic reasons enable us to talk about rural Spain as a marginal European area (or a set of marginal European areas).

Rural Spain underwent dramatic changes during the Franco period. The two probably most important transformations were the modernisation of agriculture and rural depopulation. In this essay we will also consider a third issue, which still lacks conclusive empirical evidence, namely, the social structure of rural communities and its impact on rural inequality.

Mark Andrews revised our English.

¹ C. GÓMEZ BENITO - E. RAMOS - E. SANCHO, *La política socioestructural en zonas de agricultura de montaña en España y la C.E.E.*, Madrid 1987.

² See the figures in R. SANCHO, *Las políticas de desarrollo rural*, in C. GÓMEZ BENITO - J. J. GONZÁLEZ (eds), *Agricultura y sociedad en el cambio de siglo*, Madrid 2002, p. 275.

³ L. PRADOS DE LA ESCOSURA, *El progreso económico de España (1850-2000)*, Bilbao 2003.

The political context in which these transformations took place was very peculiar from a European, comparative perspective. While Western European countries were consolidating market democracies and Eastern European countries were being incorporated into the Soviet bloc, Franco's Spain was closer to fascism than to liberalism or communism. When it came to economic policy, Franco's authoritarian regime was highly interventionist, and the agricultural and rural policies that were implemented are good examples of this. The question that arises then is: what was the impact of Franco's agricultural and rural policies on the evolution of Spain's rural economy and society? How important were these policies in shaping the great economic and social transformations undergone by rural Spain?

This essay does not provide a conclusive answer to this question. Rather, it is devoted to a necessary preliminary task, i.e. that of clarifying the nature of rural change, describing Franco's policies, and suggesting some hypotheses about the links between rural change and rural policy. The essay is organised as follows. The next section provides the reader with some basic facts about the history of Spain under Franco. (Readers who are familiar with Spanish history may wish to skip this section.) We then describe the agricultural and rural policies implemented by the regime. After that, we offer an overview of the economic and social transformations that took place in rural Spain during that period. The conclusions in the last section provide a tentative hypothesis about the impact of rural policy on rural change.

Our hypothesis is that the path of agricultural and demographic change followed by rural Spain was largely independent of the specific policies implemented by the dictatorship. What these policies did was to alter the speed of some transformations (usually through the negative effects of ill-designed policies) and to secure «traditional» rural social relations (which means social relations reproducing high degrees of rural inequality) as an institutional basis for rural change. Nevertheless, this traditional structure of social relations would eventually begin to be eroded by the very process of economic and demographic modernisation of Spain's rural society.

II. BASIC FACTS ABOUT THE FRANCO REGIME

During the first decades of the twentieth century, there was a trend towards modernisation in Spanish economy and society. Industrialisation, a process that had started in the mid-nineteenth century, entered a new

stage that was characterised by the development of new sectors and the gradual incorporation of the technological block that is commonly defined as «second industrial revolution». In addition, the economic record of agriculture (still the largest employer in the Spanish economy) improved considerably. This process of economic modernisation was accompanied by some demographic modernisation. It was during these decades that the demographic transition, which had previously been limited to a small number of advanced regions (Catalonia in particular), started to become a general phenomenon. It was also during these decades that rural-urban migrations became more intense and gave momentum to the process of urbanisation.

However, there were still some dark sides to this modernisation. First, Spain remained a backward European economy. Second, there was a very unequal distribution of the assets (patrimony, financial assets, education, social networks, and so forth) required to gain the most benefits from economic modernisation. Therefore, the level of inequality was high. The living standards of the agrarian elite and the industrial bourgeoisie were much higher than those of small farmers, agricultural labourers and industrial workers – and economic modernisation did not seem to be able to narrow the gap. Finally, the early twentieth-century political system was formally democratic, but *de facto* oligarchic. This implied a very uneven distribution of the political capabilities needed to face bargaining processes on key socio-economic variables.

The combination of economic backwardness and high levels of economic and civic inequality contributed to increasing instability in Spain's institutional framework. In the early 1920s, and following a wave of social unrest, a corporatist dictatorship (led by General Miguel Primo de Rivera) came to power. The pendulum swung back in 1931, when the results of local elections led to the peaceful proclamation of a republican regime (the «Second Republic») that granted a less unequal distribution of political capabilities. In the following years, the polarisation of Spanish politics increased not only because of the socio-economic variables described above, but also because of debates about the territorial organisation of the state (centralised or quasi-federal?) and the role played by the Catholic Church in social and political life. In 1936, shortly after a coalition of left-wing parties won the elections, a military insurrection and eventually a civil war (1936-1939) started. The victory of the insurrection forces, led by General Francisco Franco, meant the end of democracy and the start of a new era – an era dominated by a fascist-corporatist ideology embedded in a centralised, Catholic state.

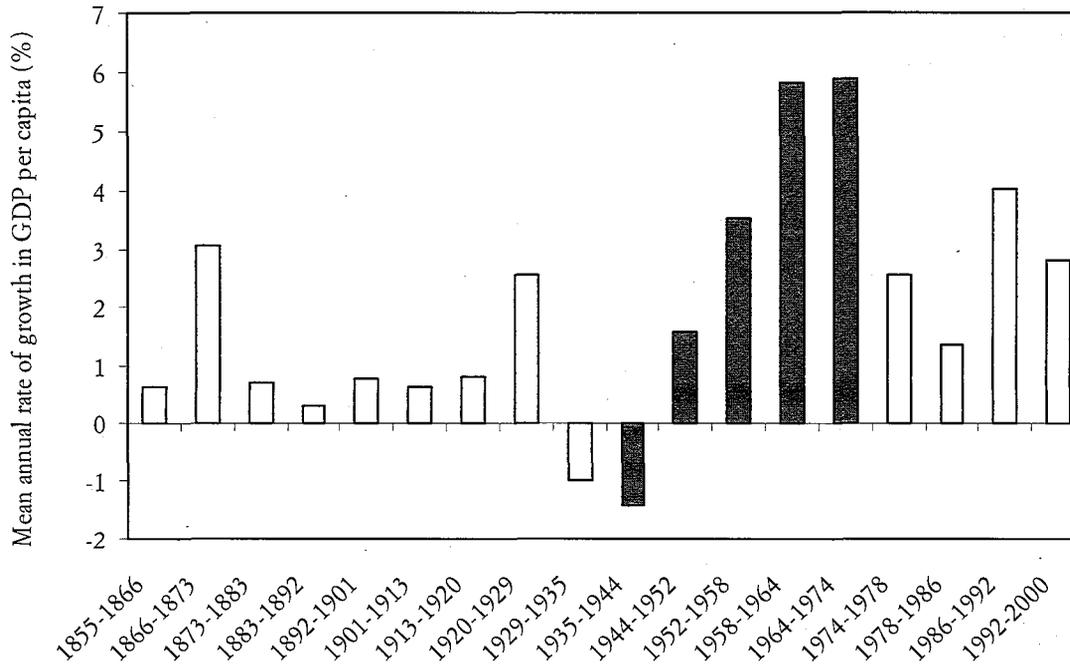
As Eric Hobsbawm pointed out, Franco's regime, which lasted until the dictator's death in 1975, was a reaction against the spectres of both 1789 and 1917⁴. The regime was fiercely anti-communist, but it was not a follower of liberalism either. Both in economics and in politics, as in the internal and the external arena, liberalism was characteristically mistrusted. In a way, Francoism was also a reaction against more specific, internal spectres. It was a reaction against the spectres of 1931 – the spectres of democracy, laicism, and territorial de-centralisation. And it was also a reaction against the spectres of 1898, the year in which Spain lost its last colonies overseas and supposedly entered a path of subordinated dependence in relation to other Western countries.

The anti-liberal character of the Franco regime reached its purest form during its early years, that is, in the 1940s. A strongly corporatist view of the State was embedded in the whole of political, economic and social life, which led the regime to exert great control over outputs, inputs, prices and wages. In the arena of international relations, the regime pursued an autarkic ideal of self-sufficiency and import substitution. This was partly the outcome of ideological premises, but also a consequence of Franco's international isolation – first in the context of World War II (e.g. the British blockade) and later because the regime was explicitly excluded from the Organization for European Economic Cooperation and from the Marshall Plan. The economic results of the early Franco regime were very poor (see Graph 1). By 1950, Spain's GDP per capita was still below its pre-war level and the gap between Spain and other Western European economies had widened.

The economic record of the Franco regime began to improve in the 1950s, as the «spectres» of 1789 were gradually allowed back in. Although the goal of self-sufficiency was not completely abandoned, some liberalisation measures were implemented from the beginning of this decade onwards. Liberalisation was fostered by popular unrest, which crystallised in a series of general strikes in 1951, as well as by the new Cold War scenario, in which Franco's anti-communism favoured Spain's incorporation into the Western side. Within the framework of a general agreement regarding mutual defence assistance, an economic aid agreement was signed with the United States in 1953. By means of a plan of aid-financed commodities, the Spanish economy was able to improve its access to capital goods and ease some of the bottlenecks affecting both agriculture and industry. The

⁴ E.J. HOBSBAWM, *Age of Extremes: the Short Twentieth century, 1914-1991*, London 1995, p. 123.

Graph 1. *Growth cycles in modern Spanish history*



Source: L. PRADOS DE LA ESCOSURA, *El progreso económico de España (1850-2000)*, Bilbao 2003.

drive towards economic liberalisation and international openness gained additional momentum after the release, in 1959, of a «Stabilisation Plan» that followed recommendations from international institutions. While a fair amount of the political inertia derived from its fascist and totalitarian conception still remained, the Franco regime became ever more tightly bound into the liberal capitalist system it so reviled in its beginnings.

Liberalisation allowed the Spanish economy to become more integrated into the Western European economic area and, therefore, to benefit from the latter's «golden age» of growth. Spain unsuccessfully applied to join the European Economic Community, but the expansion of EEC trade, foreign capital inflows (including migrants' remittances) and tourism gave Spain the bases for an era of steady growth. In fact, this was the period of fastest economic growth in Spanish history – and remains so today (see Graph 1). As a result, the Spanish economy began to converge to the Western European core. By the time Franco died, the prospects for the near future were less promising: as a strongly oil-dependent economy, Spain was being hit hard by the international crisis of the 1970s. By then, however, the Spanish economy had made considerable progress and had nearly completed the structural changes commonly associated with modern economic growth. It was not a minor achievement for an economy that had found itself in such deep trouble only two decades before⁵.

III. AGRICULTURAL AND RURAL POLICIES

The agricultural policies of the Franco regime were the outcome of two different, interacting logics. On the one hand, reacting against the spectres of 1917 led to a bias towards landowners and against agricultural labourers. On the other hand, there was the broader logic of fostering an inward-looking process of industrialisation – that is, a logic that expected agrarian policy to ease potential bottlenecks, such as inflationary pressures in situations when agricultural supply does not grow fast

⁵ See overviews of the Spanish economy during the Franco period in L. PRADOS DE LA ESCOSURA - J.C. SANZ, *Growth and Macroeconomic Performance in Spain (1939-1993)*, in N. CRAFTS - G. TONIOLO (eds), *Economic Growth in Europe Since 1945*, Cambridge 1996 and A. CARRERAS - X. TAFUNELL, *Historia económica de la España contemporánea*, Barcelona 2004. Agriculture played an important part in this transformation; see E. CLAR - V. PINILLA, *The Contribution of Agriculture to Spanish Economic Development, 1870-1973*, in P. LAINS - V. PINILLA (eds), *Agriculture and Economic Development in Europe since 1870*, London 2008.

enough⁶. The interaction of these two different logics shaped the evolution of agrarian policymaking, which was also strongly conditioned by agriculture's changing role in a rapidly industrialising economy and the political environment in which the regime had to act.

1. *Extreme interventionism in the 1940s*

During the interwar period, it had become common practice in Europe (in both democratic and authoritarian regimes) to implement some regulation and controls on the agricultural sector in order to correct fluctuations in farm earnings⁷. The agrarian policy of the early Franco regime was an extreme version of this. Franco followed Mussolini's example on two important issues: first, agricultural policy was decided exclusively at the top, without any involvement on the part of the agents affected; and, second, the pursuit of food self-sufficiency became a symbol of national power. Moreover, the regime imposed industrialisation as its main purpose, which in practice meant subordinating the interests and needs of agriculture to that end. In order to avoid upward pressures on urban wages, agrarian policy focused on keeping food prices low. The main device used to achieve this was the extensive imposition of commodity quotas for delivery at prices fixed by the government. Rationing and the rise of black markets for basic agricultural commodities were the corollaries of this kind of agricultural policy⁸.

What about the land question? Although fascism advocated the smallholder, the agrarian reform implemented in the early years of the Franco regime did not include the redistribution of land by breaking up large estates⁹. The project of implementing a redistributive agrarian reform

⁶ The theoretical problem of agricultural bottlenecks and, more generally, sectoral balance between agriculture and industry was central in the studies of some of the most prominent economists of the time, such as Manuel de Torres; see J. ZABALZA, *La contribución de Manuel de Torres a la economía agraria en España (1930-1960)*, in «Historia Agraria», 32, 2004.

⁷ R. GARRABOU, *Políticas agrarias y desarrollo de la agricultura española contemporánea: unos apuntes*, in «Papeles de Economía Española», 73, 1997.

⁸ C. BARCIELA, *Introducción*, in R. GARRABOU - C. BARCIELA - J.I. JIMÉNEZ BLANCO (eds), *Historia agraria de la España contemporánea*, vol. 3: *El fin de la agricultura tradicional (1900-1960)*, Barcelona 1986. In the very relevant case of wheat, it has been estimated that the size of the black markets was probably similar to that of the legal markets.

⁹ E. SEVILLA-GUZMÁN, *La evolución del campesinado en España*, Barcelona 1979.

had been central to the political programme of left-wing governments during the 1930s. Such a reform never went too far, but the small effects it did have were cancelled once and for all when Franco allowed the redistributed lands to be returned to their former owners. In addition, agrarian unions were forbidden and replaced by corporatist committees, which meant that the bargaining position of less favoured groups in rural society became extremely weak.

This authoritarian closure of the land question allowed the Franco regime to concentrate on colonisation and water policy as the main plank of its rural development drive. In a Mediterranean, low-rainfall country, water had traditionally been one of the major constraints to agricultural growth. The Franco regime implemented technical plans to settle new owner-occupiers in new estates under irrigation. However, these social goals were gradually replaced by production objectives, as is illustrated by the fact that the number of hectares brought under irrigation grew at a much faster rate than the number of colonists who settled. The 1930s conception of a redistributive land reform was thus completely substituted by a new conception emphasising agricultural change by means of technological modernisation and the spread of irrigation¹⁰.

2. *Gradual and incomplete liberalisation of agrarian policy from the 1950s onwards*

In 1951, twelve years after the end of the Spanish Civil War, food was still rationed and the black market continued, even though it had declined to some extent. As a result, a series of general strikes erupted in major cities in protest against scarcity and the continuing impoverishment of the urban workforce. Added to the fall in urban real wages was the discontent of farmers, who were witness to the deterioration of agricultural terms of trade. That very same year, 1951, Rafael Cavestany became the new Minister for Agriculture, and he was to oversee a relevant shift in the direction of agricultural policy. The shift consisted in some liberalisation, as implied in the rise of official prices in order to make agricultural production more remunerative (in contrast to the previous experiment of «official» cheap food, «actual» black markets, and a poor production record).

¹⁰ C. GÓMEZ BENITO, *Políticos, burócratas y expertos: un estudio de la política agraria y la sociología rural en España (1936-1959)*, Madrid 1995.

More generally, there was also a switch to a policy based on productivity and scale economies, as the most appropriate means of fostering agricultural growth and, therefore, industrialisation. The stress was laid on the reduction of costs by modernising the structure of farms, so that only sufficiently capitalised and sizeable farms would be able to remain viable in the medium and long term. Rationalisation, i.e. the creation of viable farms, thus became a guiding principle¹¹. Spanish farms had traditionally suffered from fragmentation into multiple plots, and a new policy was implemented in order to favour the concentration of micro-plots.

In coherence with this objective, the new agrarian policy also paid attention to key agricultural inputs. There was some liberalisation of the market for chemical fertilizers, as well as a number of financial incentives for technological modernisation. Among the latter, we should underline the role of subsidised fuel prices for agricultural activities and the possibility of purchasing tractors and harvesters through specific, low-cost lines of borrowing¹². In addition, the original principle of developing irrigation was further reinforced. After finishing major hydraulic works that had been undertaken or planned before the Civil War, transformation became even more vigorous than in the past¹³.

The change that came about in Spanish agrarian policy in 1951 took place in an economic environment that was still largely closed to foreign competition. But, as a result of the trend towards economic liberalisation that followed the 1959 «Stabilisation Plan», the new situation had a multiplier effect, so that there was an intensification of the changes that had already begun in the preceding decade. The traces of the regime's initial policy remained in conflict with the times and eventually had to be modified, as was the case within the cereal sector. Wheat, an over-protected crop, had traditionally been the central element of agricultural policy. However, the economic development of Spain led to changes in diet – wheat began to lose importance, while other products, such as

¹¹ «Fewer farmers and better farming»; see R. CAVESTANY, *Menos agricultores y mayor agricultura*, in «Revista de Estudios Agro-Sociales», 13, 1955.

¹² J.I. MARTÍNEZ RUIZ, *Trilladoras y tractores: energía, tecnología e industria en la mecanización de la agricultura española (1862-1967)*, Sevilla 2000.

¹³ In the first decades of the twentieth century, more than 300,000 hectares were converted into irrigated fields and added to the 1.1 million hectares of irrigated agriculture that could be found in 1900, but nearly one million hectares were converted during the Franco years; MAPA (Ministerio de Agricultura, Pesca y Alimentación), *Plan Nacional de Regadíos: Horizontes 2008*, Madrid 2001, pp. 184-185.

meat, became more and more relevant¹⁴. Following recommendations from international institutions, the agrarian policy of the late Franco period tried to stimulate farmers to cultivate barley (an input for meat production) instead of wheat¹⁵.

In any case, by the time the dictatorship came to an end in the mid-1970s, Spanish agriculture was already on the path followed by other European farm sectors (i.e. consolidation of medium-sized farms, predominance of direct cultivation, and farm capitalisation). In a country where the share of farming in both the GDP and the active population had clearly shrunk, political intervention in agriculture had already begun to focus more on protecting farm incomes rather than on the original issue of avoiding potential bottlenecks for industrialisation.

3. *Was there a rural development policy?*

During the Franco period, there was no rural development policy, that is, a policy that would consider not only agricultural markets and agrarian structures, but also the development of non-agricultural activities in the rural territory and, more broadly, the economic development of rural communities as such. Only during the final years of the regime was there an attempt to implement a more integral conception of rural planning. However, financial and political compromise was weak, and the policy's effect was not relevant on a national scale¹⁶.

The relative absence of a rural development policy was accompanied by the side-effects that some sectoral policies had on the rural territory and its communities. Quite independently from the positions held by the local communities, the authoritarian, centralised Franco regime often made the rural territory available to external, corporative interests. Two of the clearest cases were those of electric and paper-making companies. The interests of electric companies led to the construction of some dams

¹⁴ R. GARRABOU - X. CUSSÓ, *La transición nutricional en la España contemporánea: las variaciones en el consumo de pan, patatas y legumbres (1850-2000)*, in «Investigaciones de Historia Económica», 7, 2007.

¹⁵ E. CLAR, *Del cereal alimento al cereal pienso. Historia y balance de un intento de autosuficiencia ganadera: 1967-1972*, in «Historia Agraria», 37, 2005. Even so, there was surplus production of wheat, which generated increasing storage costs; C. BARCIELA, «Ni un español sin pan: Nacional de Silos y Graneros, Zaragoza 2007.

¹⁶ R. SANCHO, *Lqs políticas socioestructurales en la modernización del mundo rural*, in C. GÓMEZ BENITO - J.J. GONZÁLEZ (eds), *Agricultura y sociedad*.

that reduced the available agricultural area or even involved the forced abandonment of complete villages¹⁷. The interests of the paper-making industry pressed for forestation schemes that scholars have commonly taken as the starting point to explain forms of everyday resistance, such as cases of arson in the uplands¹⁸. In short, although there was no explicit policy of rural development, this does not mean that the rural territory remained outside the scope of policymakers.

IV. RURAL SPAIN IN 1939 AND IN 1975: A COMPARISON

Let us imagine that an observer from rural Spain in 1939 were transported forward in time to 1975. What would be the greatest transformations that she would notice? We can be sure that she would observe at least two very important changes: the modernisation of agriculture and rural depopulation. In contrast, we cannot be so sure about the nature and magnitude of the transformations that she would notice when it comes to rural inequality.

1. *Agricultural modernisation*

Agricultural modernisation was based on the introduction of a new technological bloc. From the 1950s onwards, the energy base of Spanish agriculture began to change – a traditional, organic agriculture started to be substituted by a modern, inorganic agriculture¹⁹. Farmers capitalised their farms by making important investments in mechanisation (with the tractor as its great symbol) and chemical fertilizers. There was also a marked increase in the proportion of agricultural output that was sold

¹⁷ This was the case in the Pyrenees districts of Aragón; A. HERRANZ, *La construcción de pantanos y su impacto sobre la economía y población del Pirineo aragonés*, in J.L. ACÍN - V. PINILLA (eds), *Pueblos abandonados: ¿un mundo perdido?*, Zaragoza 1995; J. CUESTA, *La despoblación del Sobrarbe: ¿crisis demográfica o regulación?*, Zaragoza 2001.

¹⁸ See A. CABANA, *Los incendios en el monte communal gallego. Lugo durante el primer franquismo*, in «Historia Agraria», 43, 2007 for the north-western region of Galicia. Nonetheless, even in this context some historians have found that the state under Franco was not a monolith due to the interaction of conflicting internal interests; see GRUPO DE ESTUDIO DE LA PROPIEDAD COMUNAL, *La devolución de la propiedad vecinal en Galicia (1960-1985). Modos de uso y conflicto de propiedad*, in «Historia Agraria», 33, 2004.

¹⁹ We use these terms in the sense of E.A. WRIGLEY, *Continuity, Chance and Change: the Character of the Industrial Revolution in England*, Cambridge 1988.

to agri-businesses for further processing and distribution²⁰. Finally, the product structure of Spanish agricultural output became more diversified, as vegetables, fruits and livestock products grew at a much faster rate than cereals (which had traditionally been at the centre of the scene).

Some of these transformations had already started in the early decades of the twentieth century, but they were halted by the Civil War and a long post-war period that lasted up to the end of the 1940s. Why did agricultural production even fall during this latter period? Spanish historians have traditionally blamed Franco's policy of official fixed prices. In order to secure cheap food for the development of its inward-looking project of industrialisation, official prices for basic agricultural products (such as wheat) were fixed at artificially low levels, which would have reduced the incentives for cultivation²¹. More recently, other scholars have stressed the role of the peculiar international context of the 1940s, which would have prevented Spanish farmers from having better access to chemical fertilizers (a key input, given the environmental conditions prevailing in most of the country)²². The autarkic ideals of the regime and the sharp drop in the international demand for Spanish agricultural products (Spain's main source for the financing of capital goods imports) throughout the 1940s would have thus contributed to the consolidation of a traditional, organic model of agriculture²³.

From the 1950s onwards, however, there was a spectacular process of modernisation. One excellent indicator here is the evolution of agricultural labour productivity (Graph 2). Agricultural productivity even decreased during the Civil War and the 1940s, but then increased at a rate that was much higher than that of any other previous period in Spanish history.

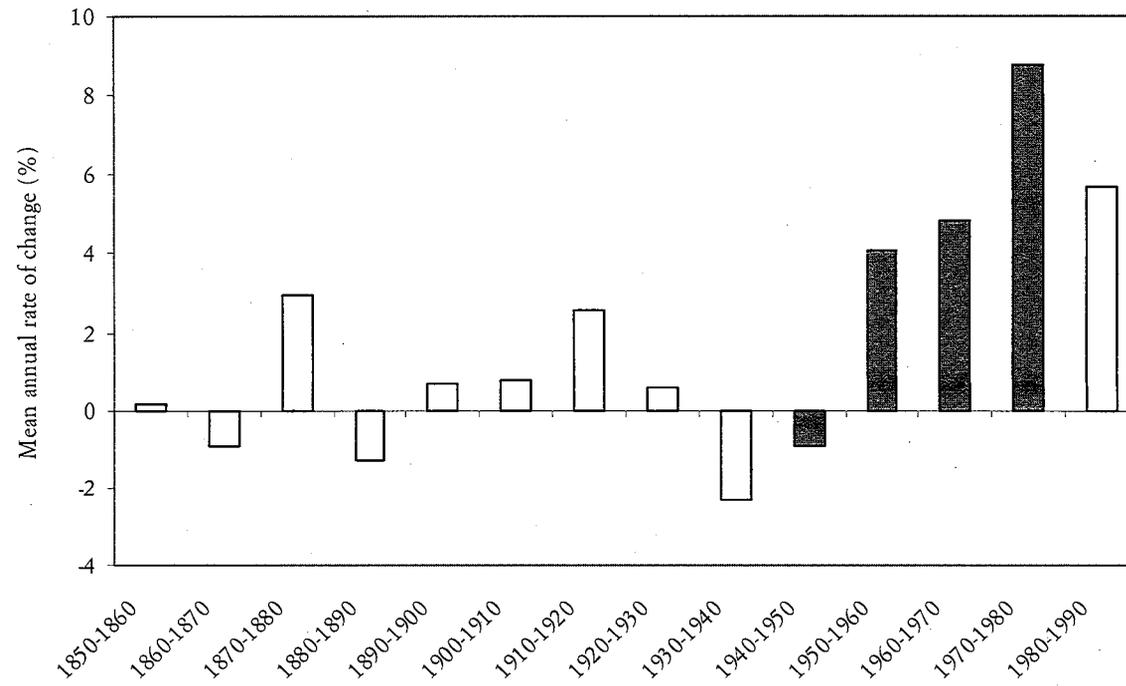
²⁰ C. ABAD - J.M. NAREDO, *Sobre la 'modernización' de la agricultura española (1940-1995): de la agricultura tradicional hacia la capitalización agraria y la dependencia asistencial*, in C. GÓMEZ BENITO - J.J. GONZÁLEZ (eds), *Agricultura y sociedad*.

²¹ C. BARCIELA, *Introducción*, in R. GARRABOU - C. BARCIELA - J.I. JIMÉNEZ BLANCO (eds), *Historia agraria de la España contemporánea*, vol. 3.

²² T. CHRISTIANSEN, *State Intervention and Small-scale Farming in Spain, 1939-1955: Case Studies of Wheat, Olives and Wine*, Ph.D. thesis London, 2001; J.M. SUMPSI, *La modernización de la agricultura y el desarrollo económico*, in «Papeles de Economía Española», 73, 1997.

²³ «Traditional» here has to do not only with technology, but also with product composition and diversification. Even in regions where environmental conditions were suited to diversification, there was a halt in the trend towards the decline of cereals and the rise of vegetables and fruits; see M.I. LÓPEZ, *Los efectos de la autarquía en la agricultura murciana*, in «Revista de Historia Económica», 14, 1996, 3.

Graph 2. *Labour productivity growth in Spanish agriculture*



Source: L. PRADOS DE LA ESCOSURA, *El progreso económico de España (1850-2000)*, Bilbao 2003.

What were the causes of such remarkable progress? The gradual liberalisation of agrarian policy from 1951 onwards and the normalisation of the international context certainly contributed to improving the agricultural record. But, in addition, we need to explain the implementation of a new technological bloc. Here, Spanish scholars have commonly relied on induced innovation – mechanisation would have resulted from changes in the relative prices of inputs. The acceleration of Spanish economic growth expanded the urban demand for labour in non-agricultural activities, which fostered rural-urban migration. This would have led to an increase in agricultural wages that would have given landowners the incentive to implement labour-saving innovations²⁴.

Based on empirical estimates and corroborated by contemporary testimonies from wheat-growing regions, this line of reasoning makes sense²⁵. There are, however, several reasons why this hypothesis cannot do all the work on its own and needs to be combined with other perspectives. First, a remarkable share of Spanish agriculture was family agriculture, which means that a simple distinction between landowners and wage labourers is less general than is implied in the argument²⁶. Second, the demand for agricultural products increased rapidly in Spain during this period, which implies that, regardless of whatever happened with the relative prices of inputs, farmers had incentives to adopt new technologies that enabled them to benefit from scale economies and compete for larger shares of an expanding market. Third, there was no free market for agricultural inputs, so that farmers had to participate in a complex network of regulations, administrative decisions, and personal relationships²⁷. Institutional factors must then play some role in a realistic historical explanation of agricultural modernisation. Fourth, the rise in agricultural productivity

²⁴ J.M. NAREDO, *La evolución de la agricultura en España: desarrollo capitalista y crisis de las formas de producción tradicionales*, Barcelona 1971.

²⁵ See for instance V. PÉREZ DÍAZ, *Emigración y cambio social: procesos migratorios y vida rural en Castilla*, Barcelona 1971.

²⁶ It has been estimated that unpaid family labour was more important than wage labour in Spanish agriculture around 1955; FUNDACIÓN BBV, *Renta nacional de España y su distribución provincial*, serie homogénea: años 1955 a 1993 y avances 1994 a 1997, tomo II: *Serie por provincias*, Bilbao 1999.

²⁷ See E. CLAR, *Farm Policy under the Salazar and Franco Dictatorships in Portugal and Spain: Towards an Authoritarian Model of Intervention in Agriculture*, in N. VIVIER (ed.), *The State and Rural Societies: Policy and Education in Europe, 1750-2000*, Brepols 2008, on tractors.

was linked to the spread of irrigation, a phenomenon strongly conditioned by institutional factors and largely independent of the dynamics that led to cereal mechanisation²⁸.

This leads us to a more general problem, namely, the argument based on induced innovation focuses on cereal production, but cereal production gradually lost share in Spain's agricultural output (Table 1). Cereals for human consumption (namely wheat) had traditionally been the most important rubric in Spain's agricultural production, but the later years of the Franco regime witnessed the rise of livestock products following the implementation of a Fordist, agri-business model of organisation and the reorientation of cereal production from wheat to barley for livestock consumption. In addition, the production of fruits and vegetables (for which Spain enjoyed a comparative advantage on a European scale) grew fast and made an important contribution to the growth in Spanish agricultural output and productivity. To sum up, although the mechanisation of wheat has been taken as the great symbol of agricultural modernisation, it is not realistic to leave aside other lines of transformation and, therefore, other sets of explanatory factors.

Table 1. *Product composition of Spain's agricultural output*

	1950	1975
Agricultural products	74	58
Cereals	31	11
Vegetables	5	14
Fruits	9	12
Other	29	21
Livestock products	26	42
Meat	8	27
Milk	8	10
Other	10	5
Total output	100	100

Source: E. CLAR, *Del cereal alimento al cereal pienso. Transformaciones del sector pienso-ganadero durante la crisis de la agricultura tradicional en España, 1950-1975*, Ph.D. thesis Zaragoza, 2007.

²⁸ C. ABAD - J.M. NAREDO, *Sobre la 'modernización' de la agricultura española*.

2. Rural depopulation

The migration balance of rural communities had traditionally been negative. Already before industrialisation, a share of rural natural growth (births minus deaths) was transferred to urban environments through rural-urban migration²⁹. During the early stages of industrialisation (in the second half of the nineteenth century), rural-urban migration had become more intense, especially in the area of influence of the industrial growth poles of Catalonia and the Basque Country. In addition, the gradual development of industrialisation during the first decades of the twentieth century had created the conditions for further intensification of rural-urban migration in Spain³⁰. Together with the demographic dynamism of urban environments, this had led to a decline in the share of rural population in Spain's total population.

But, still, none of that had led to rural depopulation, except for some particular local cases. Spain's rural population had kept on increasing (Table 2). It was from the 1950s onwards that rural-urban migration

Table 2. *Rural population in Spain*

	Rural population (thousands)	Rural / Total population (%)
1900	12,621	68
1910	12,995	65
1920	13,113	61
1930	13,528	57
1940	13,316	51
1950	13,475	48
1960	13,219	43
1970	11,380	34
1981	10,115	27
1991	9,731	25

Source: L.A. CANARERO, *Del éxodo rural y del éxodo urbano: ocaso y renacimiento de los asentamientos rurales en España*, Madrid 1993. Rural population is the population living in municipalities with less than 10,000 inhabitants.

²⁹ See for instance J. DE VRIES, *European Urbanization, 1500-1800*, London 1984 for Europe as a whole.

³⁰ F. COLLANTES, *La migración en la montaña española, 1860-1991: construcción de una serie histórica*, in «Revista de Demografía Histórica», 19, 2001, 1; J. SILVESTRE, *Viajes de corta distancia: una visión espacial de las emigraciones interiores en España, 1877-1930*, in «Revista de Historia Económica», 21, 2001, 2.

became massive and things started to change. Rural depopulation reached its highest rates in the 1960s and then tended to slow down (Graph 3). Even so, Spain's rural communities were to go on losing population until the last decade of the twentieth century.

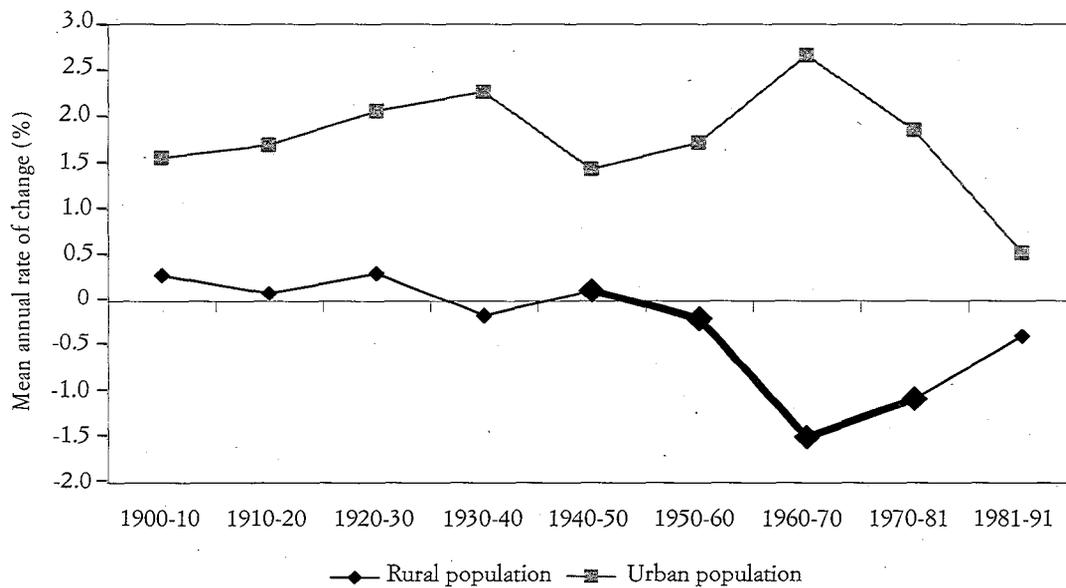
The community consequences of rural depopulation were already evident by the late Franco years. Migration was selective in terms of age and educational level, so that rural communities were losing their youngest and most educated elements. Rural ageing created a vicious circle because, in the medium term (from the 1980s onwards), it would turn natural variation negative and thus reinforce the effect of rural-urban migration. In addition, as a consequence of particularly high rates of female migration, demographic disequilibria also consisted of an increasing male-female ratio. Depopulation and its consequences upon the demographic structure probably give the best illustration of the decline of traditional rural society in a rapidly industrialising Spain.

What were the determinants of rural depopulation? The basic determinant was the gap between rural and urban living standards. This gap can be broken down into two different factors. First, it seems clear that there was a rural-urban gap in terms of income per capita. Because agriculture was still prominent in the rural economy by 1950, rural incomes tended to be low in comparison to urban incomes³¹. In addition, during the following decades it proved difficult for agricultural progress to generate sufficient stimulus for rural non-agricultural growth. There were two reasons for this: first, the labour-saving character of much of the new technological bloc in agriculture (which meant that the scope for demand linkages was much lower than that suggested by productivity gains); and, second, the crucial role played by scale economies in determining the location of non-agricultural activities (to the detriment of sparsely populated, traditionally agricultural areas)³². In the absence of a more diversified economic base in the countryside, and given the great expansion of the urban demand for labour, rural-urban migration (or rural emigration abroad) was an accessible way for rural populations to improve their living standards.

³¹ By 1950, still 75% of the rural active population was employed in agriculture; F. COLLANTES, *La desagrarrización de la sociedad rural española, 1950-1991*, in «Historia Agraria», 42, 2007. It must be noted that agricultural productivity and agricultural incomes were clearly lower than Spanish averages – in fact, they still are today, in spite of agricultural modernisation; see L. PRADOS DE LA ESCOSURA, *El progreso económico de España*.

³² F. COLLANTES, *La desagrarrización de la sociedad rural española, 1950-1991*; F. COLLANTES, *The Decline of Agrarian Societies in the European Countryside: a Case Study of Spain in the Twentieth Century*, in «Agricultural History», 81, 2007, 1.

Graph 3. *Rural and urban population in Spain*



Source: L.A. CAMARERO, *Del éxodo rural y del éxodo urbano: ocaso y renacimiento de los asentamientos rurales en España*, Madrid 1993.

But the rural-urban gap in living standards was not connected only to relative incomes or occupational structures – it was also a matter of access to a series of infrastructures and services (education, health, retail trade, financial operations, etc.). Spain clearly improved its endowment of such infrastructures and services during this period, but progress was stronger in urban environments. Therefore, there may be some sense in talking about a «rural penalty» in living standards³³. In addition, from this non-pecuniary viewpoint it is interesting to note that female rates of migration were characteristically higher as a consequence of family strategies that were reacting against the gender penalty in traditional rural society³⁴.

How important was Franco's policy as a determinant of rural depopulation? In fact it was probably less important than is sometimes assumed. True, during this period there were episodes (e.g. construction of dams in mountain areas) that reflected the local consequences of the authoritarian nature of the regime. Remarkable demographic impacts have been found on a local scale, but, from a quantitative point of view, these cases represented a very small part of the rural depopulation process. It would be excessive to understand rural depopulation in Spain as a pathology derived from the industrialising efforts of a dictatorship; rather, it seems to belong to the physiology of the Spanish economy (and, probably, other backward European economies) at a time when the new technological bloc in agriculture was labour-saving and scale economies were crucial for the location of industry and services³⁵. The Franco regime could have done more when it came to public services and the correction of the «rural penalty», but there were important opportunity costs linked to such a strategy and, as the post-Franco experience seems to suggest, democratic governments also find it difficult to close the rural-urban gap.

3. *Rural inequality: what happened?*

Transported forward to 1975, our observer from 1939 would have had little trouble in noticing the modernisation of agriculture and the depopu-

³³ F. COLLANTES, *El declive demográfico de la montaña española (1850-2000): ¿un drama rural?*, Madrid 2004.

³⁴ *De mujer a mujer: estrategias femeninas de huida del hogar y del medio rural*, in «Agricultura y Sociedad», 76, 1995.

³⁵ F. COLLANTES, *El declive demográfico de la montaña española*; F. COLLANTES, *La desagravación de la sociedad rural española, 1950-1991*.

lation of rural communities. We are less sure, however, about what she would have seen in terms of rural inequality.

At the beginning of the Franco period, the level of rural inequality was very high. As was pointed out above, the economic and demographic modernisation of the pre-war decades took place within a social context in which inequality played a leading role – and rural communities were no exception. In fact, because agriculture remained the main employer, rural inequality was a central element in the broader problem of inequality in Spain. That is why the project of an agrarian reform featured so prominently in the political debate of the 1930s.

Rural inequality was mainly the outcome of inequality in the distribution of land property. In this respect, there were important regional differences³⁶. In the northern strip of the country, for instance, rural societies may have qualified as peasant societies. This does not mean that they were egalitarian societies, but their levels of inequality were at least not so high. During the pre-war decades, an increasing fraction of the peasantry gained access to land property. The resulting landscape thus remained characteristically dominated by very small farms. (Farms were so small that it seems reasonable to argue that some opportunities for agricultural growth were lost due to their inability to exploit scale economies³⁷.) Empirical evidence about the distribution of agricultural income during the 1960s shows that the degree of inequality in these peasant societies was lower than the national average³⁸.

However, rural inequality became higher as we moved southwards. Particularly in the southern half of the country, land property was very unequally distributed and a landowning elite held large estates (*latifundios*) while a mass of agricultural labourers depended on extremely low wages for their economic reproduction. The institutional framework implemented after the *Reconquista* (the return of the Iberian Peninsula to Christian hands, which was completed in 1492) and the characteristics of liberal agrarian reforms in the nineteenth century had contributed to creating this kind of agrarian structure.

³⁶ D. GALLEGO, *Más allá de la economía de mercado: los condicionantes históricos del desarrollo económico*, Madrid 2007, pp. 159-201.

³⁷ J. SIMPSON, *Spanish Agriculture: the Long Siesta, 1765-1965*, Cambridge 1995.

³⁸ See R. DOMÍNGUEZ, *La riqueza de las regiones: las desigualdades económicas regionales en España, 1700-2000*, Madrid 2002.

What happened with rural inequality between 1939 and 1975? Did it increase or did it decrease? We do not know – all we have are a few pieces of evidence and some plausible conjectures. But we still lack monographic studies that gather the whole of the potentially available evidence and assign relative weights to the several forces at work. What we can say is that some forces contributed to increase rural inequality and other forces worked in the opposite direction.

There were at least two forces contributing to the rise of rural inequality during the Franco period. First, the agrarian policies of the Franco regime, which showed a very clear bias towards the landowning elite and against labour. During the 1940s, landowners were also able to make big profits out of their participation in the black market that was created as a response to state interventionism. (It has been shown that black market activities were, up to a certain degree, tolerated by the regime³⁹.) Participation in the black market, however, proved more difficult for smallholders, who were then hit hard by the policy of mandatory production at fixed prices⁴⁰. Unable to make their voice heard through the now forbidden agrarian unions, agricultural labourers fared even worse – their real wages fell below pre-war levels and their nutritional levels must have fallen dangerously close to subsistence levels⁴¹.

From the 1950s onwards, there was a second force contributing to an increase in rural inequality. Agricultural modernisation required large investments in order to exploit the scale economies associated with the new technological bloc. This gave big farms a huge advantage and favoured an internal restructuring of the farm sector, so that a large number of small farms became unviable and eventually disappeared.

But, alongside these forces leading to a higher degree of rural inequality, there were other forces working in the opposite direction. The great boom in rural-urban migration was based on the increasing participation of some of the less favoured social groups in rural society. The exodus of

³⁹ See T. CHRISTIANSEN, *Crime and Punishment in the Black Market in Spain, 1940-1953: an Analysis of the Fiscalía de Tasas*, in «Ager: Journal of Depopulation and Rural Development Studies», 4, 2005.

⁴⁰ C. BARCIELA - M.I. LÓPEZ, *El fracaso de la política agraria del primer franquismo, 1939-1959. Veinte años perdidos para la agricultura española*, in C. BARCIELA (ed.), *Autarquía y mercado negro: el fracaso económico del primer franquismo, 1939-1959*, Barcelona 2003.

⁴¹ T.M. ORTEGA, *Las miserias del fascismo rural. Las relaciones laborales en la agricultura española, 1936-48*, in «Historia Agraria», 43, 2007; R. GARRABOU - X. CUSSÓ, *La transición nutricional en la España contemporánea*.

low-income populations must have tended to reduce inequality in (what remained of) the rural community. In fact, it has been found that, for a sample of rural districts, depopulation was crucial in fuelling the process of rural convergence in income per capita⁴². In addition, migrants used to keep economic links with relatives who remained in the countryside and thus remittances flowed from the town to the country. Some estimates have suggested that remittances had a remarkable effect on rural family budgets⁴³.

In addition, the emergence of new, non-agricultural sources of rural income probably worked in the direction of reducing rural inequality. During the second part of the Franco regime there was a clear increase in part-time agriculture⁴⁴. At a time when farm restructuring worked to the advantage of big farms, many middle-sized and small farmers found relief in complementary sources of income. Even more, given the fact that rural non-agricultural productivity was higher than agricultural productivity, many rural families began to implement a more ambitious strategy of occupational change. In 1950, 75% of the rural active population was employed in agriculture; in 1975, the share had probably fallen to 50%⁴⁵. Put simply, half of the rural population no longer depended on agriculture as its main activity. This may have reduced rural inequality because rural non-agricultural incomes were on average higher than agricultural incomes⁴⁶.

In short, we do not have a clear idea of what happened with rural inequality during the Franco period, especially after 1950. The particular

⁴² F. COLLANTES, *El declive demográfico de la montaña española*.

⁴³ V. PÉREZ DÍAZ, *Emigración y cambio social*; J. MANSVELT-BECK, *The Rise of a Subsidized Periphery in Spain: a Geographical Study of State and Market Relations in the Eastern Montes Orientales of Granada, 1930-1982*, Amsterdam 1987.

⁴⁴ C. ABAD - J.M. NAREDO, *Sobre la 'modernización' de la agricultura española*.

⁴⁵ We give this figure as an approximate interpolation from the 1970 and 1981 data; see F. COLLANTES, *La desagrarización de la sociedad rural española, 1950-1991* and L. SANZ, *Tendencias recientes en las zonas rurales: ¿de la industrialización a los servicios?*, in «Agricultura y Sociedad», 36-37, 1985. It must be noted that depopulation also played a crucial role in this structural change, as is illustrated in F. COLLANTES, *La desagrarización de la sociedad rural española, 1950-1991*; F. COLLANTES, *The Decline of Agrarian Societies in the European Countryside*.

⁴⁶ This last claim is just a plausible conjecture from the data given by B. GARCÍA SANZ, *La sociedad rural ante el siglo XXI*, Madrid 1997 and L. PRADOS DE LA ESCOSURA, *El progreso económico de España*.

characteristics of agricultural policy and farm restructuring may have contributed to increasing inequality, but rural-urban migration (by itself and because of the effect of remittances) and the emergence of new sources of income (leading to part-time agriculture or full occupational change) must have contributed to make inequality lower. What was the net effect? We do not know. What seems clear is that our observer would find a central difference between 1939 and 1975 in terms of the mechanisms reproducing rural inequality. In 1939, land was the key determinant of rural income distribution. In 1975, land had started to lose such a position – non-agricultural activities (in or out of the countryside) were becoming more and more important in the strategies of rural families, while agriculture was becoming increasingly dependent on capital (for both the purchase of inputs and the sale of outputs to oligopolistic links in the agri-food chain). Future research will have to analyse the distributional consequences of this transformation, probably starting from the hypothesis that rural inequality increased during the early part of the regime and later decreased.

V. CONCLUSION

During the Franco period, rural Spain underwent great transformations, such as agricultural modernisation, depopulation and, probably, a relative decline of the role played by land in the set of determinants of economic and social stratification. These changes took place within the framework of an authoritarian, interventionist political regime that implemented several policies concerning agriculture (in terms of both inputs and outputs) and, to a lesser extent, the rural territory. The question then is: what was the relation between rural changes and the Franco policies? We pose this question as a conclusion to the essay, but in what follows a number of hypotheses that need further research are presented.

Our impression is that the definition of the path of change followed by rural Spain, i.e. the combination of agricultural modernisation and rural depopulation, was largely independent of agrarian policies. In some cases, such as the fixing of official prices for basic agricultural commodities, policy may have delayed change through its distorting effects on resource allocation. In other cases, such as subsidising agricultural capitalisation or the expansion of irrigation, policy may have contributed to accelerating change. But, when it comes to the determinants of the path of change followed by rural Spain (that is, leaving aside issues relative to the speed

of such a change), the key question is why agricultural modernisation was not able to generate enough linkages with other sectors in the rural economy so that rural depopulation could be avoided. And the Franco policies may not have had a great impact upon this key question.

General contextual elements were probably more influential here. We have underlined, for instance, the strongly labour-saving character of agricultural innovation during this period and the fact that scale economies (both internal and external) had already become central for the determination of the location of non-agricultural activities. In fact, other European countries involved in similar circumstances showed similar paths of rural change in spite of political differences. Such were the cases, for instance, of Italy, where a market democracy implemented an agrarian reform that would have been impossible in the Spanish political context, or Portugal, where a dictatorship implemented agrarian policies that were even more anti-liberal than those implemented by Franco⁴⁷. Within Europe, different paths of rural change can be found in other periods (for instance, rural England during the eighteenth century and most of the nineteenth century), in which the characteristics of agricultural innovation and non-agricultural activity could open a window of opportunity for the combination of agricultural progress with rural economic diversification and rural population growth. During the Franco era, however, this window of opportunity was much less open⁴⁸.

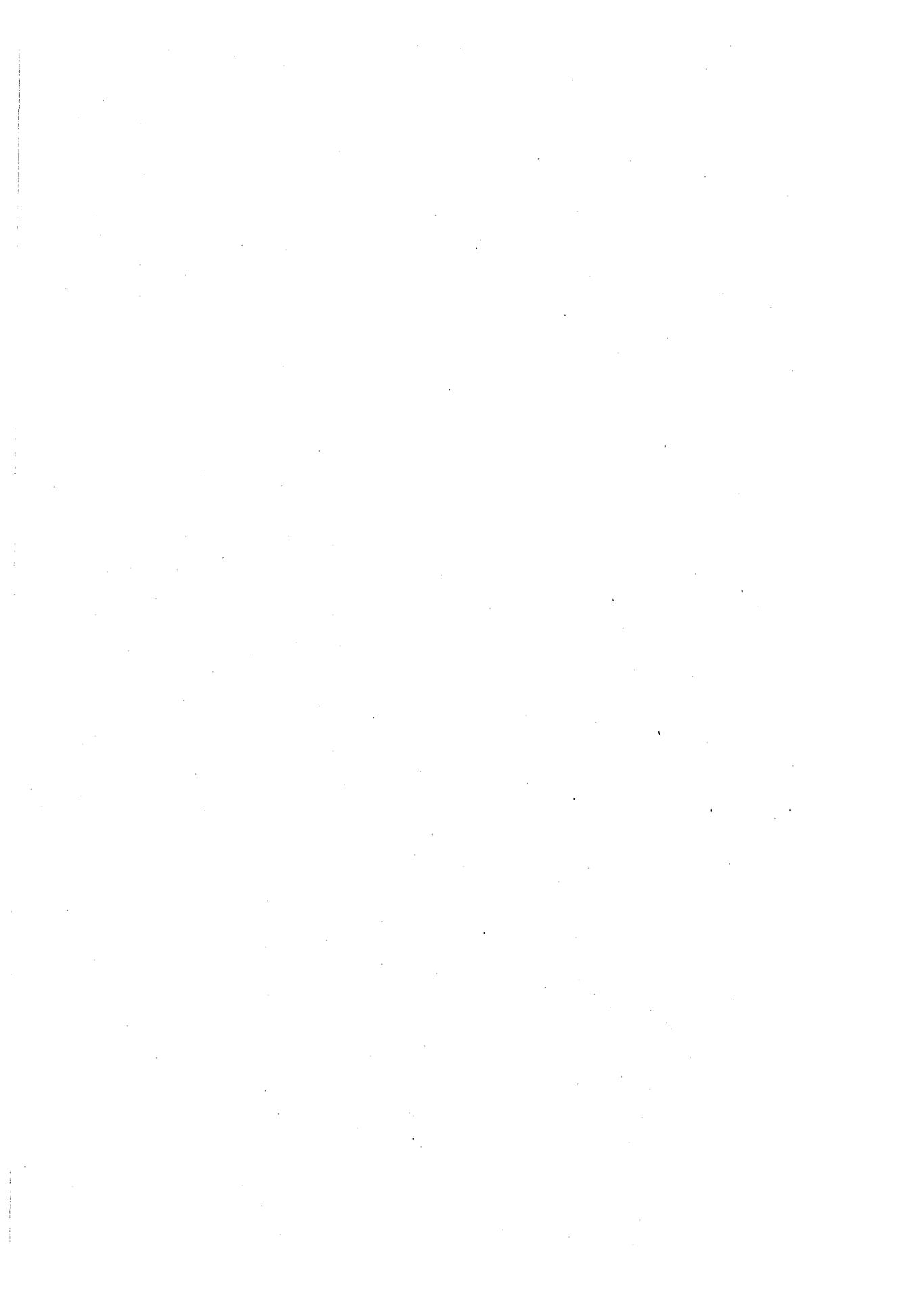
What, then, was the role played by Franco's policies? These policies shaped the social context in which rural modernisation (a crucial element in the more general strategy of fostering industrialisation) took place. Franco's agrarian policies secured traditional social relations as the starting point of rural modernisation. This means that policy sought a path of rural change that would be compatible with the traditional reproduction of high levels of inequality. Therefore, rather than impacting decisively on the path of change, instead Franco's policy impacted decisively on the distribution of the benefits and costs associated with that path.

Even so, the very process of rural modernisation eventually tended to erode traditional social relations in the countryside. Land was to eventually lose some of its share as a factor of social and economic stratification, and rural communities eventually became incorporated into a more delocalised network of social relations. In this network, capital was the key

⁴⁷ E. CLAR, *Farm Policy under the Salazar and Franco Dictatorships in Portugal and Spain*.

⁴⁸ F. COLLANTES, *La desagrarización de la sociedad rural española, 1950-1991*.

element, that is to say, capital for agricultural modernisation and farm competitiveness, capital in the industrial organisation of the food chain, and capital in the organisation of rural non-agricultural activities. The process was not completed until the end of the twentieth century, but its progress during the Franco period was remarkable.



A Farewell to Marginality

Development Paths in the Italian Alpine Provinces since World War II

by *Andrea Bonoldi*

I. INTRODUCTION

The unequal territorial distribution of development processes is a general problem which has affected numerous countries at different times and to different extents. Although it is evidently a question which does not regard Italy alone, it has certainly concerned the country significantly in the past, and still does so today.

The differing speeds of modern economic development in the Italian peninsula have been determined by geography and history. The complex orographic structure of a territory traversed by mountain ranges has had major consequences for the economy's spatial processes – from communications, to transport, to the formation of homogeneous market areas. Added to this is the weight of history and Italy's long political fragmentation which consolidated different economic-social structures, and market relations which in many cases developed externally to the country rather than internally¹. This heterogeneity became especially problematic after the unification of Italy in 1861: recognition of the new nation-state by its citizens also depended on whether the evident imbalances among the country's different areas could be reduced. A «Southern Question» arose in particular, and it would be at the centre of long debate and state-financed aid programmes which still continue today. Major efforts were made, but they only partly achieved their objectives, mainly because, when in the 1950s schemes to support the Mezzogiorno became substantial and systematic, the intense post-war economic development driven largely by

Translated by Adrian Belton

¹ For a general reconstruction of the economic history of Italy from the 1800s onwards, see, in English, V. ZAMAGNI, *The Economic History of Italy: 1860-1990*, Oxford 1993 and J.S. COHEN - G. FEDERICO, *The Growth of the Italian Economy 1820-1960*, Cambridge 2001.

the Centre and North dramatically widened the already-existing disparity between the two parts of the country².

Italian unification also gave rise to an «Agricultural Question» concerning the sector which, at that time and for several decades thereafter, was the core of the national economy. The principal problem was the existence of what Stefano Jacini called «the hundred agricultural Italies», which determined major differences across the country in farming practices, forms of management, and productivity in the primary sector. Increased productivity of the factors, especially labour, and the cultivating of idle land were for long considered indispensable if the country was to modernise³.

Besides these problems crucial for the national economy, it is also evident that the economic differences in Italy did not consist solely in the North/South divide. They were determined geographically not only by latitude but also, as is obvious, by altitude. Though it might appear banal to say that the paths of modern economic development are more difficult and tortuous in the mountains than in the lowlands, account should be taken of the particular context of the Italian territory, whose mountainous component is especially significant. Again Stefano Jacini, in the final report for the celebrated *Inchiesta Agraria* which he coordinated in the early 1880s, described the problem as follows:

«Italy is a country of mountains like no other in our continent, except Switzerland, and these are high mountains, largely bare or precipitous, or inhospitable. Of the 288,583 square kilometres of the country's total surface area, almost two-thirds, 156,000 square kilometres at least, are invincibly resistant to the growing of any kind of crop because they are snow-bound, or rocky, or gravelly; and this is so by work of nature. If only the remaining one-third were productive! But it is only so in part and to a meagre extent»⁴.

According to the most recent census, 44% of the Italian *comuni* (the smallest units of Italian public administration: henceforth 'communes') are almost entirely mountainous, covering just under 49% of the entire national territory. The percentage decreases substantially when one

² See e.g. S. CAFIERO, *Questione meridionale e unità nazionale*, Napoli 1996; L. DE ROSA, *La provincia subordinata: saggio sulla questione meridionale*, Bari - Roma 2004. See also the essay by Ezio Ritrovato in this book.

³ On contemporary Italian agriculture in general see P. BEVILACQUA (ed.), *Storia dell'agricoltura italiana in età contemporanea*, 3 vols, Venezia 1989-1991. For an overview of the principal issues concerning the development of Italian agriculture see J.S. COHEN - G. FEDERICO, *The Growth*, pp. 30-45.

⁴ Qtd. in O. GASPARI, *La montagna: alle origini di un problema politico (1902-1919)*, Roma 1992, p. 7.

considers the figure for the population: only 15.4% of Italians reside in mountain communes⁵ and 15.3% of the working population⁶. It is thus evident that mountains are constantly present in Italy, throughout the entire peninsula from north to south. But whilst in the past the mountain areas lagged behind the rest of the national territory in terms of development, today the situation is different. Besides the significant, though secondary, presence of areas of well-developed tourism and high incomes, and marginalised areas with economic performances very different from those of adjoining zones, a large proportion of the Italian mountain areas record values for the economic indicators which do not differ significantly from those of the surrounding lowlands. A levelling process therefore seems to have taken place among local production systems, and it has also involved the mountain zones; as corroborated by the fact that at the end of the last century (1999), the difference in per capita value added between the mountain communes and the total diminished, on average across the country, to 14.07%⁷. In this process a marked disparity has grown apparent between the northern and central mountain areas, which have largely emerged from marginality, and the southern ones, which have yet to overcome the difficulties due to their geographical location⁸.

II. THE LAWS FOR MOUNTAIN AREAS

In the post-unification history of Italy, the territorial diffusion of development often attracted political attention, and especially so the «Southern

⁵ In the past thirty years, the resident population of Italian mountain areas has slightly reduced its incidence in the national total. Adopting the definition of «mountain communes» used by the National Statistics Institute (Istat), in 1971 Italy's mountain areas had 8,824,046 inhabitants, equal to 16.29% of the national population, in 1981 the values were 8,815,346 (15.58%), in 1991 8,806,064 (15.50%) and in 2001 8,779,209 (15.40%) (calculations on Istat data). A similar tendency, though using a different definition of «mountainous» which yields different data, is reported by G. DE VECCHIS, *Da problema a risorsa: sostenibilità della montagna italiana*, Roma 1996, p. 104.

⁶ Istat data.

⁷ The difference, measured within regions, is greatest in regions comprising large metropolises – Lazio (30.53%) and Lombardia (23.60%) – whilst it is 15.90% in Piedmont and 4.81% in Veneto (Valle d'Aosta and Trentino-Alto Adige, which are entirely mountainous, do not record differences); CENSIS, *Il valore della montagna italiana*, Milano 2003, p. 17.

⁸ See P. TINO, *Da centro a periferia. Popolazione e risorse nell'Appennino meridionale nei secoli XIX e XX*, in «Meridiana», 44, 2002, pp. 15-63.

Question». With time, a «Mountain Question» also came to the fore, being introduced into parliamentary debate by representatives of constituencies in the Apennines. The first action intended to stress the structural difficulties of the mountain areas was taken in June 1902, when Luchino Del Verme, conservative deputy first for the constituency of Pavia and then Bobbio (Piacenza), drew parliament's attention to the problem of Italy's mountain areas. He highlighted that besides all the difficulties due to poor communications and scant land productivity, they also suffered from excessive fiscal pressure: «It is not a question, honourable colleagues, of north and of south», said Del Verme, «it is a question of mountain or plain»⁹. The problem of Italy's different rates of development then began to grow more complex, because added to the division among broad areas was that within the areas themselves; there were zones in which the configuration of the terrain was a major obstacle against the economic growth of local communities. The «Southern Question» was also to a certain extent a «Mountain Question», given the orographical complexity of the Italian territory¹⁰. But whilst the mountain communities of the northern Apennines and the Alps could rely to some extent on their adjacent lowlands, which offered markets for both products and labour from the mountains – an arrangement, moreover, long typical of the equilibria of the traditional Alpine economy – this happened to a generally lesser extent in the South¹¹.

The relationship with what has been called the *avampaese* (the foreland), is therefore of key importance in understanding the economic and social dynamics of Italy's mountain areas¹². Proximity to developed areas and

⁹ Del Verme's speech concerned revision of the cadastral surveys, but it was part of the broader debate on tax concessions for the country's disadvantaged zones: O. GASPARI, *La montagna*, p. 11.

¹⁰ In 1915, as general secretary of the parliamentary committee on mountain communities, Meuccio Ruini wrote: «But the two problems [that of the mountain areas and that of the Mezzogiorno] are not antithetical, they are not mutually exclusive. Quite the opposite. The Mezzogiorno has special needs above all because it is almost entirely mountainous ...», qtd. in G. DE VECCHIS, *Da problema a risorsa*, p. 56.

¹¹ On the situation of the southern mountain areas see P. TINO, *La montagna meridionale. Boschi, uomini, economie tra Otto e Novecento*, in P. BEVILACQUA (ed.), *Storia dell'agricoltura italiana*, vol. 1, pp. 677-75. On the Apennines in general, with particular regard to the central belt, see A.G. CALAFATI - E. SORI (eds), *Persistenze e cambiamenti negli Appennini in età moderna*, Milano 2004.

¹² See e.g. F. PAGETTI - C. SMIRAGLIA, *Le politiche nazionali per la montagna alpina. Evoluzione dei rapporti economici fra le Alpi e il loro avampaese*, in D. RUOCCO (ed.), *Le Alpi: barriera naturale, individualità umana, frontiera politica*, Bologna 1990, pp. 155-175.

the presence of suitable connections could in fact generate growth processes and integration between the mountain markets and those of the more developed lowlands.

Although policymaking did not neglect mountain areas, legislation in post-unification Italy for long dealt mainly with hydrogeological protection, forestry and, partly, agriculture. The normative provisions invariably provoked disputes and conflicts. The first unitary law on forestry (no. 3917 enacted on June 20, 1877); for instance, imposed specific restrictions on woodland above the altimetric limit of chestnut growth, the objective being to ensure hydrogeological stability. Whilst this law duly emphasised the public utility of mountain areas, it imposed restrictions on the economic exploitation of woodland, which was an activity of prime importance in the production systems of the mountain communities, which inevitably expressed their dissent with the measures¹³. The Luzzatti Law (no. 277 of June 2, 1910) at least partly acknowledged the economic function performed by woodland; but legislation of subsequent years, such as the 1923 forestry law, seemed primarily addressed to conservation¹⁴. In the period between the wars, legislation on mountain areas was largely incorporated into measures designed to increase national agricultural output and to improve the living conditions of the rural population, a policy termed «integral land reclamation»¹⁵. That these measures were nevertheless insufficient to counter the demographic decline of numerous Alpine and Apennine communities was demonstrated by the large-scale survey on mountain-area depopulation in Italy conducted by the National Research Council (Consiglio Nazionale delle Ricerche, CNR) and by the National Institute of Agrarian Economics (INEA), whose results were

¹³ See O. GASPARI, *La montagna*, p. 24.

¹⁴ On legislative measures in favour of mountain areas see e.g. G. DE VECCHIS, *National and Regional Policies for the Development of the Italian Mountain Regions*, in G. SCARAMELLINI (ed.), *Sustainable Development of Mountain Communities*, Milano 1995, pp. 167-173 and G. DE VECCHIS, *Da problema a risorsa*, pp. 113-164; F. PAGETTI - C. SMIRAGLIA, *Le politiche nazionali per la montagna alpina*, pp. 155-175; G. PIAZZONI, *La nuova legislazione per l'economia montana*, Bologna 1997; MINISTERO DELL'AGRICOLTURA E DELLE FORESTE, *Carta della montagna: realizzata di concerto con il Ministero dei lavori pubblici*, vol. 1: *Carta della montagna e territorio montano*, Roma 1976, pp. 105-142; F. MERLONI, *Montagna*, in *Enciclopedia Giuridica Treccani*, Roma 1990; E. SARACENO (ed.), *Il problema della montagna*, Milano 1993; E. MONTRESOR, *Economia montana e sviluppo rurale*, Bologna 1998, pp. 25-45; O. GASPARI, *Il Segretariato per la montagna (1919-1965)*, Roma 1994.

¹⁵ For a general description see M. STAMPACCHIA, «*Ruralizzare l'Italia!*». *Agricoltura e bonifiche tra Mussolini e Serpieri 1928-1943*, Milano 2000.

published in eight volumes between 1932 and 1938. Although the research, coordinated by Ugo Giusti and consisting in a series of individual surveys on Italy's various mountain areas, reported general demographic decline in mountain communities, it emphasised marked differences among local situations, noting the complexity of the interdependencies between the circumstances of mountain communities and the development of lowland areas. The difficulties of the mountain areas extended well beyond the crisis of traditional production methods in agriculture. They were also manifest, for example, in the sharp fall in temporary emigration, which had long been a crucial factor in the economic equilibria of Alpine communities¹⁶. The conclusions of the survey report stressed the need to create bodies and to undertake actions addressed specifically (unlike measures at the time) to the development of mountain communities¹⁷.

The «Mountain Question» was once again a matter of debate in the post-war period, being expressly cited in Article 44 of the Republican Constitution, which came into effect on January 1, 1948, and whose second paragraph stated that «The law shall make provisions in favour of mountainous areas»¹⁸. And mountainous were many of the so-called «economically depressed areas» of central and northern Italy which were subject to the extraordinary intervention measures introduced by Law no. 647 of August 10, 1950 on «execution of extraordinary public works in northern and central Italy», which was almost an appendix (or a complement) to the law instituting the Cassa per il Mezzogiorno (Fund

¹⁶ U. GIUSTI, *Lo spopolamento montano in Italia: indagine geografico-economico-agraria. VIII Relazione Generale*, Roma 1938, pp. 149 and 153-154. See also G. COPPOLA, *La montagna alpina: vocazioni originarie e trasformazioni funzionali*, in P. BEVILACQUA (ed.), *Storia dell'agricoltura italiana*, vol. 1, p. 530.

¹⁷ «The importance and variety of these measures, together with the distinctive nature of the mountain areas and their inhabitants, make it necessary for them to be coordinated and subsequently implemented by a specific body connected to other government agencies, to which public action in favour of mountain areas is devolved» qtd. in U. GIUSTI, *Lo spopolamento montano in Italia*, p. 156.

¹⁸ However significant, the paragraph was appended to an article that dealt in general with land ownership and reclamation, therefore exhibiting an approach to the problem of the mountain areas still essentially predicated on a ruralist conception. When describing the amendment, Michele Gortani (1883-1966), Christian Democrat deputy for Carnia and a professor of geology, began thus: «Honourable colleagues there is in Italy a region that comprises one-fifth of its population and one-third of its surface area, and in which the life of all classes and categories develops in conditions of particular hardship in comparison with the rest of the country», Records of the Constitutional Assembly, session of May 13, 1947, p. 3974 (<http://legislature.camera.it>, August 2008).

for the South) enacted on the same day¹⁹. The law, which did not concern mountain areas alone, was extraordinary in its purpose, the intention being to flank the ordinary activities of the public administration with additional resources allocated to urgent and circumscribed problems by specific normative measures. This was a feature recurrent in the public intervention policies of republican Italy, but it was not at all new in the country's political history²⁰. Although effective in some cases, the policy of 'extraordinary intervention' in the long period revealed its limitations, most notably the piecemeal nature of its measures, the mismatch between objectives and the resources made available, the problem of coordination with the ordinary activities of the public administration, and the frequent tendency to replace, not to supplement, the latter.

The first organic law for mountain areas was enacted on July 25, 1952 (no. 991) and entitled *Provvedimenti in favore dei territori montani* on proposal of the Minister of Agriculture and Forestry, Amintore Fanfani. As usual in the history of Italian legislation, in this case too, the law was prompted by an emergency: the disastrous floods of 1951, which had made evident the effects of mountain depopulation and of the hydrogeological instability that had accompanied it²¹. Although the new law drew on the aims and instruments of previous legislation, it had the distinctive features of making more composite evaluation of mountain areas for intervention²², and considering not only agriculture and forestry, but also crafts and tourism as sectors to be incentivised²³. Despite these important innovations, however, the law and the provisions that followed it still reflected a partial and centralist approach. The mountain communities, with their economic-social complexity, were not regarded as possible recipients of more systematic intervention. And whilst the emphasis on hydrogeologi-

¹⁹ The law was refinanced and modified on various occasions in the following decades. See G. PIAZZONI, *La nuova legislazione per l'economia montana*, Bologna 1997, p. 22.

²⁰ See R. PETRI, *La frontiera industriale: territorio, grandi imprese e leggi speciali prima della Cassa per il Mezzogiorno*, Milano 1990.

²¹ G. DE VECCHIS, *Da problema a risorsa*, p. 114; F. PAGETTI - C. SMIRAGLIA, *Le politiche nazionali per la montagna alpina*, pp. 165-167; MINISTERO DELL'AGRICOLTURA E DELLE FORESTE, *Carta della montagna*, vol. 1, pp. 113-115.

²² Testifying to this is, for example, Article 15 of the law, which established 'reclamation districts' for «mountain territories which, because of physical degradation or serious economic difficulties, are unable to achieve a viable production system without the coordination of individual activities and their integration by the state».

²³ MINISTERO DELL'AGRICOLTURA E DELLE FORESTE, *Carta della montagna*, vol. 1, p. 113 and G. PIAZZONI, *La nuova legislazione per l'economia montana*, pp. 391-394.

cal protection characteristic of the previous legislation seemed to have been scaled down, measures were still largely marked by a welfarist and conservative approach centred on rurality. A partial change came in the 1970s, when centrally-decided economic policy to support development gave way to the decentralisation of territorial schemes, supported by a parallel strengthening of the political-administrative powers of the regional administrations. The importance given to new subjects, the mountain communities, and therefore to strictly local public bodies, and to the coordinating role of the regional administrations by the 1971 law on mountain areas – Law no. 1102 of December 3, 1971 (*Nuove Norme per lo Sviluppo della Montagna*) – subsequently augmented by Law no. 142 of June 8, 1990, on the local autonomies – were important signals of this evolution. Further signals arose from the broader consideration made of the economic sectors to incentivise. Within the general framework of economic-policy directions of the time, the mountain communities were also envisaged as planning bodies for local economic development²⁴. But the profound changes which in previous decades had greatly reduced Italy's backwardness in terms of income and economic structure with respect to the main Western countries, meant that the delay accumulated by the mountain areas (as evidenced mainly by demographic decline) rendered this approach ineffectual. The law's underlying concept – that there was substantially only one model for national development and that marginal areas had to be compensated through transfers – did not leave space for the notion that the mountain communities could find their own specific ways to participate in the ongoing growth processes²⁵.

However, a different approach was taken by the last important law on the Italian mountain areas to be enacted during the 1990s – Law no. 7 of January 31, 1994, *Nuove Disposizioni per le Zone Montane* – which revised the aims and possible means for the development of mountain areas²⁶. Firstly, the law reversed the relationship between mountain and national territory. The former was no longer regarded as a problematic area to be supported with state aid, but instead as a potential resource for the rest

²⁴ G. PIAZZONI, *La nuova legislazione per l'economia montana*, pp. 91-104; F. MERLONI, *Comunità montane e consigli di valle*, in *Enciclopedia Giuridica Treccani*, Roma 1988.

²⁵ See E. SARACENO, *L'intervento pubblico a favore della montagna*, in E. SARACENO (ed.), *Il problema della montagna*, Milano 1993, pp. 327-332; E. MONTRESOR, *Economia montana e sviluppo rurale*, pp. 30-36.

²⁶ A. RUPENI, *Montagna terra d'elezione: natura e cultura per lo sviluppo*, Bergamo 1996, pp. 73-75; E. MONTRESOR, *Economia montana e sviluppo rurale*, pp. 40-45.

of the country's growth. The law laid down guidelines which, firstly, affirmed the primacy of local administrations in land management, and secondly acknowledged the distinctive nature of paths for development in mountain areas²⁷. It established the principle that maintenance of the natural heritage must necessarily integrate with the economic needs of local communities.

These guidelines also reflected European-level policies on the development of rural areas, and the increasing role of the EC institutions in coordinating economic development policies with far-reaching and complex financial schemes²⁸.

A review conducted in the mid-1970s of the instruments and resources employed to support mountain areas reported a certain 'fragmentation' of the measures used – thus confirming a general feature of Italian policies for development. But a substantial amount of resources had nevertheless been invested. Between 1945 and 1976, the numerous schemes for mountain areas had disbursed, via various state agencies, an overall amount (net of grants by the Regions) of around 1,270 billion lire²⁹. The policy of partial decentralisation, moreover, had had positive impacts on the dynamics of local development. One may accordingly conclude that the devolution of measures to support economic activities had been decisive for the effectiveness of action, although this mainly came about in ways unforeseen by the legislators. The idea that the dynamics of Italy's economic development could be planned – a matter of heated political-economic debate since the early 1950s – had in reality encountered major difficulties in its practical implementation. At the beginning of the 1970s, it was believed that planning could acquire new efficacy through the decentralisation of functions and resources to the peripheral administrations³⁰. But in this case, too, the abstractness of many development plans, the uncertain processes of devolution to local administrations, and the

²⁷ Clearly testifying to this reversal of perspective is Article 1.4 of the law, which states: «Special interventions for mountain areas are systematic and coordinated schemes for the overall development of mountain areas through the protection and exploitation of the mountain habitat's environmental quality and endogenous potential».

²⁸ A. RUPENI, *Montagna terra d'elezione*, pp. 83-85, E. MONTRESOR, *Economia montana e sviluppo rurale*, pp. 47-88.

²⁹ Official figure from the Ministry of Agriculture and Forestry. See MINISTERO DELL'AGRICOLTURA E DELLE FORESTE, *Carta della montagna*, vol. 1, pp. 123-126.

³⁰ See G. AMATO, *La programmazione come metodo dell'azione regionale*, in «Rivista trimestrale di diritto pubblico», 21, 1971, 2, pp. 413-428.

inadequacy of the financial resources available, prevented the mountain communities from assuming the role envisaged for them³¹. Consequently, public intervention ended up by being only one component, of varying importance, in a process where the forces determining the direction of development were different and distinct in every area. This outcome also highlighted the difficulty of implementing a policy for local development in a country like Italy long permeated by a strongly centralist conception of public action. The foregoing rapid survey of legislation on mountain areas testifies to how the concept of «mountain» has changed in the Italian public discourse. It also shows that it is inadvisable to interpret the different approaches taken by the legislators over time in evolutionary terms – that is, with increasingly effective intervention – because, since unification until the present day, the situation of mountain areas and their problems have profoundly changed³².

III. THE ALPINE PROVINCES IN THE POST-WAR PERIOD

Useful information can be obtained from brief analysis of the evolution of the economies of the Italian alpine provinces in the post-war period. Along partially different paths and with partially different outcomes, these provinces generally managed to catch up with the rest of central and northern Italy. Considered here as «Alpine provinces» are those whose territories lie geographically within the Alps – Aosta, Sondrio, Bolzano, Trento and Belluno – but not the province of Verbano-Cusio-Ossola, because it was instituted only in 1992. The decision to investigate these aggregates has also been taken because of the distinctive institutional arrangements whereby three (Aosta, Trento and Bolzano) of the five Alpine provinces have been governed since the post-war period by specific statutes of autonomy. The analysis begins with general data comparing the salient features of the demography and economy of the Alpine provinces with those of a reference aggregate: central-northern Italy, which has been selected for economic variables especially³³.

³¹ This seems to be confirmed by the results of a wide-ranging survey on mountain communities published in R. GUBERT, *Il ruolo delle comunità montane nello sviluppo della montagna italiana: un'analisi valutativa*, Milano 2000, see in particular pp. 229-243.

³² See E. SARACENO, *Il problema della montagna*, p. 319.

³³ See A. BONOLDI, *La ripresa economica in area alpina nel secondo dopoguerra: alcune comparazioni*, in A. COVA (ed.), *Il dilemma dell'integrazione. L'inserimento dell'economia italiana nel sistema occidentale (1945-1957)*, Milano 2007, pp. 49-78.

1. Demography

Comparison of the demographic figures shows long-period population growth generally less marked in the Alpine provinces than in the rest of Italy. The population of the Alpine provinces indeed increased constantly in absolute value – save during the period between the censuses of 1921 and 1936 – but at rates below the national average except in the last twenty years of the century, which recorded a reversal of trend³⁴. Differing from the overall dynamic are the province of Bolzano, which records demographic growth at rates above the national average for every decade, and that of Belluno, the only province to have lost population in absolute terms since WWII. The province of Sondrio instead exhibits a temporary slowdown in the 1980s.

However, these aggregate dynamics conceal more complex patterns. These are firstly the result of a composition between the natural balance and the migratory balance, with some provinces, such as Alto Adige and the Valle d'Aosta, having substantially positive migratory balances at least until the 1960s, whereas others (Trentino, Sondrio and, especially, Belluno) recorded, in different periods, substantial levels of emigration³⁵. A further general tendency concealed by the aggregated data is internal population redistribution in the Alpine provinces in the decades considered, with the demographic growth of the towns in the valley bottoms and the relative depopulation of mid- or high-altitude settlements – except for tourist resorts³⁶ – or ones less served by communication infrastructures³⁷. This

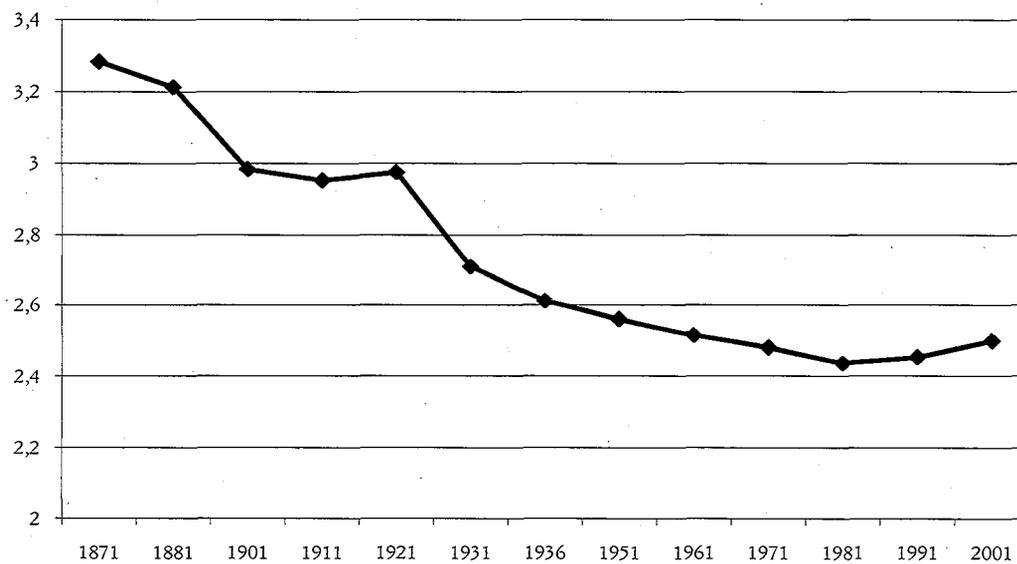
³⁴ Largely due to the more marked decline in the birth rate at national level. On the demographics see R. GRANDINETTI, *L'evoluzione demografica della montagna italiana nel secondo dopoguerra*, in E. Saraceno (ed.), *Il problema della montagna*, pp. 29-77; M. VAROTTO - R. PSENNNER R. (eds), *Spopolamento montano: cause ed effetti - Entvölkerung im Berggebiet: Ursachen und Auswirkungen*, Innsbruck - Belluno 2003.

³⁵ On the Valle d'Aosta see S.J. WOOLF, *Emigrati e immigrati in Val d'Aosta*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, Torino 1995, pp. 596-617; on Trentino see A. ASCOLANI, *Il paesaggio demografico*, in A. LEONARDI - P. POMBENI (eds), *L'età contemporanea (1918-1992)*, (*Storia del Trentino*, VI) Bologna 2005, pp. 743-758.

³⁶ For analysis of this eccentric dynamic see A. LEIDLMAIR, *Gebirgsentvölkerung und Fremdenverkehr im mittleren Alpenraum*, in A. ANGELINI - E. CASON (eds), *Atti 1991. La presenza e le attività umane, fattori di controllo della vulnerabilità dei sistemi montani e dei rischi che ne derivano*, Belluno 1992, pp. 249-255.

³⁷ In the case of the Valle d'Aosta, the demographic incidence of the *Plaine*, i.e. the valley-bottom area of Dora Baltea, in the total population, was 40% in 1901, rising to 58% in 1951 and finally to 71% in 2001, with a decrease in absolute terms in mountain areas (A.V. CERUTTI, *Il popolamento della regione valdostana dal 1734 al 2001: 250 anni*

Graph 1. *Population in the Italian alpine provinces (Aosta, Sondrio, Bolzano, Trento, Belluno) 1871-2001*
(Italy = 100)



Source: calculations on ISTAT, *Popolazione residente e presente nei comuni ai censimenti del 1861 al 1961*, Roma 1967 and ISTAT, *Censimenti 1971, 1981, 1991, 2001*.

process gave rise to the progressive urbanisation of the main Alpine valleys³⁸. Except in the particular case of Belluno, the Alpine provinces had population and settlement patterns that, aside from the internal differences already mentioned, do not seem indicative of general marginality. Rather, in the last decades of the century, the gap which had opened up between these provinces and the rest of the country in previous decades diminished. This finding is confirmed by comparison between the population age-structures of the Alpine provinces and those of the surrounding areas, given that the ageing of the resident population is one of the indicators most often used to determine the real or presumed marginality of mountain areas. The old-age index – i.e. the ratio between the population aged over 65 and the population aged under 15 – increased substantially, but at a rate wholly in line with the rest of central and northern Italy, so that the values are generally lower, as shown by Table 1³⁹.

Table 1. *Old-age index of the resident populations in the Alpine provinces and in central and northern Italy 1961-2001*

	1971	1981	1991	2001
Aosta	55,32	75,94	122,11	148,63
Sondrio	39,82	56,90	89,67	124,30
Bolzano	32,41	48,47	75,15	91,95
Trento	50,86	71,90	109,52	120,71
Belluno	63,28	87,98	143,53	171,15
Centre and North	54,19	74,83	124,38	157,32

Source: calculations on Istat data, *Censimento della popolazione*, various years.

di statistiche demografiche, in M. VAROTTO - R. PSENNNER [eds], *Spopolamento montano – Entvölkerung im Berggebiet*, p. 76). Austrian Tyrol and Alto Adige underwent absolute population growth in all altimetric bands in the last fifty years of the century, although the lowest bands grew more rapidly. In Trentino, instead, the second half of the 1900s saw the population decrease in absolute terms in the altimetric bands lying between 601 and 1200 metres (H. PENZ, *Bevölkerungsbewegungen in den Alpen: Probleme der Entvölkerung in Tirol-Südtirol-Trentino*, in M. VAROTTO - R. PSENNNER [eds], *Spopolamento montano – Entvölkerung im Berggebiet*, p. 93), and likewise in the province of Sondrio (P. GALEA, *Tradizione e modernizzazione nello sviluppo economico valtellinese del secondo dopoguerra (1945-1975)*, in G. RUMI - G. MEZZANOTTE - A. COVA [eds], *Sondrio e il suo territorio*, Milano 2001, p. 144).

³⁸ See L. GAIDO, *Urbanizzazione delle vallate alpine: forme originali di città territorio*, in M. VAROTTO - R. PSENNNER (eds), *Spopolamento montano – Entvölkerung im Berggebiet*, pp. 159-167.

³⁹ Obviously, the index is jointly conditioned by the effects of a falling birth-rate and increased life expectancy.

Once again, the figures for the province of Bolzano and the province of Belluno are very different.

2. *Income*

Demographic trends seem to be replicated by the dynamics of per-capita value added in the Alpine provinces compared with the aggregate of reference.

In this case, too, the strong economic growth of the lowland areas in the post-war decades meant that until the 1980s, with the exception of the Valle d'Aosta, the Italian Alpine provinces recorded levels of value added per inhabitant below the average for the Centre and North. Subsequently, however, increases in the levels brought all the Alpine provinces, with the exception of Sondrio, to values above that of the reference aggregate by 2001. However, the figure for the Alpine provinces as a whole, which exceeded the average for the Centre and North in the 1990s, results from an aggregation which conceals rather different patterns. The Valle d'Aosta invariably recorded per-capita value added above the average for the Centre and North, so that the convergence also signified a decrease in the positive differential. By contrast, the province of Bolzano almost reached the average of the Centre and North in 1981, and then exceeded it in 1991, whilst the same happened for Trentino with the 2001 census. In that year also Belluno, the initially weakest province, surpassed the average value, achieving very marked growth compared with ten years previously. Sondrio fell back between 1981 and 1991, partly due to the effects of the disastrous floods of 1987.

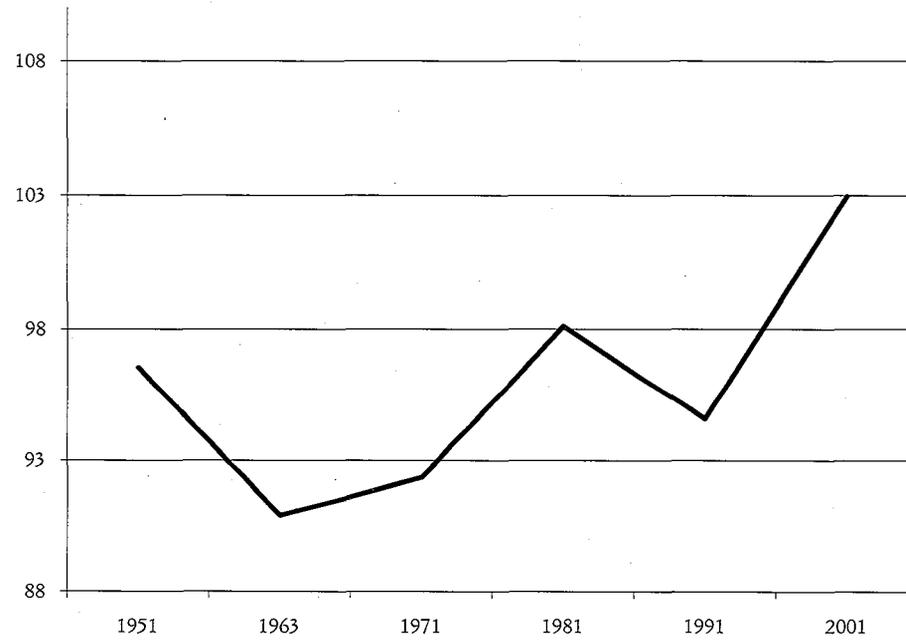
Although it is not a particularly refined indicator, the position of the Alpine provinces in the ranking of national per capita incomes illustrates the evolution just described.

Table 2. *Positions of the Alpine provinces in the classification of national per capita incomes 1951-2001*

	1951	2001	1951-2001
Aosta	4	7	-3
Sondrio	31	38	-7
Bolzano	57	2	+55
Trento	67	13	+54
Belluno	74	20	+54

Source: calculations on Istituto Tagliacarne data.

Graph 2. *Per capita added value in the alpine provinces 1951-2001 (Centre and North = 100)*



Source: calculations on Istituto Tagliacarne data.

It therefore emerges that the Alpine provinces, albeit with partly different trends, reached levels of per capita value added comparable with that of the Centre and North during the second half of the 1990s, leaving their previous relative weakness behind. Despite some oscillations, this progress seems to have been confirmed in recent years⁴⁰. It should be borne in mind, however, that more detailed interpretation of this process should take account of increases in the cost of living, which have been particularly high in some Alpine provinces.

3. *Economic structure*

Even brief analysis of the composition of the value added of the Italian Alpine provinces brings out different patterns. The growth of the tertiary sector and the decline of agriculture are constant features, but they are manifest at different times and with different intensities.

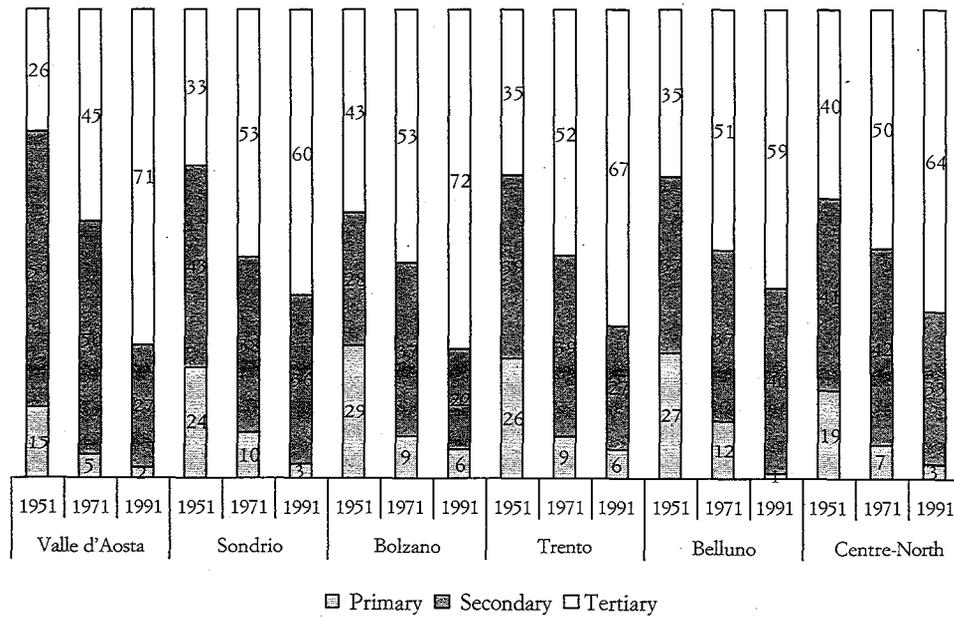
The Valle d'Aosta, the provinces of Trento, Bolzano and Sondrio underwent pronounced tertiarisation, while Belluno continued to record sizeable levels of industrial activity accompanied by a growth of the services sector. Industry instead decisively lost ground in the Valle d'Aosta, where the percentage of value added produced in the secondary sector fell rapidly, compared with a slight net increase in the province of Belluno. The figures on employment in the industrial sector highlight these differences, although here the different demographic dynamics of the provinces are influential.

Rather heterogeneous, though generally above the average for the Centre and North, is the occupational weight of construction, which is a traditionally strong sector in the Alpine provinces, and which has expanded especially in the autonomous provinces and regions.

Some peculiarities emerge from analysis of firm size in terms of the employees/production unit ratio. The Valle d'Aosta shows a constant decrease in the ratio, whilst in other provinces it seems that the last decade of the century saw an increase in average firm size, although, with the exception of Belluno, still less than the average for the Centre and North.

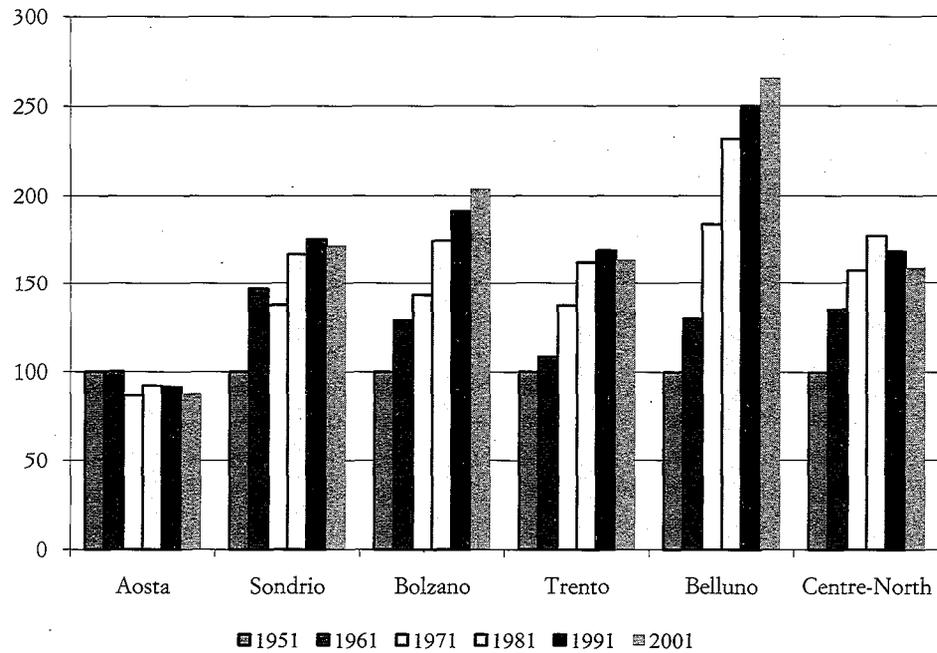
⁴⁰ The most recent figures on per capita GDP, which refer to 2007, show Bolzano and Aosta clearly above the average, Belluno just above it, and Sondrio below it but recovering, whilst Trento has significantly lost ground (Istituto Tagliacarne-Unioncamere data).

Graph 3. *Composition of added value in the Italian alpine provinces (percentages; 1951-1991)*



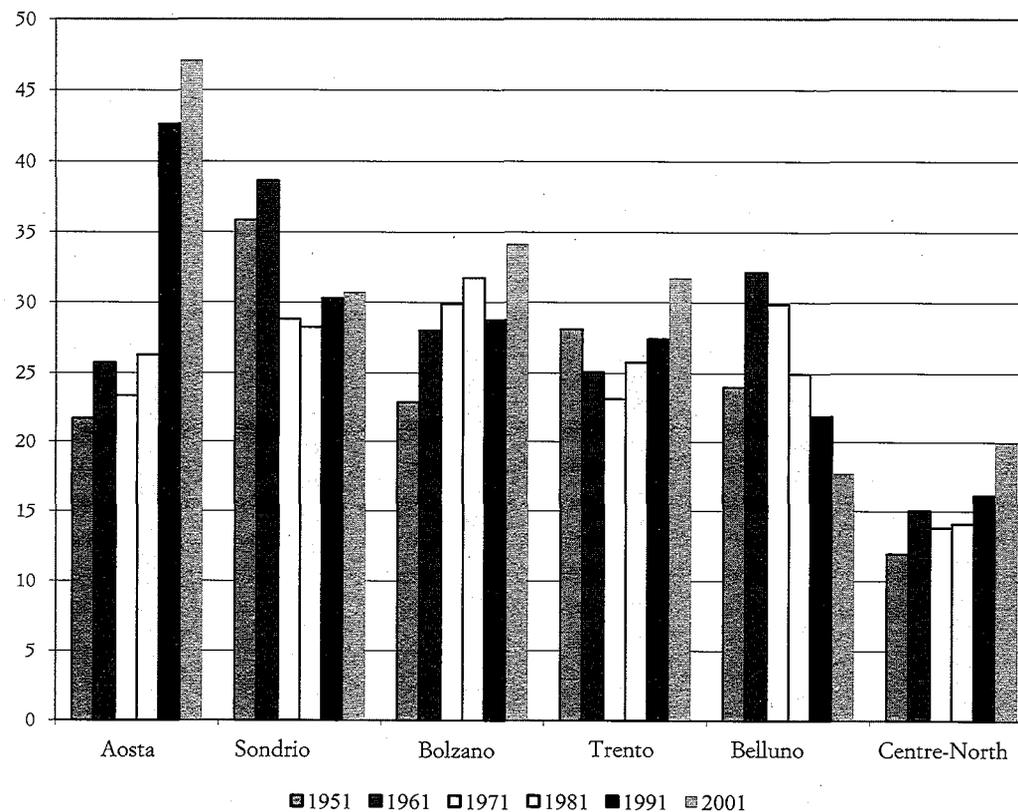
Source: calculations on Istituto Tagliacarne data.

Graph 4. *Industrial employment (1951 = 100)*



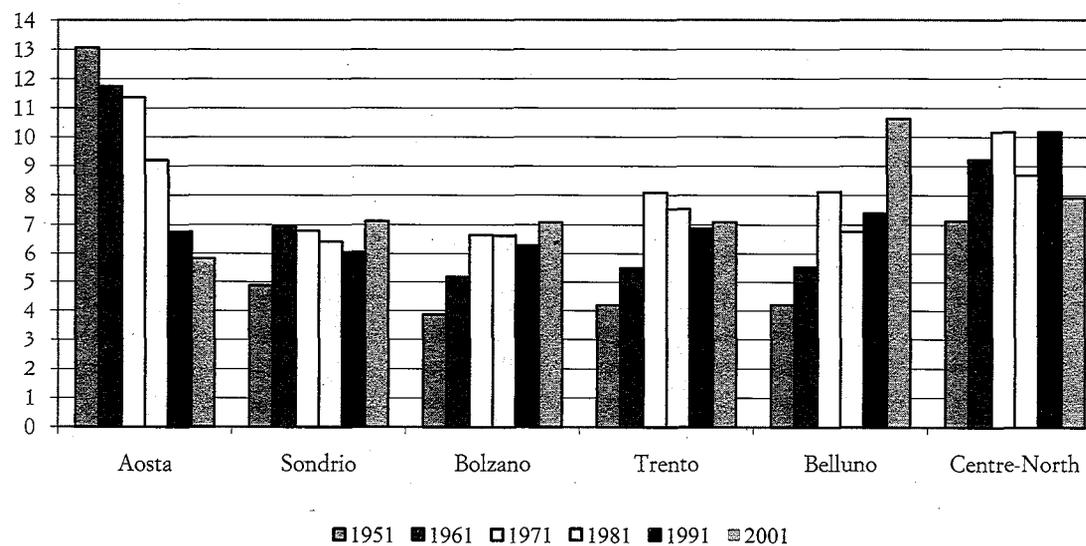
Source: calculations on Istat data.

Graph 5. *Employment in the construction sector (as a percentage of the industrial employment)*



Source: calculations on Istat data.

Graph 6. *Employees per production unit*



Source: calculations on Istat data.

IV. THE ITALIAN ALPINE PROVINCES IN THE POST-WAR PERIOD: PATTERNS OF DEVELOPMENT

In order to provide further details on the development of the economies of the Italian Alpine provinces in the post-war period, there follow, by way of example, two brief case studies: one on the Valle d'Aosta, the other on the province of Sondrio⁴¹.

1. Aosta

The development of the Aosta economy since WWII has been characterised, as said, by pronounced deindustrialisation, the growth of tertiary activities, and increased intervention by the autonomous regional authorities⁴². As regards the first point, the reduction in industry's share of value added in the provincial total, and the reduction, also in absolute terms, of employment in industry, has resulted from an initial situation marked by the strong presence in the valley of what can be called the «Cogne system»⁴³. This was a complex of mines for the extraction of magnetite and lignite, electricity generating stations, and steelworks. The system was consolidated in the 1920s by the policy on the maximum possible exploitation of national resources, and by 1948 it employed 9,419 people, or just under one-quarter of the entire active population in the province⁴⁴. Moreover, the bulk of the labour force was concentrated in the

⁴¹ For similar analysis on the other Alpine provinces (Bolzano, Trento and Belluno), see A. BONOLDI, *La ripresa economica*, pp. 49-78.

⁴² Some crucial junctures in the evolution of the Valle d'Aosta's economy in the second half of the 1900s are discussed in M. LÉVÊQUE, *L'autonomia al bivio: la Valle d'Aosta fra ricchezza finanziaria e fragilità economica*, Roma 1992; M. LÉVÊQUE, *La Valle d'Aosta: un modello di sviluppo «regionecentrico»*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, Torino 1995, pp. 845-900 and S. LOVO - S. NOTO - F. PERALI, *Un'analisi dello sviluppo della Valle d'Aosta in prospettiva storica con l'ausilio delle matrici di contabilità sociale*, in «Rivista di politica economica», 98, 2008, 1-2, pp. 249-294. On aspects of industrialisation see also A. PINCHIERRI, *Industrializzazione dipendente e classe operaia in una microregione alpina*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, pp. 593-617.

⁴³ On the role of Cogne in the region see C. BINEL, *Gli anni dell'elettrosiderurgia: le acciaierie Cogne dalla prima guerra mondiale al boom economico*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, pp. 543-591.

⁴⁴ *Ibidem*, p. 587. In 1949 the director of the local subsidiary of the Bank of Italy wrote: «Unemployment is low in the Valle d'Aosta: the Cogne Company, besides local labour, also employs numerous workers from Veneto or the South, with wages among the highest in Italy or, at any rate, not below those paid by any other company of the same kind,

steelworks of Aosta, and the city's economy was strongly influenced by this factor. The periodic reports issued by the Aosta branch of the Bank of Italy emphasised that the relatively high wages paid by Cogne fuelled the local retail trade and real estate market to a remarkable extent, with repercussions on price dynamics⁴⁵. In general, the Bank of Italy stressed the close dependence of the local economy on Ansaldo-Cogne, while other sectors, from agriculture to tourism, were described as problematic or stagnant. In the Bank of Italy's reports issued in the 1950s, the sections dealing with the local banking system described it as conservative and closely controlled. This evidences the notion of local credit-market stability which inspired the action of the issuing bank throughout the country in that period⁴⁶.

The Valle d'Aosta's positive differential with respect to the rest of central and northern Italy in the first decades of the post-war period – in terms of both income and industrial employment – can be largely explained by the Cogne system. But this was subsequently retrenched by the wave of changes in the sector's market which required restructuring which Cogne (publicly owned and often managed according to not strictly economic criteria) was unable to undertake. The few other large plants in region, located in the valley bottom between Aosta and Pont-Saint-Martin, had headquarters outside the province (in Milan and Turin). The main factor in the location of these firms had been the availability of hydroelectric

even in the largest cities (e.g. Fiat in Turin)», Historical Archives of the Bank of Italy (Archivio Storico della Banca d'Italia, henceforth ASBI), Banca d'Italia (henceforth BdI), *Studi*, pratt., no. 453, fasc. 1, sfasc.21, pp. 4-5.

⁴⁵ ASBI, BdI, *Studi*, pratt., no. 472, fasc. 1, sfasc.12, pp. 9-10.

⁴⁶ «Overall [this is] a modest economy with limited resources. More than sufficient is the number of banks operating in the zone ... they are 7 in number, of which 6 in the provincial capital, with a total of 16 branches in the region. At present, cohabitation among the credit institutes in the Valle d'Aosta has reached appreciable equilibrium, also because their activities are coordinated by common, generally observed, directives issued by their executives following periodic contacts, marked by cordiality and sincerity, made at monthly meetings in my office. This equilibrium and these accords ensure that the activity of each bank is not disrupted by the unfair cornering of business or by disreputable competition practices, such as non-observance of the banking syndicate or the offering of impermissible credit facilities. And in effect customers use one or another of the banks, not because they hope to receive different treatment as regards, e.g., active or passive rates, but for reasons of traditional attachment, for sympathy, for reasons of convenience. This behaviour has given rise in the Valdostano, already seriously damaged in its savings by the collapse of two local credit institutes, to renewed trust in the current banking system», ASBI, BdI, *Studi*, pratt., no. 460, fasc. 1, sfasc. 9, pp. 5-6.

energy, which had led to the installation of textiles factories (Brambilla of Milan at Verrès in 1915, Soie de Chatillon, then Saifta, and finally Montefibre, with headquarters in Milan, in 1919) and of metallurgical companies (Guinzio, Rossi & Co. of Turin at Verrès in 1919, Ansaldo-Cogne in 1920, and the Illsa-Viola in Milan at Pont-Saint Martin in 1931)⁴⁷. These companies continued operations in the second half of the 1900s, but they, like Cogne, encountered difficulties due in particular to increasing competition in their sectors, which entailed major job losses and the closure of several plants, particularly in the 1980s⁴⁸. The sectoral characteristics of production also hampered spillovers, so that significant subcontracted and outsourced activities did not develop. Moreover, there seemed to be a certain reluctance among local entrepreneurs to undertake manufacturing activity⁴⁹.

From the 1970s onwards, profound structural change took place in the province's industry. The sector's decreased relative weight in terms of value added and employment in the regional economy as a whole was accompanied, as seen above, by a marked decrease in company size, so that the average of employees per industrial production unit in the strict sense fell from 13 in 1951 to 11 in 1971, to 6 in 2001⁵⁰. The major contraction of an industrial sector which, in the post-war period, had been proportionally larger than in other Alpine provinces was therefore the structurally most significant, and in certain respects distinctive, feature of the Valle d'Aosta's economy in the second half of the 1900s. But the valley's current situation in terms of indicators of well-being and characteristics of the economic system can be explained only if account is taken of the impact of public spending, which has grown considerably, especially through the financial endowment guaranteed by the statute

⁴⁷ M. LÉVÊQUE, *L'autonomia al bivio*, p. 49; A.M. FALCHERO, «*Quel serico filo impalpabile ...*». Dalla «*Soie de Chatillon*» a Montefibre (1918-1972), in «*Studi Storici*», 1, 1992, pp. 217-233, now in A.M. FALCHERO, *Studi di storia della grande impresa in Italia*, Milano 2001, pp. 11-32; ASBI, Reports by the Aosta branch, various years.

⁴⁸ More short-lived was Morgex-Carbo, opened in 1963 at Morgex, on a site already owned by Cogne, for the production of graphite and silicon carbide electrodes, which closed in the 1980s. Moreover, it was the only large industrial establishment – except for the Cogne mine – located above Aosta.

⁴⁹ M. LÉVÊQUE, *L'autonomia al bivio*, pp. 55-57; A. PINCHIERRI, *Industrializzazione dipendente e classe operaia in una microregione alpina*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, pp. 593-617.

⁵⁰ Calculations on Istat data, *Censimento dell'Industria e dei Servizi*, various years.

of regional autonomy⁵¹. As regards employment, management of the numerous powers devolved by the state has increased staffing levels in public offices, the regional administration in particular, which have over time become employers of prime importance. In fact, whilst in 1951 the public administration as a whole – including the civil service – and public services (including education and health) accounted for just under 6.5% of total employment, by 2001 it had risen to around 33%⁵². A significant part of expenditure by the region has been allocated to a large-scale public works programme – from the Mont Blanc and the Gran San Bernardo tunnels to the motorway – and to direct financial intervention in support of businesses. Particular attention has been paid to an agricultural sector in rapid decline, especially in consideration of its environmental function. In 2001 more than one-third of the schemes concerned agriculture, for a total of 59.4 million euros, compared with the sector's value added of around 41 million euros in the same year⁵³. Although less conspicuous, schemes in the industrial and tourist sectors have also been of great importance⁵⁴. Over the years, Finaosta, the region's finance institute created in 1982, has expanded its presence in various areas, reaching, in 2001, holdings to a total of 553 million euros, with control over endowment funds totalling 1,253.8 million euros⁵⁵. These summary statistics highlight the weight of the public sector, particularly of the regional government, in the Valle d'Aosta's economy. Whilst over time this has attenuated the negative effects of restructuring, dampening the impact of difficult economic conjunctures, and creating protected areas for employment and local enterprise, criticisms have emphasised this system's distortionary effects on growth processes and

⁵¹ On the historical and legal bases of the Valle d'Aosta's autonomy see J. LUTHER, *Aspetti costituzionali dell'economia valdostana*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, pp. 743-772; E. MARTIAL, *Un dopoguerra lungo cinquant'anni*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, pp. 773-843 and M. CUAZ, *Alle radici di un'identità: studi di storia valdostana*, Aosta 1996.

⁵² Calculations on Istat data, *Censimento della Popolazione*, various years. See M. LÉVÊQUE, *La Valle d'Aosta: un modello di sviluppo «regionecentrico»*, in S.J. WOOLF (ed.), *La Valle d'Aosta*, p. 874.

⁵³ BANCA D'ITALIA, *Note sull'andamento dell'economia della Valle d'Aosta*, Aosta 2002, pp. 26-27. In 1989 transfers in favour of the sector amounted to more than 130 billion lire, compared with value added of around 85 billion. M. LÉVÊQUE, *L'autonomia al bivio*, p. 50.

⁵⁴ See in general *ibidem*, pp. 66-97.

⁵⁵ BANCA D'ITALIA, *Note sull'andamento*, p. 27.

the consequent risks of an excessive concentration of economic and political power⁵⁶.

2. Sondrio

Like the other Alpine provinces, Sondrio suffered relatively limited war damage. The problem instead was the province's adaptation to the new conditions created by the opening of markets in the post-war period and participation in the dynamics of development of those years⁵⁷. The province performed poorly, considering that it was part of the richest and most dynamic region of the country: Lombardia. Once again, the underlying dynamics were a slow and relatively delayed abandonment of unprofitable agriculture⁵⁸, the growth of first the industrial sector and then services, against the background of substantial emigration and cross-border work in nearby Switzerland. But the dynamics of transformation were sluggish⁵⁹. Located in the province of Sondrio were a number of large

⁵⁶ See e.g. L. GILLO, *I mutamenti dell'identità valdostana*, in S.J. WOOLF - A. AMANTIA (eds), *Identità regionali nelle Alpi*, Belluno 1999, pp. 113-131.

⁵⁷ On the evolution of the province of Sondrio's economy in the 1900s see P. GALEA, *Tradizione e modernizzazione nello sviluppo economico valtellinese del secondo dopoguerra (1945-1975)*, in G. RUMI - G. MEZZANOTTE - A. COVA (eds), *Sondrio e il suo territorio*, Milano 2001, pp. 415-461; A. LOCATELLI, *Tra agricoltura e industria negli anni 1880-1945*, in G. RUMI - G. MEZZANOTTE - A. COVA (eds), *Sondrio e il suo territorio*, pp. 365-413; M. PANIGA, *La Provincia di Sondrio negli anni della ricostruzione (1945-1951)*, in «Storia in Lombardia», 27, 2007, 2, pp. 35-56; A. QUADRO CURZIO (ed.), *Valtellina: profili di sviluppo*, Sondrio 1993; A. QUADRO CURZIO (ed.), *Valtellina: profili di sviluppo 1998. Una provincia tra localismo e globalismo*, Milano - Sondrio 1998; E. RULLANI, *L'economia della provincia di Sondrio dal 1871 al 1971*, Sondrio 1973; F. TARGETTI - F. LECHI - S. PIVATO - G. FORESTIERI, *Lo sviluppo economico della provincia di Sondrio*, Milano 1979.

⁵⁸ In 1951 the Sondrio branch of the Bank of Italy wrote: «This is impoverished agriculture tied to heavy and tenacious human labour that should be helped with every means possible if the depopulation of the mountain areas is to be prevented. One observes the constant exodus of families descending to the plains, seeking less miserly land and more comfortable lives: but meanwhile overcrowding and unemployment in the great Po valley increase, and capital and labour are diverted from the mountain areas», ASBI, Bdi, *Studi*, pratt., no. 459, fasc. 1, p. 3.

⁵⁹ On the uncertainties of modernisation since the previous century see G. SCARAMELLINI, *Valtellina e convalli nel «lungo Ottocento»: vocazioni, domande economiche, mutamenti. Riflessi di una transazione incompiuta*, in A. LEONARDI (ed.), *Aree forti e deboli nello sviluppo della montagna alpina*, Trento 2001; C. BESANA, *La vita economica negli anni della maturità dell'equilibrio agricolo-commerciale*, in G. RUMI - G. MEZZANOTTE - A. COVA (eds), *Sondrio e il suo territorio*, pp. 329-363.

industrial firms, such as the Fossati textiles company, whose mill in the provincial capital employed more than 2,000 workers⁶⁰, Carcano at Delebio, established in 1947 for aluminium milling, the Masino chemicals works at Ardenno, which produced calcium carbide, Metallurgica Martinelli at Morbegno; and then food processing and conservation firms like Rocca, Ghislanzoni and Biffi, or the Splügen brewery of Chiavenna. Moreover, there was the large-scale presence of the hydroelectric industry, although this had a significant impact on employment only until completion of the power stations in the early 1960s⁶¹. As in many other Alpine areas, also in the province of Sondrio the industrial firms of large size were run by external capital and entrepreneurship. During the 1950s, these firms were flanked by new industrial undertakings, also with the support of location incentives. Of particular importance for the province of Sondrio, besides the national-level support measures for depressed areas and the development of small and medium-sized enterprises, was the role of the mountain catchment basin consortia (ConSORZI dei Bacini Imbriferi Montani, BIM). From 1958 onwards, on the basis of the 1953 law, BIM managed for local development purposes the extra fees on water concessions for electricity generation charged to the companies owning the power stations. In the late 1950s and early 1960s, these fees amounted annually to around 650 million lire, roughly equivalent to around 6 and a half million of today's euros, while currently the BIM of Adda receives around 11 million euros a year. The money was used mainly to issue loans to communes, and loans and grants to industrial and service enterprises, although investment in public works was still low⁶². However, the

⁶⁰ The mill was constructed at the end of the 1800s with Swiss capital (Spelty & Keller) to produce yarns for Fossati of Monza. It was subsequently divided between spinning and weaving in Sondrio and manufacturing at Adda di Berbenno, all belonging to Fossati. On entering crisis at the beginning of the 1970s, the establishments were taken over with public capital by Tescon of the group ENI.

⁶¹ See C. PAVESE, *La valorizzazione energetica delle Alpi lombarde (1900-1960)*, in A. BONOLDI - A. LEONARDI (eds), *Energia e sviluppo in area alpina (secc. XIX-XX)*, Milano 2004, pp. 79-103 and C. PAVESE, *Realizzazioni idroelettriche e società locale in provincia di Sondrio nel secondo dopoguerra (1945-1962)*, in A. BONOLDI - T. ROSANI (eds), *I cantieri dell'energia. 1946-1962: impianti idroelettrici in Val Venosta e nelle Alpi centrali*, Bolzano 2007, pp. 279-299.

⁶² Until 1965 the BIM of Adda collected 7,400 million lire, 5,759 million of which were distributed as follows: 35% to communes, 16.8% to agriculture, 44.6% to industry and services, 1% to hospitals and nursing homes, 2.6% for sundry uses. Of particular importance was aid to industry: around a hundred firms received development funding, with the creation of 3,600 new jobs, ASBI, BdI, *Studi*, Pratt., no. 930, doc. 3, p. 37. See also F. MONTEFORTE, *Correnti e lotte politiche in provincia di Sondrio dalla prima guerra*

newly-created industrial and artisanal firms, which expanded in the early 1960s, were hit by the 1963 economic crisis. Nonetheless, over time there arose a system of small and medium-sized enterprises, many financed by local capital, which were relatively non-specialised and less vulnerable to economic fluctuations. This process benefited – besides regional, local and national facilities – also from the local population's high propensity to save. In 1956 the manager of the local branch of the Bank of Italy wrote, somewhat melodramatically: «[The people of the Valtellina] work extremely hard and save beyond description, living by sacrifices; there is very extensive saving in Valtellina, but thousands of families, in order to set aside the little money which they then take to the banks and the post offices, lead, on the mountains and also in the minuscule and numerous villages of the valley bottom, a wretched existence in promiscuity, one might say, with their few head of cattle, which, together with a scrap of land, constitute their only assets»⁶³.

Such behaviour, which ranked the province of Sondrio higher in the national classification table for saving propensity than in the table for income, was reflected on the one hand in the self-financing of firms, and on the other in the good liquidity of the banking system. The latter was characterised by the preponderant (fully 80% of both deposits and loans in the early 1960s), and in a certain period exclusive, role of the two cooperative credit institutes long established in the province: the Catholic inspired Piccolo Credito Valtellinese and the Banca Popolare di Sondrio. The embeddedness of these banks in local society made it possible to overcome, at least partly, the problem of information asymmetries connected with credit management, thus generating a good flow of financing for local small and medium-sized firms⁶⁴. As the tertiary sector expanded and diversified, also the tourism sector developed, although its growth was partly hampered, like that of other local activities, by inadequate infrastructures and distance from large communications links⁶⁵.

mondiale alla repubblica, in G. RUMI - G. MEZZANOTTE - A. COVA (eds), *Sondrio e il suo territorio*, pp. 125-126.

⁶³ ASBI, BdI, *Studi*, pratt., no. 872, doc. 9, p. 2.

⁶⁴ M.A. MAGGIONI - M. NOSVELLI, *La struttura del sistema economico*, in A. QUADRIO CURZIO (ed.), *Valtellina*, pp. 90-101.

⁶⁵ On this see P. GALEA, *Tradizione e modernizzazione nello sviluppo economico valtellinese del secondo dopoguerra (1945-1975)*, in G. RUMI - G. MEZZANOTTE - A. COVA (eds), *Sondrio e il suo territorio*, pp. 441-448.

V. LOCAL AUTONOMIES

Specific discussion is required of the provinces which, for complex historical and political reasons, enjoy specific administrative and legislative autonomy within the Italian republic. Belonging to this category, among the areas analysed in this study, are Valle d'Aosta and Trentino-Alto Adige. The latter was initially an autonomous region but then, in the 1970s, most competencies were divided between the two new autonomous provinces of Trento and Bolzano⁶⁶. Autonomy takes the form of the attribution to local administrations (autonomous Regions and Provinces) of powers, both administrative and legislative, which elsewhere pertain to the state. This devolution concerns various sectors, from public administration to incentives for firms. It also gives rise to a distinctive financial endowment which, as well as specific revenues deriving directly to the local governments, consists (in largest part) of state transfers. In this way not only does almost all the fiscal yield in the autonomous province return to it for use *in loco* but, taking all budget items into account, the resources available are greater than the fiscal contribution. In substance, in relation to the national community, the Alpine local autonomies are net receivers. This situation also transpires from the data collected by the newly-introduced system of local public accounts⁶⁷. Inspection of these figures immediately highlights the peculiarities in public finance terms of the autonomous regions, and particularly the alpine provinces considered here, compared with the rest of central and northern Italy.

The Valle d'Aosta and the two autonomous provinces of Trento and Bolzano have amply positive fiscal residues – that is, differences between expenditure and revenues. The public administrations in these provinces spend more than they receive, for an amount varying from the annual

⁶⁶ For a general reconstruction of the events leading up to the granting of autonomy to Trentino and Alto Adige see P. POMBENI, *La grande trasformazione. Il Trentino nel secolo breve 1919-1989*, in LEONARDI A. - POMBENI P. (eds), *L'età contemporanea (1918-1992)*, (*Storia del Trentino*, IV) Bologna 2005, pp. 19-40 and G. FERRANDI - G. PALLAVER (eds), *La regione Trentino-Alto Adige/Südtirol nel XX secolo: I. Politica e istituzioni*, Trento 2007. For a critical analysis of the Trentino economy in the 1900s see A. LEONARDI, *Le traiettorie dello sviluppo: verso la conquista di un benessere generalizzato*, in A. LEONARDI - P. POMBENI (eds), *L'età contemporanea (1918-1992)*, (*Storia del Trentino*, IV), Bologna 2005, pp. 41-71.

⁶⁷ This is a system for the survey of the flows of public finance to local governments. It was created by the Ministry of Economic Development, Department for Economic Development, to address concerns about the reliability of data. The surveys have been conducted since 1996.

Table 3. *Revenues and public spending of the autonomous Alpine regions and provinces and in central and northern Italy (annual per capita averages 1996-2006, thousands of euros at 2006 prices)*

	per capita revenues	per capita spending	per capita fiscal residue
Valle d'Aosta	15,89	19,70	3,81
Bolzano	14,95	16,05	1,10
Trento	14,87	16,25	1,37
Centre and North	14,53	13,13	-1,40

Source: calculations on Conti Pubblici Territoriali data.

average of 3,810 euros per capita of the Valle d'Aosta to the annual average of 1,100 euros per capita of the autonomous province of Bolzano; whereas citizens in central and northern Italy pay more than they receive in terms of an average per capita expenditure of 1,400 euros a year. Also various regions of southern and insular Italy have positive fiscal residues but per capita added values below the national average, which would seem to be better justification for redistributive action by the state. In regard to Sondrio and Belluno – the Alpine provinces belonging to ordinary statute regions – although data are not available at provincial level, it is likely that they have much less favourable fiscal residues (the regions to which they belong – Lombardia and Veneto – have largely negative fiscal residues).

Backward projection of these data is difficult, because modes of financing have changed since the institution of the autonomous provinces and regions, and reliable tools with which to describe the situation in the past are largely lacking. During the second half of the 1900s, the financial endowments of the autonomous provinces tendentially increased⁶⁸. In the mid-1980s, the consolidated total of government spending and regional revenues amounted, per capita, to 6,681,000 lire for the Valle

⁶⁸ In the mid-1980s, it was estimated that in the previous twenty years the resources available to the autonomous provinces had grown, in real terms, almost twenty-fold, as opposed to a five-fold increase in the state budget net of transfers to local administrations and of interest: G. CERIA - I. DALMONEGO - F. DEBIASI, *Le regioni a statuto speciale: profile istituzionali e finanziari*, Milano 1989, p. 161. In the case of the Valle d'Aosta, during the 1980s, following the agreement reached in 1981 with the state on the allocation of fiscal yield, public spending grew, in real terms, about three-fold: M. LÉVÉQUE, *L'autonomia al bivio*, p. 84. In the same period, spending by the autonomous province of Bolzano increased by 50.7%. S. FIDENTI, *La finanza e il bilancio della Provincia Autonoma di Bolzano: un manuale introduttivo*, Bolzano 1998, p. 89.

d'Aosta, 3,181,000 lire for the province of Trento, 3,232,000 lire for the province of Bolzano, but only 2,357,000 for Campania and 1,581,000 for Lombardia⁶⁹.

The question is to what extent the 'fiscal advantage' enjoyed by the autonomous provinces, also taking account of the expenses connected with their wider competences, has positively influenced the dynamics of development, considering the high incidence of investment spending in the public finances of the autonomous provinces⁷⁰. We have seen that, for the Valle d'Aosta, autonomy has meant that public intervention in the economy has notably increased. However, assessments of the effects of such activity have frequently been critical, emphasising its negative aspects. In 1965 the annual report of the Aosta branch of the Bank of Italy, in light of unsatisfactory dynamics of local growth and structural transformation, remarked: «Autonomy has given a new and different character to many aspects of the Valley's life, but in the economic field it has not been able to give proper impetus to the presuppositions of progress and the perspectives of development that the public government at regional level – given its capacity for clearer and immediate insights into problems and situations and more rapid decision-making – could perhaps have given»⁷¹.

The question is of special importance in light of the multiplicative effect of public spending on a local economy, bearing in mind the importance of public demand as well as of capital spending by the autonomous provinces and regions. A study on the Valle d'Aosta conducted some years ago reported that, in a hypothetical scenario of fiscal federalism in which a local administration would be able to rely (unlike today) solely on the fiscal yield produced *in loco*, gross domestic product would decrease by

⁶⁹ G. CERIA - I. DALMONEGO - F. DEBIASI, *Le regioni a statuto speciale*, p. 131. The calculation method used makes it possible to show the amount of resources available to the autonomous provinces, the calculation of which, given the data of the period, is less precise if other indicators are used. It should also be pointed out that these data are useful mainly for a synchronic comparison, whilst comparison with the values from the *Conti Pubblici Territoriali* is difficult because these are obtained using different criteria.

⁷⁰ *Ibidem*, pp. 161-163. This has certainly contributed to the fact that in the period 1995-2002 Trentino-Alto Adige and Valle d'Aosta recorded the highest annual average accumulation rates (gross fixed investments/value added at base prices) among the Italian regions (respectively 28.7% and 25.1% against an average 18.7% for central and northern Italy), with the crucial contribution of public investments. Calculations on Unioncamere - Istituto Tagliacarne data.

⁷¹ ASBI, BdI, *Studi*, pratt., no. 472, doc. 6, p. 1.

12%⁷²: a percentage which would probably be lower for Trentino and Alto Adige, but still not negligible⁷³.

VI. CONCLUSIONS

It emerges from the foregoing discussion that, since World War II, the Italian Alpine provinces have generally converged on the economic indicators for the richest and most productive part of the country, albeit with different timing and in different ways. However, a survey by Censis has instead reported the prevalence of continuing hardships in many other mountain areas of the country⁷⁴.

Only in the 1970s did legislative measures in support of mountain areas begin to envisage ways to promote their economic and social development. Instead, the predominant approach was to distribute financial aid, often substantially but indiscriminately. In many cases, provisions for intervention have been prompted by emergencies. The 1952 law was partly induced by the hydrogeological disasters of the previous year. The collapse of the Vajont dam on October 8, 1963, with 1910 victims gave rise to legislation with important impacts on the economic development of the areas concerned – as has happened more recently with the Valtellina law enacted after the 1987 floods. In various areas, an important role has instead been played by the mountain catchment basin consortia (BIM), which have reinvested for public benefit, on the basis of the 1953 law, the water surcharges levied on hydroelectric installations. The autonomous regions and provinces have seemingly been able to profit from their circumstances. Their broad margins for self-management have frequently favoured efficient solutions to problems, and often with the involvement of local communities. This, however, has been made possible by transfers of state resources in amounts larger than the local fiscal yield⁷⁵.

⁷² G. BROSIO - F. REVELLI, *I costi e i benefici economico-finanziari dell'autonomia e dell'integrazione: i rapporti fra l'Italia e la Valle d'Aosta all'interno dei scenari istituzionali alternativi*, Aosta 2000.

⁷³ Perhaps requiring revision in light of the most recent data are the conclusions of a study which argued that a hypothetical 'federalist' system would not have substantial effects on Alto-Adige public finance: O. LECHNER - A. WISENEGGER - G. TAPPEINER, *Gettito e spesa dello Stato in Alto Adige: un bilancio locale*, Bolzano 2001.

⁷⁴ CENSIS, *Il valore della montagna italiana*.

⁷⁵ However, these specific circumstances give rise to a number of problematic aspects which today give cause for concern. Among them is the high incidence of public spending

Yet this does not mean that development has been driven solely by public spending. It should be borne in mind that various sectors of the Alpine economies – tourism, hydroelectricity generation and quality foodstuffs – have profited from the diffusive effects of growth in the rest of the country. The diversification of local economies has also been brought about by relationships with the regions of reference: the recent economic growth of the province of Belluno, for example, has been indubitably due to the model of development consolidated in the rest of Veneto.

An important role has then been performed by communication axes. The areas traversed by international traffic routes – the same areas that enjoy autonomy, i.e. Valle d'Aosta and Trentino-Alto Adige – have certainly profited from them⁷⁶. In the second half of the 1900s, the creation of important communication infrastructures (motorways, tunnels) not only favoured the entry of local economies into international markets but also created employment – although apparent today is the harmful impact of the great increase in traffic flows⁷⁷.

In short, during the second half of the 1900s, the progress achieved by the economies of the Italian Alpine provinces in converging on national development was generally marked, albeit with individual differences, by the scaling back of agriculture, an emphasis on production diversification, and increasing integration with surrounding areas. The process was not simple and linear, also because of the difficulties of the Alpine communities in adapting to a situation that required them to abandon traditional practices and adopt different attitudes to new activities and different actors⁷⁸.

on value added, the underdevelopment of research and development and low participation in R&D by private firms, and the uncertain long-period effects of public incentives to enterprises. For Trentino see R. GABRIELE - M. ZAMARIAN - E. ZANINOTTO, *Gli effetti degli incentivi pubblici agli investimenti industriali sui risultati di impresa: il caso del Trentino*, in «L'Industria: rivista di economia e politica industriale», 28, 2007, 2, pp. 265-280.

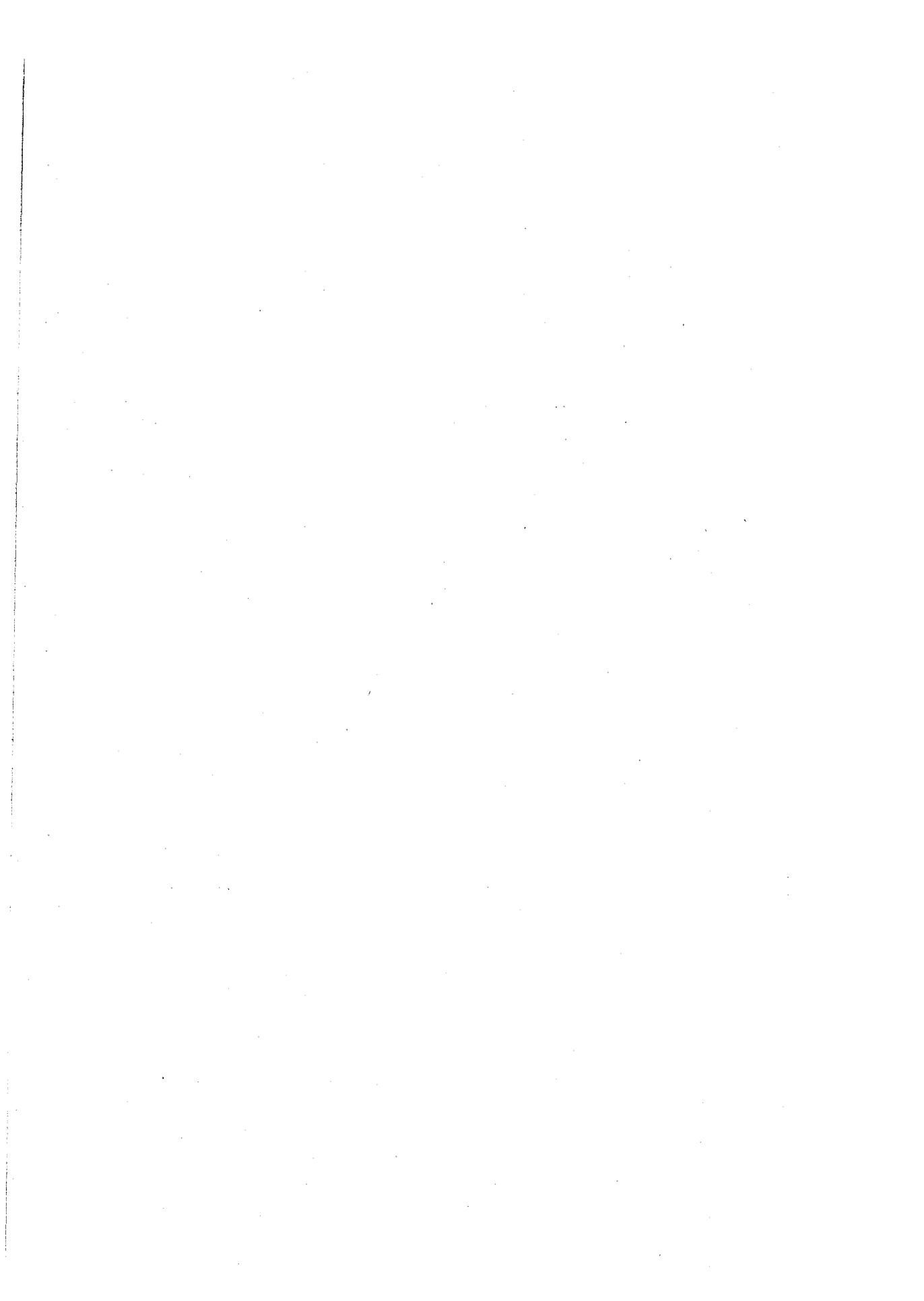
⁷⁶ On Trentino-Alto Adige see M. RIEDER, *Von Wandlungen von Territorialität: Transnationalisierung im Alpenwirtschaftsraum seit der EWG*, in «Geschichte und Region / Storia e regione», 16, 2007, 2, pp. 147-177.

⁷⁷ In the period 1995-2005, Trentino-Alto Adige recorded an average index of road goods traffic (tonnes per inhabitant) of 38.7, against an average of 27.5 for central and northern Italy. Moreover, traffic is massively concentrated in the Adige and Isarco valleys, with increasing environmental costs. Calculations on Istat data.

⁷⁸ See P. NERVI, *Ruoli agricoli ed extra-agricoli*, in «Montagna oggi», 41, 1995, 7, pp. 25-28.

Economic development is thus a major component of a modernisation process which in Alpine areas has exhibited non-linear patterns long characterised – and still today – by the coexistence of traditional activities, principles, and practices, and attitudes closer to the models of the strongly urbanised society of the lowlands, first industrial and then post-industrial. The Italian mountain areas are therefore complex realities which cannot be easily correlated with the simplistic dualism that still too often contrasts exogenous pressures for modernisation with the endogenous conservative resistance of the Alpine communities⁷⁹.

⁷⁹ See on this the incisive comments by P.P. VIAZZO, *Transizioni alla modernità in area alpina. Dicotomie, paradossi, questioni aperte*, in «Histoire des Alpes – Storia delle Alpi – Geschichte der Alpen», 12, 2007, pp. 13-28.



Marginal in Strong Areas

The «Mediocredito Regionale Lombardo» and the Organisational Structure of the Medium-Term Corporate Lending Banks under the Guidance of Giordano Dell'Amore

by *Pietro Cafaro* and *Andrea Locatelli*

I. THE WAYS TO A POSSIBLE DEVELOPMENT¹

1. *The «creditable project» by Giordano Dell'Amore*

During the ICCRI (Credit Institution of Italian Savings Banks) management board meeting in July 1953 Paolo Ricaldone, Cassa di Torino president, stated:

«During our last session we decided to postpone to our next meeting the analysis of our colleague Prof. Giordano Dell'Amore's proposal concerning the new direction we would like to give to our Institute, that is to mainly encourage the financing of small and medium companies over big groups»².

Abbreviations: ASBI = Archivio Storico della Banca D'Italia [Historical Archives of the Bank of Italy]; ASI-MCL = Archivio Storico di Banca Intesa, Mediocredito Lombardo [Historical Archives of Banca Intesa, Mediocredito Lombardo]; ASI-MCL, serie Assireme = Archivio Storico di Banca Intesa, Mediocredito Lombardo, Archivio del Comitato di Collegamento fra Mediocrediti (poi Associazione ASSIREME) [Historical Archives of Banca Intesa, Mediocredito Lombardo, Archives of the Joint Committee of Medium Term Lending Banks (later ASSIREME Association)]; ASI, Patrimonio Cariplo = Archivio Storico di Banca Intesa, Archivio Cassa di Risparmio delle Province Lombarde [Historical Archives of Banca Intesa, Archives of the Cassa di Risparmio delle Province Lombarde, Cariplo patrimony]; CA = Verbali del Consiglio di Amministrazione [Minutes of the Board of Directors]; CBB = Verbali della Commissione Centrale di Beneficenza [Minutes of the Central Charity Committee]; R. = Relazioni annuali al bilancio [Annual Balance Reports].

¹ Chapter 1 and 3 by Pietro Cafaro, Chapter 2 by Andrea M. Locatelli. All the tables and graphs in the paragraphs are by Locatelli, who took them from the balance sheets and the reports of Mediocredito Regionale Lombardo. See A. LOCATELLI, *La Banca delle imprese. Storia del Mediocredito Lombardo. Fonti per la ricostruzione storica*, Roma - Bari 2003. The authors would like to thank Dr. Francesco Pino, head of the Historical Archives of Intesa Sanpaolo

² Extract from the minutes of an ICCRI board of Directors meeting in July 1953, intervention of Paolo Ricaldone, in ASBI, Direttorio, Menichella, c. 97.1; ASI, Cariplo property, f. 11.

And he continued:

«Considering the loftiness of the social feelings that led Prof. Dell'Amore to make his proposal, as it is always praiseworthy to help the weaker, and also in order to ease his mind from this concern, since, if I'm not wrong, he also talked about this matter during the last directors' technical conference session, I think it was necessary to talk about this from the very beginning, thus analysing his proposal under all its aspects, that is under the ICCRI's charter, its purposes, economic possibilities and future».

Then he listed in detail the reasons why the institution, «a financial institution and not a bank», was not allowed to work with big enterprises, but only with small and medium companies.

2. *Small companies and economic growth: Giuseppe Pella's bet*

How at the end of the '40s and at the height of the reconstructive policy era, the idea of giving life to a series of organisations whose main aim was to sustain the needs of small and medium companies came into being, is reliably evidenced by their main promoter, the Christian Democrat senator Giuseppe Pella³, at that time Minister of the Treasury and, *ad interim*, of the Budget.

On April 28, 1950, during the tenth Board of the Chamber of Deputies (Industry Commerce and Tourism), the debate on the bill *Financing the small and medium businesses*⁴ introduced by Pella himself in January⁵ seemed to be at a standstill: in the first part of the debate, held in the last session, on March 22⁶, many objections were raised, and Mr. Gioacchino Quarello, President of the Board, stated «the Minister ought to intervene in order to clarify the situation».

The doubts of most of the members of the Board, first of all of the President himself, seemed not to be connected with the most crucial

³ M. NEIRETTI (ed.), *G. Pella. Attualità del pensiero economico e politico*, Biella 2004. For our study see D. IVONE, *La politica economica di Giuseppe Pella*, in M. NEIRETTI (ed.), *G. Pella. Attualità del pensiero*, pp. 135-158.

⁴ Compare with the minutes of the meeting contained in *Official Records of Parliamentary Proceedings*, Chamber of Deputies, Committee Stage, 10th committee, sitting of April 28, 1950, pp. 251-267. The ruling followed procedure n. AP 1032.

⁵ Compare with *Official Records of Parliamentary Proceedings*, Chamber of Deputies, Debates, sitting of January 31, 1950, p. 14733.

⁶ Compare with the minutes of the whole sitting contained in *Official Records of Parliamentary Proceedings*, Chamber of Deputies, Committee Stage, 10th committee, sitting of March 22, 1950, pp. 177-192.

theme of the matter, i.e. if it were necessary to sustain the small and medium companies, that had come out of the war in a sad plight, even worse than the big ones, but with a series of matters that in the end led back to the substance of the matter which split Italian politics at that time: to what extent should the government intervene in the economy.

The socialist Giovanni Pieraccini, for instance, thought that it was absurd to give life to «regional» specialised lending banks without a fund of the Treasury, but only with a basic system provided by «banks pooled with these institutions by issuing bonds or interest-bearing securities». According to him, for the time being, the country had no «reliable chance to finance small and medium companies by issuing new bonds, as these were generally at a standstill – even in the stock exchange field»⁷, furthermore the result of such an action couldn't be other than an unacceptable level of the cost of money for the small and medium businesses, as the bonds would inevitably have to be issued at a market price.

If the communist Cesare Dami agreed with him, not all Christian Democrats agreed with those who introduced the law. Gioacchino Quarello was not satisfied with the statement of the Neapolitan Christian Democrat Luigi Rocco's statement, the advocate of the bill who introduced the matter emphasising the need of completing those parts of the law concerning banks which, at that step of the debate, didn't provide the possibility to give medium and long term credit to the small companies of Northern Italy, the area where this kind of company was mostly present. If the major companies could rely on Mediobanca, EFIBanca and Istituto Mobiliare Italiano, the smaller ones could, at the best, count on the financial instrument recently introduced by country banks at the best, i.e. Centrobanca. Nevertheless this might not have been the case, since financing major companies was more profitable for this bank too, at least according to documents⁸.

Thence the idea to give life to «regional banks, specialised in issuing medium and long term funds to small and medium companies, covering also those regions where they were not present»; and [Mr. Luigi Rocco] continued: «Such institutions will be created by banks and credit institutions as per the bank bill no. 375 of March 12, 1936, and also by other

⁷ *Ibidem.*

⁸ The situation in the South was slightly different: beyond the southern banks' sections addressing industries, here «the ISVEIMER, which had one billion in capital, also issued bonds», these situations were linked to the major credit institutions, specialised in financing the small and medium enterprises.

societies: thus whatever risk will be split and the proper profits equally distributed among the sharing institutions».

Thereafter the bill's advocate dwelled upon the advantages for such institutions: «1. Let the pooled banks, with a limited and shared risk, give credit exclusively based on the regional territory, i.e. on a precise area and in a certain field; 2. Guarantee loans and lower the costs for the companies asking for them; 3. Also give only locally known companies the chance to benefit from a justified bank credit».

According to the President, Mr. Quarello, this was pure utopia: he wondered why the credit institutions operating in a certain region should limit their exclusive power on their assets in order to give life to a fund for companies that were only partially controlled by them? They could better have entitled those institutions, directly or by special sessions, to finance small firms at the medium or long term. In other words, the banks introduced in the bill were running the risk of being expensive copies of the institutions already active on the territory, or even worse, improper elements in an already well organised credit market⁹.

Hence, on that Friday, April 28, 1950, Mr. Gioacchino Quarello invited Mr. Pella to take part in the board meeting. The Minister of Treasury fully explained what was his and what the other project, that is a bill that should not entitle the government to directly intervene in matters of economy: this free trader mentality, up to then peculiar to his political behaviour, could never have been contradicted by this.

«First of all, I want to clarify that the purpose of the bill itself is not to give small and medium companies the needed funds. This measure provides the means and the methods to be used to enable the companies to get the needed funds».

And he explained the steps that led to such a proposal in full detail. Then he replied in detail to those who claimed not to understand the reasons why this was the advisable solution:

«We said: if you, credit institutions, want to intervene to solve this matter, then you should assemble in law institutions such as joint-stock companies or other legally recognised partnerships. Such institutions can have very low administrative costs, since they are not allowed to accept savings, thus not having any open deposit counter, they end up having very low managing charges and they only need few offices to analyse the loan requests they receive ... The other one is the great deal of work they have on bond allocation,

⁹ Mario Saggin, another Christian Democrat, and others, such as Natale Menotti, Saggin's colleague, immediately agreed with what the President had stated: if new institutions had been created without the state's help, then it would have been better not to create them.

which is the only way they have to provide funds, and which has great impact on the institutions' general expenses. First of all we believe we can rely on these low costs».

Then he pointed out that, in addition to the reserve fund provided by the pooled institutions, bonds could be allocated to savers.

Thereafter he stressed how important it was that such institutions acted on a limited territory, since small and medium credit-worthy companies should be identified and chosen in a more empirical way than the bigger ones.

Of course the Minister was not able to convince all the board members: Mr. Pieraccini, in particular, stated that Mr. Pella's speech confirmed his previous doubts. He believed that such a bill wasn't necessary at all.

Furthermore, even in case of a partial success, this law would have created a considerable gap between the northern regions, provided with «an adequate bank system and [a] more active economy», and the country's underdeveloped areas, where small and medium companies could never have succeeded. And he ended, they might as well have clearly stated that they didn't want small companies to succeed.

Thence an intense debate arose, Mr. Pella intervened in order to sustain his position, and of course he didn't change his mind, supported by Mr. Giuseppe Togni, Minister of Industry and Commerce, whereas Mr. Pieraccini was supported by the other socialist in the board, Mr. Vannuccio Taralli, whose arguments were not always adequate.

If the two ministers were perfectly aligned, Rocco, the bill's advocate, and other Christian Democrats such as Aldo Fascetti, for instance, started to be interested in a compromise solution.

Therefore, when the single articles of the bill were analysed, the Christian Democrat Giovanni Gasparoli, M.P. for the province of Varese, proposed an amendment relevant to the follow up of the [legislative] measure: he asked to add the following sentence «and by any probable government contribution» to «by its own endowment fund», already contained in Article no. 3, which stated how the above mentioned institution could find the necessary funds to provide the credit («besides by its own endowment fund, by the issuing of bonds and interest-bearing securities, as well as by opening credits on current accounts together with the other participants»).

This innovation, accepted also by the senate and not even modified during its brief review, brought a completely different result than Giuseppe Pella

had expected: the bill, issued for small businesses, became a means for subsidising credit in a couple of years, thus advancing a completely different economic policy.

That is why during the 9th Senate meeting, the tone of the debate changed completely¹⁰ and the attention of most participants was attracted by that same matter, even if not clearly perceivably.

Minister Togni herself, who intervened at the meeting of on June 1, faced what had now become the «heart» of the matter. She firmly stated:

«Small and medium companies, which mostly suffer from uncertainty or, anyway, both economical and financial market instability, *must* be helped. At times of lack of social leverage, the small and medium companies – unlike the big industries – suffering from the lack of chances that the big ones have as well as lacking of the financial support from powerful banks need our help, since they represent the pillars of the economy of our country».

This was a precise choice: once stated that according to the law a part of the industry could be assisted with different facilities, though not immediately, it was necessary to explain why small and medium companies should be helped, while penalising the big ones.

It would have been reasonable to show the advantages that the big industry had had in the past, above all concerning the E.R.P. project, but nobody talked about that. On the contrary, some participants, such as the shareholder senator Luigi Carmagnola, sustained the small companies, thus agreeing with Minister Togni and emphasising how «small and medium firms represented the heart of the country's economy». This statement could be taken for granted and was not interesting but for a very important remark, that anticipated the real aims: «Every time we talk about supporting small and medium companies, we say that they employ 70% more manpower than the big ones».

It was clear from the beginning that the debate was shifting from the pure economical to the social convenience of an action that was quite extraordinary at that time, considering the ordinary studies of economic strategy.

¹⁰ Compare with the sittings in *Official Records of Parliamentary Proceedings*, Senate, 1st legislature, 9th Committee, Meeting of May 17, 1950, p. 240 f. and of June 1, 1950, p. 501 f.

3. *Economic development as social development: SME's role*

In the evaluation of the small and medium companies' advantages, the social matter became preponderant, and this becomes clear when we see what happened in parliament in the following two years: after approving the fundamental law according to which the regional medium-term lending banks could be founded (Law 445/1950), a law according to which such institutions should be organised in «pools» was also approved: it was Law no. 949 of July 25, 1952.

The report by the Christian Democrat Aldo Fascetti dated May 5, 1952, for the Chamber of Deputies (who had already started to discuss Law no. 445/1950), clearly explains the situation. In any case, it is essential to understand the framework in which Bill 2511/A and A-bis were considered as well as the law according to which the financing body of the regional medium-term lending institutions depended exclusively on the Ministry of Treasury: the «central medium term credit institution for small and medium companies».

Announced during the Government of De Gasperi on January 31, 1952, the bill aimed at realising «a complex plan of productive investments», as the President of the Cabinet stated during the meeting, in order to «strengthen nine different fields of the national economy». According to what Paolo Peluffo effectively wrote, it was a kind of «secret baptism of future plans» evidently in contrast (or better «in competition») with that *Piano del lavoro* formulated by Giuseppe Di Vittorio during the CGIL Congress in Genoa in October 1949, and mostly done by the Left.

The proposal of the government aimed at incrementing employment by exploiting small and medium companies in both agriculture and industry. Of course not only the method was different but also the result: the work force had to be employed at the best even by exploiting the peculiar features of our productive traditions and by avoiding the excessive mechanisation of the production, so that the social order of the country would not be undermined.

The aim of the laws in support of small and medium companies was to support an economic as well as a socially sustainable growth at the lowest social cost.

During the proposal and the discussion of the law they had to face another problem: what «small and medium companies meant». This was not simple since it set the limits within which the regional credit institutions had to operate.

The set of rules introduced at the beginning of the '50s defined the necessary number of employees as well as the invested capital. Nevertheless, it was a very wide range comprising most of the Italian companies. The real limit was represented by the highest amount of the average credit to be issued. Although it seemed to be a kind of compromise, it was so limited and had such restrictive parameters that it turned out to be an incredibly rigid system instead of an agile and easily developed one.

Furthermore, at that time economists such as Giordano Dell'Amore already thought a rigid definition of the small and medium business based only on quantitative elements not very adequate. Some years later he explained this concept very well: «Against widespread belief, smaller companies are not economically qualified by their small dimensions. Their main feature is that their economy is represented by an entrepreneur, who personally manages the production and the organisation in order to be as efficient as possible»¹¹. This was a very different concept, also developed by other authors since the '50s and recently revised¹², which explains why some reviews of the bill were requested, as Dell'Amore did some years later.

II. AN INNOVATIVE INSTRUMENT

1. *The Lombard prototype*

Although the first example of regional medium-term bank was founded in Piedmont, as we will see in the next pages, the Medio Credito Regionale Lombardo seems to be the most important one for the reconstruction of the history of this kind of institution.

The reasons behind this statement is that Giordano Dell'Amore, the founder and the first president of MCL bank (Medio Credito Regionale Lombardo, i.e. Lombard medium-term lending bank) soon became the real promoter of this type of bank, as well as that the new institution, created in Lombardy, represented a sort of «prototype» useful in other future cases. On the other hand, the structure itself of the Lombard

¹¹ G. DELL'AMORE, *Le caratteristiche economiche delle imprese minori*, in *Problemi e prospettive dell'industria minore in Italia e nel mondo*, Milano 1970, p. 90.

¹² G. ZAPPA, *Le produzioni nell'economia delle imprese*, Milano 1956-1957, I, p. 327; A. DESSY, *Politiche finanziarie e indebitamento nelle piccole e medie imprese*, Milano 1995, p. 5.

banking system, which had gradually grown since the second half of the nineteenth century, was ideal to give life to a «simplified» institution, shared by commercial banks and by trustee savings banks, able to survive without government aid, according to Pella's first plan, which nevertheless would be mentioned in the future plans.

It must be clear that MCL would benefit from special term credit facilities, disbursed by Mediocredito Centrale (MCC), nevertheless it would never be transformed into a bureaucratic disbursing system serving the government as well as the small and medium firms.

Once the institution had been built on a strong self-government basis and integrated into a very well-constructed regional banking «system», Dell'Amore and his team (above all Giovanni Bodio, the MCL general manager) could start to organise other similar institutions in «systems» – that were rapidly going to form in the other northern and central regions of the country – in order to give life to a regular «network». The top management of the «network» should (paradoxically) be based in Milan, the economic capital of the country, whereas MCC, the financing structure itself, should be located in Rome, the political capital of the country. In short, we see a kind of diarchy, even if the roles are inverted, as the institution serves the small and medium firms of northern and, only partially, those of central Italy.

Even if the trustee-savings bank and the medium-term lending banks were complementary and therefore the project was reliable and almost completely conform to Law no. 445 and to the first proposal of Giuseppe Pella (which did not contemplate government financial support), there was a considerable difference to the law: according to the government's project the regional institutions and the many banks should be correlated.

The Chamber of Commerce did not propose as many concrete solutions as the provincial government did, where Giordano Dell'Amore had a seat since 1951. From then Dell'Amore had played the main role in the medium-term credit history, which lasted about thirty years.

Clearly, at that time Giordano Dell'Amore played two main roles both as economic amateur and as a political leader of Milan's province. Later on, when he became a banker too, and was invested with full responsibility over the big Lombard savings bank, the complex project was rapidly carried out.

On December 1, 1952, a couple of days after he succeeded Stefano Jacini as President of the Trustee Savings Bank, he explained to the Central

Charity Board what had been done in order to find a medium-term lending institution in Lombardy¹³.

Some simple but basic rules were pointed out in order to properly run the activity: first of all, the theoretical identification of the potential applicants («the Small and Medium Enterprises» with «no more than 500 employees; an invested capital not higher than 1.5 billions [ITL]; in case it is a joint-stock company, the control must be managed by a firm granting the above mentioned features»¹⁴), which operate in or have corporate head-offices based in Lombardy. In this case, since they required a generic address, once it was verified it was in the region, the government was free to choose the firms which deserved the special terms facilities or not.

Since most of the financing requests came through the sharing banks, there was clearly a run-up to the partition of the current assets both from the municipality and from the other parts of the region.

The convenience for the sharing credit companies was not limited to the collection of accredited rights: the strong cooperation among the requesting firms was consolidated from a short to a medium-long-term one. This system was different from the regional medium-term credit system if compared to the regional medium-term credit system, organised on a regional basis, yet on national relationships. And this was possible thanks to the role of the trustee-savings bank, as well as to the ongoing relationships with the central medium-term credit institution. The relationships among these different subjects [i.e. the sharing companies, Cassa di Risparmio delle Province Lombarde (Cariplo) – the leading party –, the central corporate lending bank] represented a series of more or less perfect, more or less institutionalised systems, partly interconnected, which gave life to a very original structure.

The regional system, appointed according to the law, yet resulting from a consolidated experience, was based on the sharing companies, on the firm that controlled the assets and the board of directors of the MCL. The sizeable savings bank liquidity and the high number of its widespread counters, clearly revealed that the «Ca' de sass» itself (Cariplo) was the

¹³ The creation of the new institution took many months, finally on March 2, 1953, after having overcome procedural and political difficulties, notary Alessandro Guasti drew up a formal deed for the constitution of the merchant bank addressed to medium-term funds to the small and medium Lombard enterprises, called Mediocredito Regionale Lombardo.

¹⁴ G. TAGI - F. SCHIVALOCCHI, *L'Istituto di credito per il finanziamento a medio termine alle medie e piccole imprese della Lombardia*, Milano 1974, p. 1446.

whole structure's leader. That is why the MCL «sub-system» (and this may yet be the most proper definition) was very efficient, being quick to decide and to share targets¹⁵.

Table 1. *The evolution of MCC credit applications*

year	tot. loans	MCC integration	%
1954	4,506	1,250	27.7
1955	6,422	3,128	48.7
1956	8,194	2,141	26.1
1957	10,547	2,783	26.4
1958	9,782	3,841	39.3
1959	10,564	4,284	40.6
1960	10,377	7,279	70.1
1961	41,696	12,209	29.3
1962	64,491	19,086	29.6

Source: R. 1954-1962.

The formally polyhydric, yet pyramid-shaped structure itself was particularly right for the financing as, according to the law, such institutions weren't allowed to collect deposits directly from investors.

Later on, yet very soon, the need for MCL to strengthen its autonomy even in comparison with the other sharing banks, led the institution's top management to look for more reliable sources of financing, which were evidently admitted by the law and provided in the charter, such as fund-raising by issuing bonds. Even if this kind of fund-raising was not as flexible as expected, the institution could have much more autonomy and make medium-long term plans. The same happened with interest-bearing securities: in May 1995 an authorisation was required in order to issue them¹⁶. If the bonds covered long-term requirements, having a

¹⁵ From a technical point of view it was clear: the preliminary investigation was a monopoly of the sharing banks' local agencies and was later transmitted to the medium-term lending bank, which judged it all. The enterprises were submitted to a necessary double-step investigation, since it implied a long-term risk, and even to a three-stepped one when a refinancing by the central medium-term merchant bank was requested. The data contained in the table «The evolution of MCC fund requests» and referred to some particular years contrast the MCC documents (compare with the data by P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo del credito mobiliare negli anni del governatorato Menichella*, in F. COTULA [ed.], *Stabilità e sviluppo negli anni Cinquanta*, vol. 3: *Politica bancaria*, Roma - Bari 1998, pp. 535-536).

¹⁶ MCL presidency at the Bank of Italy, May 19, 1955, in ASI-MCL.

longer average maturity, the interest-bearing securities would cover the medium-term ones.

2. Organised saving for the «productive capacity»

In 1953, MCL policy gave priority to the foundation of new enterprises and to the support of industrial development projects. Both options had to guarantee the increase of the job force¹⁷. Since 1955, as a consequence of a positive market evolution, most of the jobs were in firms and factories.

In the three-year period 1953-1955 the bank received 661 applications for an amount of 15 billion and granted 634 loans for an amount of about 14 billion (193 million euros in 2003). The ratio of demand and grant was about 65%. The not particularly elevated datum indicated a sufficiently rigorous selection process that regarded both the project congruity and the business positioning in the market. In line with the banking tradition of the time, Mediocredito Regionale Lombardo, granted credits on the basis of the profitability and the liquidity and was assured by both internal and collateral patrimonial bonds¹⁸.

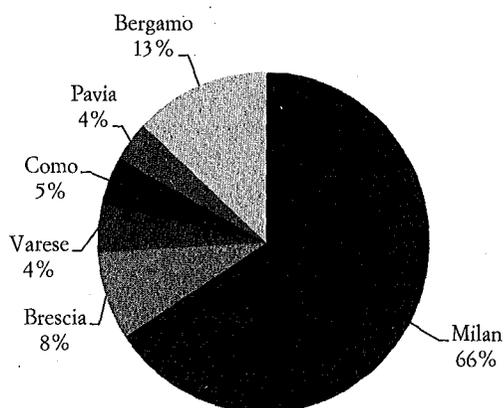
Table 2. Loans for industrial sectors in 1953 (amounts in million ITL)

Industrial branch	no.	Requested amount	Granted amount	% on the total granted amount	Average granted amount
Engineering	61	1,430.5	1,275	51.8	20.9
Textile	15	365	302	12.3	20.1
Building	10	249	219	8.9	21.9
Paper & Printing	13	306	213	8.7	16.3
Food	10	200	165	6.7	16.5
Wood	9	196	139	5.7	15.4
Chemical & Rubber	9	200	109	4.4	12.1
Various	4	53	37	1.5	9.2
Total	131	2,999.5	2,459	100	18.8

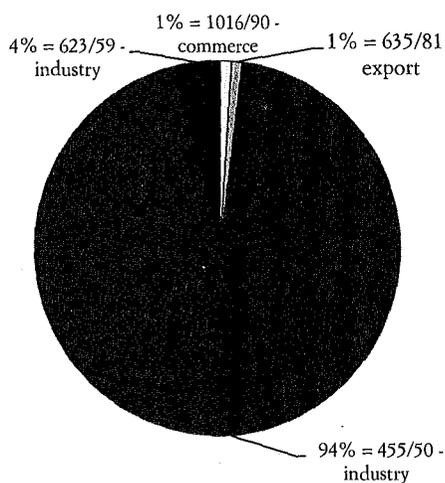
¹⁷ Reports of the Board of Directors 1953-1955 (hereafter Board Report). See A. LOCATELLI, *La Banca delle imprese*, pp. 5-40.

¹⁸ The Institution set up an information collecting system of the category's association addressed to evaluate entrepreneur reliability, by direct contact with the intermediary affiliated banks, participating in the Lombard regional fund of the treasury.

Circle graph 1. *Distribution per province (1953)*



Circle graph 2. *Distribution per sector (1963)*



The financial assistance was mainly addressed to small enterprises, with no more than 100 employees: in 1957, 77% of the grants, mainly issued in Milan and in its province, were bound to them¹⁹. The engineering industries, involved in the innovation processes for the participation in

¹⁹ Milan province registered the highest number of outpayments, representing 68% of the total value in the three-year period from 1953-1955.

the CECA, were first on the list of the trusts: 51% of the value concerned 82 firms in the field²⁰. The chemical, textile, paper & printing and furniture industries followed. In the first five years of MCL activity 14% of the credits were addressed to liquidity reconstitution whereas 86% were addressed to new facilities or new production units²¹.

For the first time in 1958, the requested amount was less than the year before: it decreased from 243 to 197. The reduction was directly due to a lower propensity to investment, due to a slowdown in production, as well as a higher liquidity of the banking system. The application for a special credit in the fifties tended to follow a cyclic trend with an increase of the unit value of the preliminary inquiries. In Lombardy, the adaptation of the productive lines to the market, not only to the national one, involved highly valued brief-term investments for each production unit which led the entrepreneur to work with different kinds of credit. Generally speaking, the credit grant was slower than the demand. In order to contrast this trend the Lombard merchant bank reduced the official interest rate from 6.5% to 6%, in accordance with the official bank rate cut from 4% to 3.5%. In February 1958, the bank had to cut the active rate by another half point due to the new international competitors' situation²².

For the first ten years, the financing activity had involved small enterprises, which focused on different mechanic and plastic productions, as well as on home care appliances or personal care products. They were based in the area surrounding Varese, in the northern part of the province of Milan and in the southern part of Brescia, and last but not least in Milan and in its surrounding area. MCL issued almost 15 billion (ITL) in the northern part of Milan's province and in the area surrounding Varese between 1953 and 1963, 5 billions of which were to enterprises based in Busto Arsizio and in general on the Sempione axis, between Castellanza and Somma Lombardo. 85% of the credits issued in this area according to Law no. 445/50 were provided for the building of new plants or the

²⁰ P. TEDESCHI, *Aux origines de l'intégration européenne. Les A FL Falck, les industriels de l'acier et la création de la CECA*, in M. DUMUOLIN (ed.), *Reseaux économiques et construction européenne*, Brussels 2004, pp. 189-216.

²¹ The considerable amount of outpayments coped with asset growth (from 1.2 to 2.1 billion lire), with a regular trend of refunds and also with some disinvestments. The main financing source was the «rediscount» of MCC, though it was decreasing in importance: in 1957 the average integration was 67% in comparison with 71% in 1956 and 77% in 1955.

²² In parallel, the Central's integrations continued to decrease, reaching a percentage of 57% at the end of 1958.

enlargement of the old producing structures of engineering enterprises. The remaining 15% was assigned to the garment industry. In the area surrounding Brescia, the medium-term lending bank consolidated its importance to the basic and specialised engineering industry, as well as new production fields, such as plastic or household goods. The textile, the food and above all the commercial sectors played a marginal role.

Between 1962 and 1964 Lombardy had the highest growth rate of credit applications and, at the same time, of grants. For instance, in 1962, 97 out of 97 requests were accepted, which meant that the projects were valid and that the enterprises' patrimonial reliability was positively valued. On the other hand, the growing trend of these three years positively influenced the evaluation of the projects, therefore the requested credits reached an average amount of 8 billion (ITL). The rapidity of the industrialising processes itself, thus led to a sort of dualism not only from the technological point of view but also from the geographical one²³. Big industries started to consolidate around Milan and in the southern part of the Brescia plain, whereas smaller ones grew in the cities, which were rapidly changing and transforming. In some cases, having a simple and private structure, the small firms were able to reach different markets from the local and regional ones. Contemporarily big enterprises in the suburbs played an important role in complementary and supplying activities. A lot of mechanical engineering companies grew in Milan's north-eastern area in a very short time, where machine tools were repaired, modified or built, as well as small electronic workshops and so on. Sometimes these shops specialised and grew in importance, if the market conditions were propitious and if they were well managed²⁴. Even if such enterprises were very different from each other, they were all able to carry on long-distance commercial relationships. The furniture market in the area between Milan and Lecco, for instance, specialised in particular goods, followed the trend, according to which new and larger markets could be available or not. Sometimes the national demand supported the international one, thus enlarging the old supplying network²⁵. The market growth implied an efficient goods commerce network. The

²³ B. CORI, *Le piccole e medie industrie in Italia: aspetti territoriali e settoriali* (Quaderno, 34), Torino 1979, pp. 37-45.

²⁴ G.M. GROS PIETRO, *La piccola e media industria negli anni Sessanta*, in G. ARE (ed.), *Storia dell'industria italiana*, Roma 1977, pp. 288-255.

²⁵ G. PESCOLIDO, *Industria e artigianato*, in «Annali dell'economia italiana», 12, 1982, 2, pp. 341-344.

small dimensions of the enterprises, the production aspect prevailing over other functions, the local use of the goods represented weakness factors. The question was almost always solved by the main buyers who commercialised the most requested products in the production areas, thus earning much more money by the intermediation activity.

As for the enterprises financed by the Lombard lending bank, the «middlemen» were the real builders of the relation between supplier and regional and national market: they managed goods distribution, floating capital sharing and short-term credit. They were capable of exploiting the flexibility of a disorganised production cycle. Between 1958 and 1962, MCL had to deal with the multifaceted world of middlemen for at least two reasons. The most important middlemen were now able to compete in granting liquidity at higher costs but with less restrictive limits. Some furniture and textile industry middlemen, whose head-offices were based in Milan, operated in Brianza or in the northern part of the province of Milan, and had the chance of directly obtaining special and special term loans for semi-manufactured materials in order to provide them to the finishing manufacturers. Many of these companies had good patrimonial and housing situations, and had an ideal economic situation to accede to special term lending, though they were small enterprises as per company capital and number of employees²⁶.

3. *The special term credit facilities: employment and renewed territorial balance*

Once the reconstruction process ended, Italy had to define an industrial policy to support economical growth – also because of its participation in CECA – as well as to reduce the growing gap between the north and the south²⁷. The need for government action to «rule and orient» the industrial development emerged²⁸.

²⁶ ASI-MCL, pat. M.L., Executive Boards June 1958, April 1961, March and September 1962.

²⁷ *Leconomia italiana tra la fine della seconda guerra mondiale e il «secondo miracolo economico» (1945-1958)*, in *Storia dell'Italia repubblicana*, vol. 1: *La costruzione della democrazia. Dalla caduta del fascismo agli anni Cinquanta*, Torino 1994, pp. 131-132.

²⁸ State intervention had to reduce the imbalances between productive and regional areas: to use the available resources and to increase capital, without exclusively exploiting public expenditure. In 1958 the first American recession after the end of World War II contributed to change the international market trends, Italy took it as a confirmation that

This was the economic policy context in which the trend was to decide for a direct public support system for SMEs, according to Law no. 623 of 1959 introduced by Minister Emilio Colombo, which will be described in detail later. This law, conceived by Ferdinando Ventriglia, introduced both the grant-in-aid in the interest account, and the bid rate fixing by the government authority. Furthermore, the law provided that the enterprises, to which the benefit credit was granted, had to invest at least 40% of it in southern Italy, preferably allocating the enterprises funded by the state. This law represented an alternative to the regional medium-term lending system introduced by Minister Pella and continued by Dell'Amore's institution. The joint-stock banks and the finance corporations' share with the medium-term credit endowment fund was functional to the relation between bank deposit – which, according to the account holders, was more reliable than the movable investment – and industrial credit, whereas the state inducement was replacing this relation in the regions that had other forms of savings, above all post-office deposits.

The law provided the support of the SME investment rate increase in a very short time, from July 1959 to December 1961, as well as for the high working intensity industrial projects, for the reduction of territorial imbalance and, last but not least, for the competitiveness on the European market.

The bill's regulation stated that:

- Benefit credits up to 500 million lire were granted for new installations and up to 250 million for the renewal or enlargement of already existing ones. The funds could cover up to 70% of the expenses for fixed equipment and for a part of the working capital.
- The outpayment could last up to 10 years in the central and northern regions and up to 15 years in the south.
- If the investment was located in the southern part of Italy the limits were doubled.
- The other innovation concerned the fixing of an interest rate policy.

the «loans rigidity» stopped every natural change in the system. As a political as well as an economical consequence, the Bank of Italy started to support both consumption and investment demands in 1958. See *Le basi del «miracolo economico»*, in G. CHERUBINI - F. DELLA PERUTA - E. LEPORE (eds), *Storia della società italiana*, vol. 24: *L miracolo economico e il centro-sinistra*, Milano 1990; F. BRIGIDA, *La programmazione in Italia*, Venezia 1968, pp. 56-67; BANCA D'ITALIA, *Relazione annuale*, Roma 1958.

- The funds to the regional institutions were administratively granted in order to balance the outpayments destined to MCL for more than 50%.
- MCC's outpayment terms were increased from two to five.

The plan was created to accelerate the competitiveness of the production structure, which did not make a net choice between a high intensity capital development and a full employment system, furthermore it was limited by the «refunding in compliance with the law» and by the excessive bureaucracy of the upcoming seasons. Besides the regional medium-term credit system, a new promoting structure managed by a special intergovernmental board was created by the Industry Ministry. A double system was born: a so-called «high» credit with a bid rate of 5% and refunding in 10 years and a so-called «low» credit, run by the Central corporate lending bank, with variable rates from 5.65% to 6.55%, and refunding in seven years, yet with a higher assurance quantity.

In 1961, thanks to Law no. 653 and to the positive influence of foreign market development as well as to liquidity availability, the exporters obtained a constraints reduction for the credits pending on exports since 1953. The different types of subsidised credit in favour of commercial enterprises were established at this time, in accordance with Law no. 1016/1960, which granted funds at a 5% rate with grants-in-aid for a maximum amount of 50 million lire²⁹. MCL criticised the rule as it did not mention the special term lending without grants-in-aid, thus connecting the credit granting only with state incentives. Yet commercial enterprise had not asked for this type of subsidised credit for many years.

At the beginning of 1963, Italy ran the risk of an inversion of the positive growth trend. Despite a stable price trend, the first structural difficulties transpired³⁰.

In line with Lombardy and national trends, MCL suffered a demand decrease by 12.7%. The tendency of small and medium enterprises to invest followed a pro-cyclic line, though the drop depended on the

²⁹ The commercial enterprises were classified as small if they had max. 60 employees (in the case of retailers) and 100 (in the case of wholesale).

³⁰ The system didn't successfully react to a glut of internal demands (consumption and stock) which implied a passive balance of payments. In the meantime unemployment increased, exports grew, nevertheless the wage differential in comparison with other countries decreased. So exports brought by a reduction of the profits. See also N. OSSI - G. TONIOLO, *Italy*, in N. CRAFTS - G. TONIOLO (eds), *Economic Growth in Post-1945 Europe*, Cambridge 1994, pp. 67-71.

higher liquidity of the financial system, which enabled commercial banks to make medium-term operations. Furthermore in the four-year period 1960-1963 there was a continuous decrease of loans granted according to Law no. 623/1959 caused by a lack of refunding laws and, above all, by the imposed limits on enquiries accepted in the so-called «industrial triangle»³¹. Even in such difficult conditions, the Lombard medium-term lending bank continued to support enterprises with low capital in a percentage of 86%. Since the funds share for new plants was globally the same as the one for plant modernisation, the territorial distribution confirmed the trend to finance new enterprises in different places from those of the nine capital cities, including the «underdeveloped areas». The Lombard institution adopted a so-called «favouring» employment policy, applying special conditions, such as the extension of the refunding period and the variable rate. The Bank preferred to have more demands and to contain the intervention quota with a higher curtailment per single operation, from 47.2% in 1963 to 39.9% in 1964³² on the average.

Analysing the credit distribution among the different product sectors, the engineering industries suffered a decrease from 45.5% in 1962 to 25.8% in 1964 and this was a sign of the crisis that the leading field in the 50s was now undergoing; on the other hand the textile industry increased from 9.6% in 1963 to 18.5% in 1964, in comparison with an average rate of 14.6% in the nine-year time span 1953-1964. Proportional increases affected the food industry as well as the chemical. In 1963, as mentioned above, the engineering industry mostly suffered a turnover slowdown, particularly concerning machine tools. The next year the enterprises of this field, Lombard lending bank customers, suffered a sales decrease by 54% and a general turnover drop by about 21%. During the worst phase of the crisis a new law was introduced in Parliament, *Measures for the purchase of new machine tools* and Armando Sabatini, a Christian Democrat M.P. was the first to sign it. According to the businessmen the main obstacles to the plant exchange and the renewal in the engineering field were the «technical difficulties» to finance the new plants. The use of the machine tools as a warranty for the credits used to pay their very purchase seemed to be particularly complicated. In this situation Sabatini's

³¹ The credit limit for the new plants in the so-called «industrial triangle» of 500 million lire – established by law – was first reduced to 195 millions and later to 50 millions.

³² The medium-term credit bank operativeness and the convenience of the subsidised credit tied up the growth of the tax burdens (valued between 0.6% and 1%) on the special credits' intermediation margins.

proposal aimed at giving incentives to both manufacturing enterprises, by increasing their turnover, and consumer enterprises, by accelerating their equipment renewal. According to this the mortgage on the sold or leased unit could be represented by paper titles, bills of exchange with a maximal term of 5 years, in order to promote disinvestments and a new ordinary banking. It took a long time for the Parliament to approve Sabatini's proposal because of political events that changed the calendar of parliamentary activities³³. Furthermore, in May 1965 the Parliament converted a legislative decree into law with a series of anti-slump measures among which the support of the engineering industry, such as the authorisation to reduce the bankers' credits beyond the commercial banks' limits for the enterprises that bought machines. The final law provided for «the conditional sale or special privilege on movable [sums]», with a 5-year payment extension. The bills of exchanges for over 12 months payment extensions were discounted by special term credit banks, which benefited from MCC's intervention providing special term rate deferral, thus considerably reducing the weight of interests paid.

The analysis carried out thirty years after Sabatini's law had come into force, showed how it never had a function connected with the current economic situation, as the law was approved when the recovery had already begun. On the contrary, the 1965 ruling brought its consequences over a long-term period. Its effectiveness was due first of all to the easy operating system, as well as to procedure simplification. The rule was based on the chance to benefit from the law even without specific development and reorganisation plans, so the enterprisers were able to have recourse to the law for tool purchases. Furthermore, Sabatini's law had a very wide field of enforcement, providing every kind of machine tool or product, which made it even easier to benefit from. The Sabatini law guaranteed the salesmen and buyers goals at the same time: the anticipation of the commercial credit to the seller by the bank and the extension of buyer notes from 12 months to 5 years³⁴.

At the beginning of 1966, the Italian economy – thanks to the monetary authorities' stabilisation – seemed to be recovering from the first real

³³ In August 1964 the government survived thanks to the new executive whose president was Aldo Moro, so the Centre-Left came into force again, though facing many difficulties. Again, in August 1964, the institution's activity was reduced by the illness of the President of the Republic Antonio Segni, thus leading to a constitutional crisis, which was solved at the end of the year by the election of Giuseppe Saragat.

³⁴ R. MASERA, *Intermediari, mercati e finanza d'impresa*, Bari 1991, pp. 152-155.

crisis after World War II. Investments increased and in one year, from 1966 to 1967, their growth rate tripled³⁵. According to MCL research, the high demand increase represented the investments renewal even for the SMEs and only partly depended on the need to consolidate old debits due to fixed assets. The growth in demand was a result of the dropped self-financing capability, in spite of the improvement of return on invested capital (ROI). The loan demands confirmed that the credit opening was due to an increased need of capital for new production lines.

The small and medium enterprises turned to MCL in order to integrate the ordinary banking facilities' loading charge, requested by credit banks proposing medium-term credits, to special credits. On the other hand, the low interest rates policy pressed for subsidised credits, nevertheless the economic consequences of the cost of money was also perceived in Lombardy: the high recourse to special 5% rate operations provided by law no. 623 overcame the number of operations provided by Law no. 445 in 1966. The major recourse to special term facilities with grants-in-aid in lending notes was due to the reintroduction of the limit of liability of 500 million lire for company building, the enlargement and the renewal as well in northern and central Italy³⁶. Between 1953 and 1966, the MCL received 6,450 applications for a total amount of 350 billion lire whereas the credits were 5,177 for a total amount of 251 billion lire. The current financing increased from 1.6 billion lire in 1953 to 115.5 at the end of 1966 with a high and steady growth curve.

In line with the general policy of the bank system, the Lombard lending bank had been trying to grant the Lombard SMEs an easy way to get credits for the first fifteen years, as special and special term credits were not common. Indeed the small enterprises had few chances to get proper credits as per dimensions and innovations at favourable conditions. The smaller enterprises were used to make long-term investments, either by their own resources or by other informal ways, or even by ordinary liquidity. This trend was supported by permanent limits of the

³⁵ Big enterprise played an important role since it provided employment and double rates of investments in comparison with the general average amount. Moreover, the considerable surplus of current accounts was not addressed to adapt the productive system to the «multinational» trend. See A. GRAZIANI, *Crisi e ristrutturazione dell'economia italiana*, Torino 1975, pp. 34-35.

³⁶ The possibility of recourse to the central institution for subsidised credits was still difficult: the interventions, though benefiting from rates of 5.5% up to 6%, had a longest term of 5 years (against 10 years according to Law no. 623), yet for amounts up to 500 million against 150-250 according to Law no. 623.

institutional offer such as the request for effective warranty according to the wealth reliability principle, a limited changeability of contract conditions – from rates to sinking plans – last but not least the administrative costs to obtain a loan. This happened also to MCL customers even if to a minor extent. The relationship between MCL and the beneficiaries was to give the enterprise the chance to set the financial situation right and, thereafter, to grow in a well-balanced way, so that ordinary and short-term credit had their role again.

The preliminary investigations generally consisted in a detailed analysis of the company book-keeping data, moreover few enterprises had a proper controlling system to the real patrimonial and financial situation in the fifties. According to the report of the Lombard bank board of directors, the enterprises which had already adopted a controlling system in line with the civil and accounting laws, did not have particular difficulties in obtaining credits, on the contrary, the Bank requested great organising efforts of those enterprises which had not yet adopted an auditing system, in order to define accounting rules as a condition for concessionary financing for credits. At that time, some banking systems paid major attention to the business budget, so they adopted new methods to manage preliminary investigations, requesting details regarding structure and management. The *Hausbank* model, providing complex and integrated financial services, spread and consolidated in the other European countries. In Italy both valiant supporters of the *governance* model, inherited in 1936, and the re-occurrence of unstable relationships between banks and enterprises – still so at the end of the sixties – prevented this model from being adopted. Moreover, this critical situation did not affect the relationship between special credit banks, above all the Lombard medium-term lending bank, and enterprises. The reasons for this lay in the considerable demands for long-term loans, whose amortisation depended on the customer's medium-term profitability. Furthermore, the average amount of special credits was higher than the brief-term one, as each enterprise could have only one special credit, yet many brief-term ones. Finally, special loans were very different from ordinary ones because of the fewer sources. The oligopolistic conditions were consolidated and couldn't become monopolistic as the government fixed the percentage value of the interest rates with greater care to the general economy policy than to the relation position/profit of the bank. Moreover, the monopoly trend was clearly visible in the customer relations: the low number of qualified operators increased the market power on the enterprises.

III. A DEVELOPMENT NETWORK

1. *A well considered diarchy: the technical and the political summit*

If the provision for credits by the current accounts opened by the sharing companies clearly shows the features of the so-called MCL «sub-system», a structure led by the Cassa di Risparmio, the way bonds and interest-bearing securities were issued, shows the role the institution had in the country's regional medium-term lending system. It was very different from the role the lawmaker defined when approving the law itself, especially after the creation of a refunding body, that is MCL. This was not only the «technical» summit of the system but also, at least formally, the «political» one.

The «diarchic» leader of the MCL sub-system seemed to be the summit of the whole medium-term credit system.

The relationship between MCC and MCL became more and more consolidated in the first ten years of activity, yet, whereas MCL's «technical» dependence on the Roman institution grew, mostly because of subsidised credits, Lombardy, thanks to its regional merchant bank, was the political leader of the system³⁷.

On January 4, 1954, Dell'Amore convened a meeting of representatives of the regional medium-term credit institutions to MCL in order to analyse the most important problems³⁸. The aim of the meeting was to «reach the most profitable regional institutional teamwork»³⁹, therefore a kind of permanent board was established: the coordinating committee of Regional Medium-Term Corporate Lending Banks, and Giordano Dell'Amore was named its chairman.

After the creation of the above mentioned committee Milan maintained the system's political leadership, as important decisions regarding the

³⁷ This function grew after Guido Carli left MCC (1957) and was replaced by Carlo Orsi. Regarding his regency and his successor Giannino Parravicini in the spring of 1962, see P. PELUFFO - V. GIACCHÈ, *Storia del Mediocredito centrale*, Roma - Bari 1997, pp. 236-238.

³⁸ Coordinating committee, report of the sitting of January 4, 1955, in ASI-MCL, Assieme collection, c.2; the same day he informed the Governor about what had happened (G. Dell'Amore letter to D. Menichella, January 4, 1955, ASBI, Vigilanza, paper 8725, ASI, Patrimonio Cariplo.1) who noted: «Thanks, I have received it only now, as I was abroad, and I'm pleased».

³⁹ Coordinating committee, report of the sitting of January 4, 1955 (now in ASI-MCL, Assieme collection, c.2).

regional medium-term lending systems, later on approved as state laws, were taken here. At that time Giordano Dell'Amore, who influenced all the proposals, became the most careful researcher of financial problems of all small and medium enterprises, even of those that had nothing to do with industry, such as the agricultural ones.

The confirmation of what has been stated up to now is the most important result of that meeting: MCL was given the task to introduce a bill according to which «new procedures, supporting small and medium enterprises, had to regulate the medium-term credits»⁴⁰.

The new bill was passed before the law, drawn up according to MCL and of which the committee took possession, was introduced in Fanfani's government programme – immediately following Zoli in July 1958 – and approved in July of the following year. The departmental order of March 15, 1957 removed Art. 8 from the bill, which represented its «core». The article contained in the MCL bill stated:

«MCC has established a fund of a highest amount of ... for manufacturing and commercial enterprises in order to pay the interests of credit transactions provided by institutions authorised to issue medium-term loans according to the first paragraph of Law no. 429, July 25, 1952. The amount of the fund is ... lire and the Ministry of Treasury will contribute by an amount of ... lire starting from the financial period ... the fund could be increased by sums coming from MCC net profits, yet to be defined by CICR according to the institution board of directors' proposals»⁴¹.

The MCC had a more technical role but lost the leadership: it turned from a central bank into a kind of «agency» for economic policy planning. Giannino Parravicini called it a «hook institution», onto which the political class step by step hangs the emerging problems of the economic field»⁴².

And at the same time Giordano Dell'Amore's role as leader of the system grew thanks to the coordinating committee: that is why Law no. 623 and the later integrating rules admitted all its requests and introduced the subsidised credit. Nevertheless there were both general and specific controversies, carried on by the rest of the national banking system.

⁴⁰ ASI-MCL, CA, report of the sitting of July 20, 1956.

⁴¹ Coordinating committee, report of the sitting of October 1, 1956 (ASI-MCL, Assireme collection, c.2). See also ASBI, *Vigilanza sulle aziende di credito*, pratt. 8725, f. 1.

⁴² *Ibidem*, p. 188.

Table 3. *Medium-term corporate lending banks belonging to the coordinating committee (1962)*

Institution	Constitution	Onset of activity
Mediocredito piemontese	May 26, 1952	February 1953
Mediocredito regionale lombardo	May 5, 1953	July 1953
Mediocredito Trentino-Alto Adige	March 13, 1953	November 1954
Mediocredito delle Venezie	May 24, 1955	September 1955
Mediocredito del Friuli	July 31, 1957	October 1958
Mediocredito ligure	March 18, 1955	November 1955
Mediocredito regionale Emilia-Romagna	December 20, 1954	December 1955
Mediocredito regionale della Toscana	July 28, 1954	May 1955
Mediocredito regionale delle Marche	May 5, 1953	January 1954
Mediocredito regionale umbro	May 29, 1953	October 1954
Mediocredito regionale del Lazio	May 29, 1953	December 1953

Source: Credit 1963.

At the beginning of the sixties the overall regional medium-term credit evolution could be observed by the data provided by the coordinating committee.

The prominence of MCL over the others is visibly noteworthy, and this is also confirmed by the high number of applications and credits issued over a ten-year period.

2. *The ASSIREME: towards the Network*

In the second half of the sixties MCL supremacy over the other regional institutions increased.

The «small system», the heart of Lombardy's medium-term lending bank, increased its power thanks to Cariplo liquidity,

whereas the regional medium-term «big lending system» was getting closer and closer to Giordano Dell'Amore's idea of network, even if it still was at an early stage.

The «Gran Lombardo» was at the summit in that plan: this was certainly due to the substance more than to the form, as it was simply one of the many regional medium-term lending banks in the northern and central part of the country. Its chairman and its management grew in importance within the banking field, thanks to its very special organising system: the so-called ASSIREME (Association among the Regional Medium-Term

Table 4. Yearly loans issued by the regional medium-term banks (current currency, million lire)

Year	Piedmont	Lombardy	Trentino	Venezie	Friuli	Liguria	Emilia	Tuscany	Marche	Umbria	Lazio	Total
1953	558	2,459	-	-	-	-	-	-	-	-	257	3,274
1954	720	3,529	852	-	-	-	-	-	236	63	646	6,047
1955	826	2,746	1,176	586	-	-	362	652	366	54	987	7,750
1956	943	3,583	1,029	900	-	177	741	1,036	249	103	1,259	10,020
1957	1,517	4,016	2,550	732	-	304	839	1,236	245	60	969	12,468
1958	1,560	3,094	1,595	988	613	460	634	635	223	60	706	10,569
1959	2,473	5,618	3,062	1,468	2,699	81	1,248	406	548	43	909	18,555
1960	9,186	18,507	5,085	3,503	3,756	3,127	4,992	3,938	1,805	1,612	3,442	58,954
1961	12,405	33,451	6,894	5,730	6,185	2,687	4,013	4,494	2,426	929	6,925	86,140
Total	37,077	128,969	27,948	19,724	20,171	9,291	16,203	19,636	8,943	4,329	19,147	311,438

Source: Credit 1963.

Table 5. Yearly lendings issued by the regional medium-term banks (2006 currency, thousand euros)

Year	Piedmont	Lombardy	Trentino	Venezie	Friuli	Liguria	Emilia	Tuscany	Marche	Umbria	Lazio	Total
1953	7,796	34,353	-	-	-	-	-	-	-	-	3,590	45,739
1954	9,795	48,011	11,591	-	-	-	-	-	3,211	857	8,789	82,268
1955	10,931	36,338	15,562	7,755	-	-	4,790	8,628	4,843	715	13,061	102,558
1956	11,887	45,167	12,072	11,345	-	2,231	9,341	13,060	3,139	1,298	15,871	126,312
1957	18,761	49,666	31,536	9,053	-	3,760	10,376	15,286	3,030	742	11,984	154,193
1958	18,411	36,514	18,824	11,660	7,234	5,429	7,482	7,494	2,632	708	8,332	124,732
1959	29,308	66,581	36,289	17,398	31,987	960	14,790	4,812	6,495	510	10,773	219,901
1960	106,049	213,657	58,705	40,441	43,362	36,100	57,631	45,463	20,838	18,610	39,737	680,605
1961	139,145	375,214	77,329	64,272	69,376	30,140	45,013	50,408	27,212	10,420	77,677	966,217
1962	73,523	544,609	60,887	62,082	73,833	26,201	36,009	77,528	30,363	14,995	32,519	1,042,290
Totale	425,606	1,460,111	323,694	224,006	225,791	104,820	185,433	222,409	101,763	48,855	222,332	3,544,814

Source: Credit 1963.

Table 6. *Applications and special term credits issued in a ten-year period (1953-1962) (amounts in million lire)*

Institution	Received demands		Analysed demands		Assigned credits	
	Number	Lire	Number	Lire	Number	Lire
Piedmont	1,647	68,820	1,498	53,980	1,257	37,077
Lombardy	3,683	175,424	3,542	167,766	2,897	128,969
Trentino	1,070	43,340	740	31,219	693	27,948
Venezie	760	25,020	733	23,357	711	19,724
Friuli	1,076	24,907	1,075	24,879	1,011	20,171
Liguria	366	16,272	325	13,208	273	9,291
Emilia	1,131	26,239	952	21,337	805	16,203
Tuscany	1,279	36,455	1,178	33,068	849	19,636
Marche	609	15,583	473	9,457	439	8,943
Umbria	329	5,033	311	4,739	290	4,329
Lazio	1,285	34,821	1,083	29,980	938	19,147
Total	13,235	466,914	11,910	413,170	10,163	311,438

Source: Credit 1963.

Table 7. *Percentage division of the regional medium-term lending bank activities in 1967 and 1968*

Institution	Demand		Credits		Portfoglio (at the end of the year)	
	1967	1968	1967	1968	1967	1968
Piedmont	6.9	10.6	6.4	7.9	7.1	6.9
Lombardy	33.7	37.6	32.8	40.2	33.9	34.2
Trentino	7.6	5.2	8.6	4.1	12.6	10.8
Venezie	15.3	11.7	15.6	12.3	8.5	10.7
Friuli	5.9	3.9	5.4	3.9	6.9	6.1
Liguria	1.8	3.2	1.8	3.1	2.9	2.9
Emilia	10.6	11	9.8	11.8	8.1	8.8
Tuscany	10.4	5.5	11.9	4.5	10.3	9.8
Marche	2.5	4	3.1	5.5	3.6	3.9
Umbria	1.7	3.1	1.8	3.2	2.5	2.5
Lazio	3.6	4.2	2.8	3.5	3.6	3.4
	100	100	100	100	100	100
Billion lire	304.6	312.9	242.9	220.0	420.7	545.1

Source: R. 1967, p. 269 and 1968, p. 305.

Tab. 8 *Percentage division of MCL liabilities*

Central Medium-Term Credit Funds	26.75	24.15	22.30	20.89	22.91	19.85	18.38	22.55	25.01
Sharer funds	64.59	67.06	70.25	71.20	67.77	73.17	72.16	69.36	65.97
Other liabilities and funds	8.66	8.78	7.45	7.92	9.32	6.99	9.46	8.09	9.02
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: G. TAGI - F. SCHIVALOCCHI, *L'Istituto di credito*, p. 1468.

Corporate Lending Banks). ASSIREME was constituted on September 30, 1965, exactly 10 years after the creation of the coordinating committee, its aim was to gather all the regional medium-term lending banks in one pool⁴³.

The association was not able to transform the group of regional medium-term merchant banks into the network conceived by Giordano Dell'Amore: no lasting agreement on the common securities issue was reached either.

Anyway, the medium-term credit dualism became more marked and the political system, that is the ASSIREME, prevailed over the technical one, that is MCC.

It is necessary to underline that the association was based in Milan, its chairman was Giordano Dell'Amore, elected by acclamation, and Cariplo represented its treasury.

3. The search for new chances: the Lombard investments at the beginning of the crisis

In the years following the creation of ASSIREME the medium-term merchant bank management inevitably changed as a consequence of the deep-reaching transformation of the country's economy. And once again MCL stood out for its capability of finding new ways.

In 1969 there was a back up: it was the first time that there had been a drop in demand since 1964. The Lombard industries' drop in production first, and in working force later, was due to a standstill of the engineering and plastic-chemical fields. MCL concentrated most investments in these fields, of course at higher risks. Between 1969 and 1973 the relations of MCL and SME underwent a critical period due to both a drop in profitability of engineering and chemical enterprises and to the disruptions in other fields such as the textile industry, as a consequence of sensibly decreased investments. The difficulty to invest was also worsened by a slackening in the building industry and by a reduction of the trading spaces in foreign countries due to the deflationist American policy, high investment costs, the flight of capitals and to the steep increase in inflation as well. The weak market share, the debenture trend and the enterprises' doubts regarding the tax burden – due to the tax reform – negatively influenced the investment rate by reducing it. Furthermore other critical

⁴³ R. 1965, p. 214.

situations, such as the missing MCC refunding, added to the negative macroeconomic trends. As a confirmation, in 1969 the activity of this institution was modest and interrupted in March⁴⁴.

Moreover, in this period, many MCL contracts concerned technical and financial lock-ups with increasing values, addressed to support a growth of productivity. Despite the need for more credits, it seemed very difficult to manage an investment-oriented policy, because of the innovation of the political power and the civil service, as well as the low-rate credits availability. Furthermore, the treasury also had difficulties: the increase of the cost of money caused difficulties in issuing bonds and the medium-term lending banks themselves reduced the credits and preferred direct financing⁴⁵.

In such a standstill situation, MCL reduced the trust's average term from eight to five years, and at the same time tried to totally guarantee the fund-raising in advance⁴⁶. In 1971 new problems emerged: the bill providing for extraordinary interventions in the south of Italy introduced disincentives for the enterprises in the north of Italy. Moreover, the number of applications received by MCL grew by 42.7% in the same year and their volume increased by 82%. The noticeable recovery was due to the credit squeeze and to the high gap between short-term credit and subsidised rates. The reduction of the profit margins increased the need for new sources, though causing rigidity in the financial structure of the enterprises, which ran the risk of reducing the ratio between venture and loan capital.

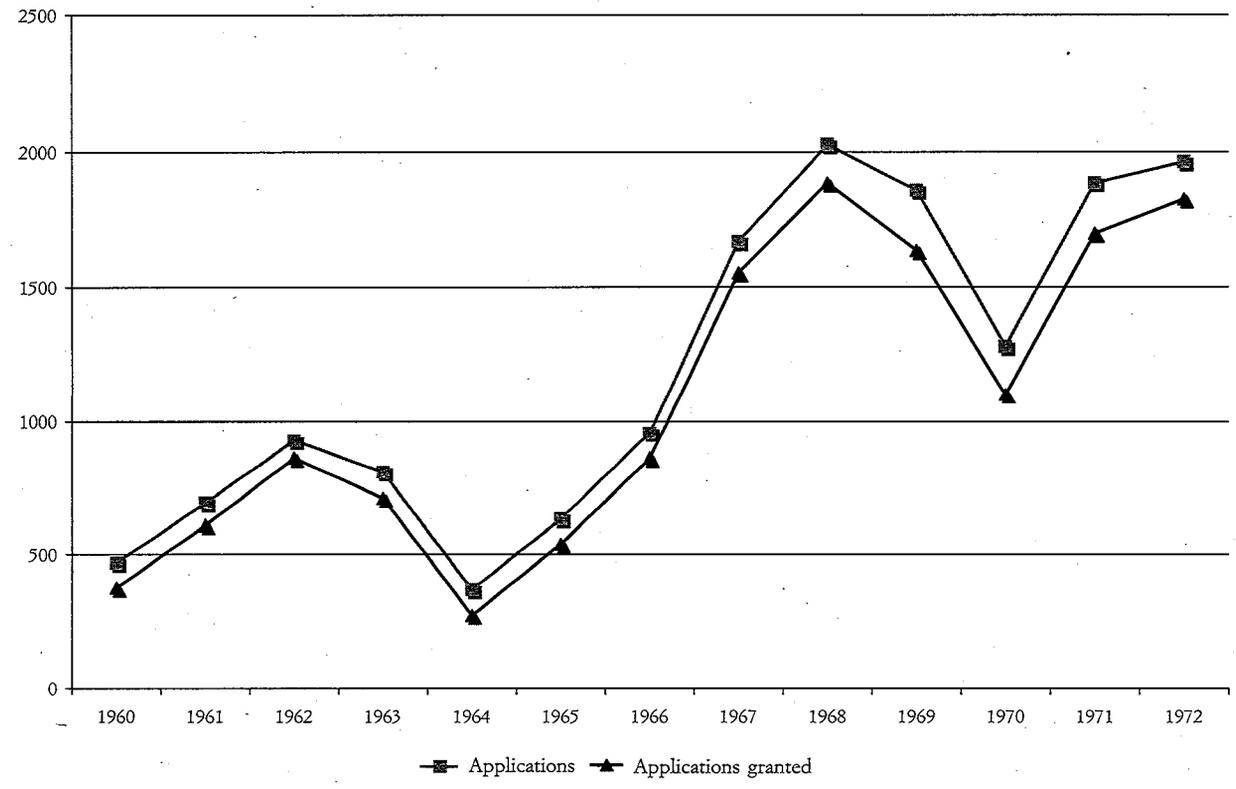
By the end of 1972 slight signs of an economic recovery appeared, after all the obligations of funding by the bank had been abrogated, whereas MCL liquidity increased thanks to the bonds issued for a total amount of 25 billion lire, mainly allocated by the sharing banks. The institution's situation benefited from the reintroduced subsidised credits, which granted the enterprises the right to lower bid rates than usual, that is rates of about 10%.

⁴⁴ P. PELUFFO - V. GIACCHÈ, *Storia del Mediocredito centrale*, pp. 202-213.

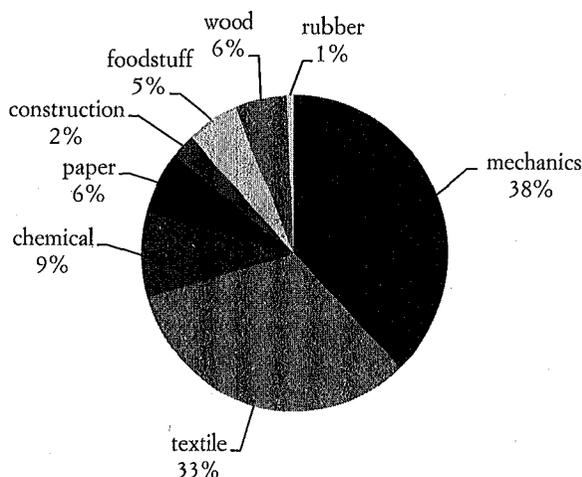
⁴⁵ Board report, 1966-1973.

⁴⁶ Starting from September 1, 1969, the sharing banks, introducing financing demands on behalf of their customer had to pay the 100% of the received amount, tied up for one year.

Graph 1. Demands and line credits (1960-1972)



Circle graph 3. *Percentage division of industrial sectors (1971)*

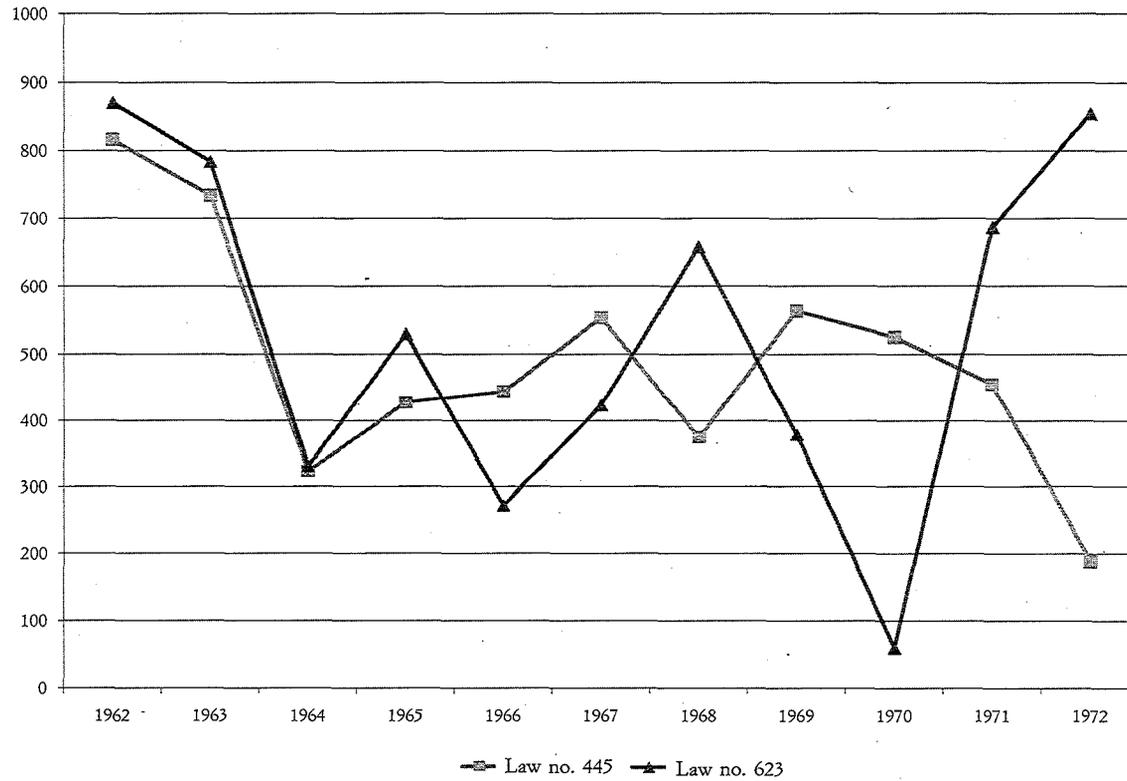


The international competitiveness, the instability of the exchange rates and the expansion of the European economic area as well led MCL customers to turn to investments in innovation technology again. According to the plans submitted to MCL in order to obtain subsidised credits, SMEs reacted to the labour cost increase by introducing labour saving production tools instead of enlarging the production capacity⁴⁷.

At the end of 1972, the Lombard medium-term lending bank had investments for more than 342 billion lire, the greatest part of which was represented by banking facilities to manufacturing enterprises for a total amount of 288 billions, i.e. 84% of the global portfolio. With reference to the facilities to enterprises, 128 billion were according to Law no. 445 of 1950 and more than 65 billion of which were rediscounted at the central institution, whereas the interest rates were comprised between 5.65% and 6.55%. The operations according to Law no. 623/1959 and covered by the state for the debt's whole amount were about 134 billions. The trusts continued to mainly address some fields, therefore engineering and textile enterprises took up 61% of the total at the end of 1973. Regarding provincial distribution, the relative importance of Milan and its province dropped in importance, whereas all the others were growing, especially the Piedmont area which was gaining a strategic role.

⁴⁷ G. AMATO - P. RANCI, *La congiuntura più lunga*, Bologna 1972, pp. 56-67.

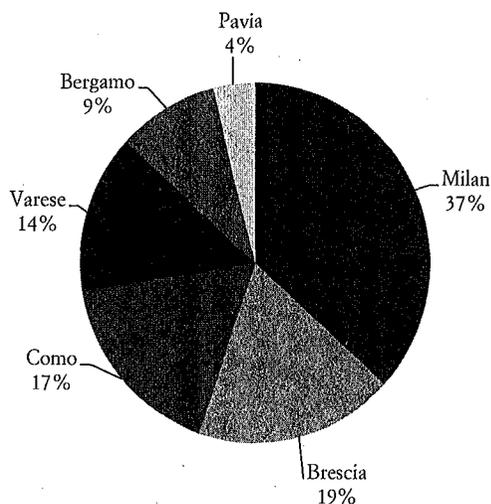
Graph 2. The distribution of lending applications according to Laws no. 445 and no. 623



At the beginning of the seventies, MCL reports showed a drop in risk for the medium-term credit potential demands. The Lombard institution stated that the credits' longest term was limited and the way of selecting the enterprises with a right to receive credits was inadequate, since it depended on both invested capital (3 billions) and number of employees (500). This data had not been updated since 1965 and it had been reduced by a third, due to the loss of purchasing power. At that time new forms of credit appeared, which competed with the traditional long-term loans. The first types of leasing and the new financial services represented a potential limit to the role of the special credit institutions established in the fifties. Furthermore, the Ministry of Treasury's ruling (March 23, 1972) contributed to modify the industrial out-payment system by authorising commercial banks to issue medium-term credits (5 years), within 8% of their trust supply, a limit which could also be increased up to 10% in special cases⁴⁸.

A new era opened for the «Big Lombard» and for the Association, of which he was the chairman.

Circle graph. 4. *Loan allocation per province (1971)*



⁴⁸ G. CONTI - G. FERRI, *Banche locali e sviluppo economico*, in F. BARCA (ed.), *Storia del capitalismo italiano. Dal dopoguerra ad oggi*, Roma 1997, pp. 430-435.

The decay of Lombard enterprises' financial conditions, particularly in the engineering, plastic and textile sectors influenced the trend to gradually redefine the methods used for issuing credit to them. SMEs tended more and more often to have a recourse to debts, and the reasons for this are various. One of the main causes was the reduction of profit margins, on the contrary the trend to invest depended on different factors, such as the increasing dimensions of the enterprises, the growth in importance of the technical lock-ups, the growth of the circulating capital due to the changed commercial policy and to the price increase of raw materials. Last but not least, monetary inflation, a macroeconomic factor, grew in importance too. Therefore the ratio between owner equity and debts decreased, thus worsening the enterprises' economic accounts, increasing their financial rigidity and considerably raising the creditors' risk, which became higher than that of the enterprise.

Graph 3. *Development of requests, industrial production and GDP*

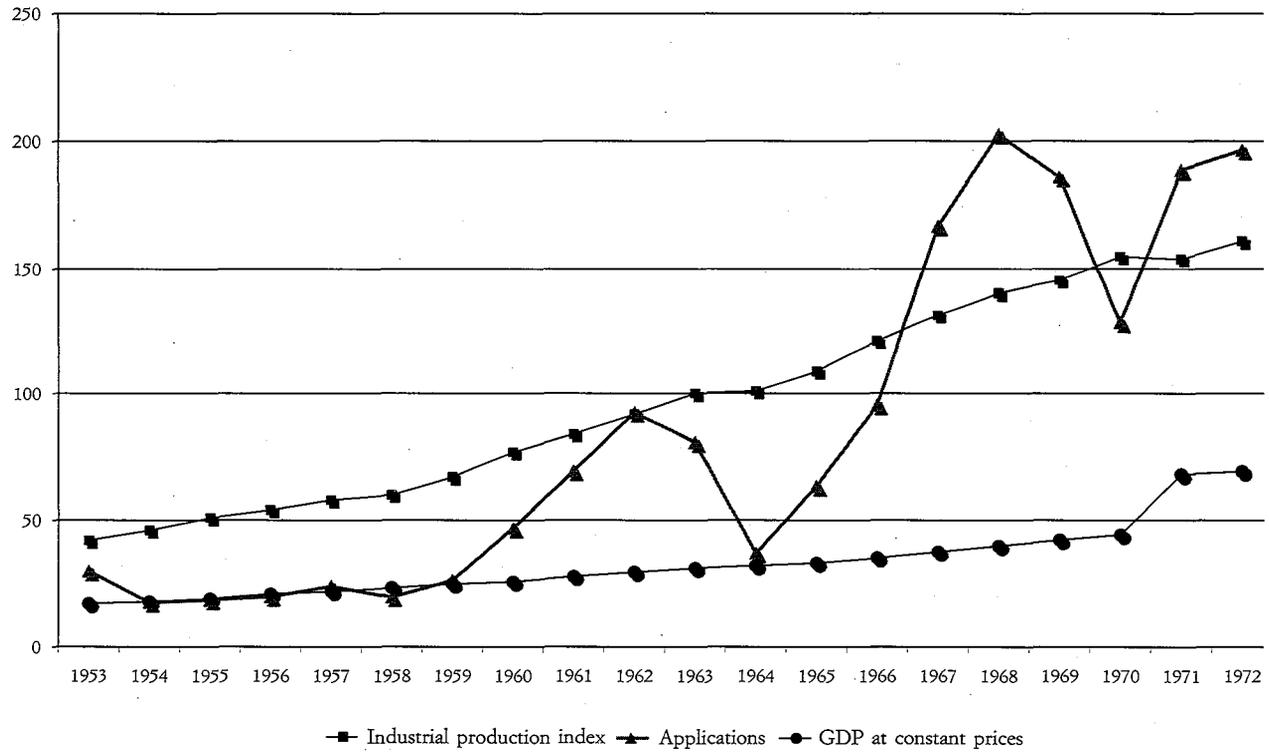


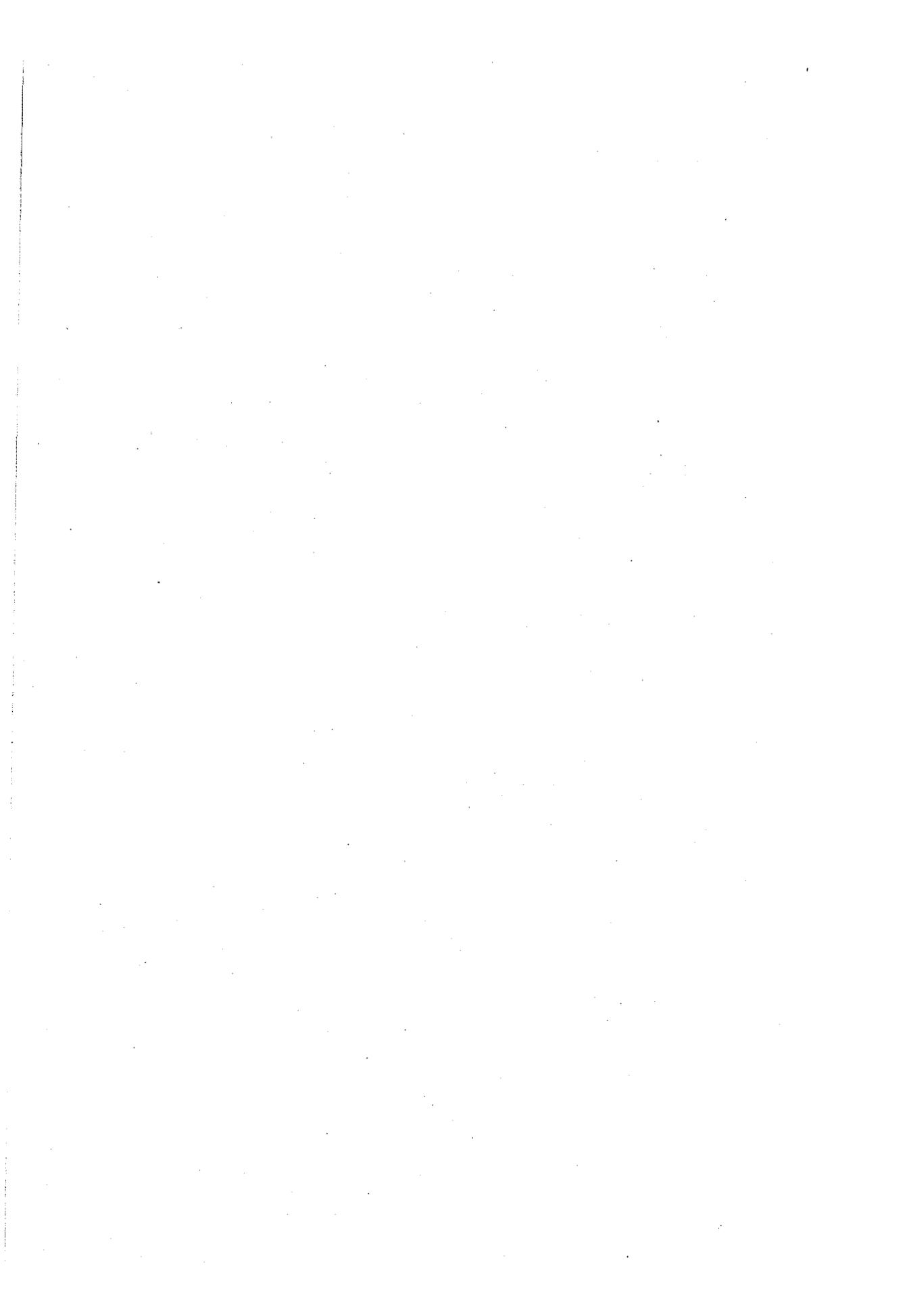
Table 9. *Credit market share of the 8 major institutions (average values 1960-1966)*

Mediobanca	Imi	Crediop	Medio Lomb.	Efibanca	Interbanca	Centrobanca	Isveimer	Total
5.33	28.92	20.53	3.39	5.00	3.07	1.80	6.75	74.79

Table 10. *Credit market share of the 8 major institutions (average values 1980-1986)*

Mediobanca	Imi	Crediop	Medio Lomb.	Efibanca	Interbanca	Centrobanca	Isveimer	Total
7.33	25.92	17.53	4.39	5.39	5.07	3.12	6.75	75.50

Source: M. DE CECCO - G. FERRI, *Le banche d'affari in Italia*.



Industrial Credit and Special Banks in Relaunching the Italian Banking System after World War II

by *Andrea Leonardi*

1. *The physiognomy of the Italian banking system as defined in 1936*

The Italian banking system acquired its principal institutional characteristics from the 1936 banking law¹. The purpose of the legislation promulgated in that year was to prevent any repetition of the severe instabilities that had afflicted the country during the 1920s and early 1930s, and which had been due to an excessive overcrowding of the credit system on the one hand, and an alliance between banks and companies on the other. The structure of the large banks had undergone changes which produced such major distortions that the bulk of credit issued by those banks – as Raffaele Mattioli wrote – «was furnished to a small number of companies, one hundred or so, which had been able to develop considerably with such help but were utterly dependent upon it. In other words, they were under the control of the banks, whose loans to that group of companies entirely absorbed all the funds that they had collected ... Their physiological symbiosis had turned them into monstrous Siamese twins»².

The legislative act – after the enormous depletion of the state coffers to repair the damage caused by the collapse of the Italian financial system at the beginning of the 1930s – was intended to restore a climate of trust among savers. It decreed, firstly, that the defence of savings was the ultimate purpose of the system, and indeed that the state would act as their guarantor, and secondly, that a rigid separation must be imposed between the exercise of short-term and long-term credit, thereby strongly

Translated by Adrian Belton

¹ G. RUTA, *Il processo di formazione della legge bancaria*, in «Bancaria», 24, 1966, pp. 809 ff.; S. CASSESE, *Documenti sulla preparazione della riforma bancaria del 1936*, in S. CASSESE, *La formazione dello Stato amministrativo*, Milano 1974, pp. 127-174.

² R. MATTIOLI, *I problemi attuali del credito bancario*, in *I fidi delle aziende di credito*, Milano 1961, p. 261.

curbing the tendency to reconstitute financial intermediaries replicating the model of the mixed bank³. According to Donato Menichella⁴, appointed Director General of IRI in 1934 and one of the main architects of the 1936 bank reform law⁵, it was necessary to prevent the banks from being «intimately involved with too many industrial businesses, and above all to ensure that [they were] not tied to those businesses by large amounts of industrial shares and dead loans which transferred effective control over industry to the banks»⁶.

The banking law created a robust bulwark between banks and companies. It prevented credit institutions from acquiring shares in companies, and it subjected them to the rigid control of a supervisory authority endowed with broad powers, but also exercising an effective capacity for deterrence deriving from the moral suasion granted it by the entire banking system⁷.

The results of the new normative framework could not be enjoyed in the brief interval of time that elapsed between promulgation of the law and the outbreak of the WWII. However, upon conclusion of the war, and once democracy had been restored, the effectiveness of the system created in 1936 was immediately subject to scrutiny. Within the Constituent Assembly, a comprehensive debate was conducted on the role to be given to credit intermediation, the weight in the latter to be attributed to public bodies, and the controls that would have to be exercised upon it. Whilst careful reflection led to the formulation of Article 47 of the

³ G. FERRARI, *Credito speciale e finanziamento degli investimenti in Italia negli anni Settanta*, in G. FERRARI - F. DI PASQUALI - D.P. PEDANI - A. TRIONE, *Mercato finanziario, credito speciale e finanziamento degli investimenti*, Milano 1984, pp. 14-15.

⁴ After his experience on the board of the IRI, Menichella was appointed Director General of the Bank of Italy on May 9, 1946. S. RICOSSA, *Introduzione*, in S. RICOSSA - E. TUCCIMEI (eds), *La Banca d'Italia e il risanamento post-bellico 1945-1948*, Roma - Bari 1992, p. 41; A. GIGLIOBIANCO, *Via Nazionale. Banca d'Italia e classe dirigente. Cento anni di storia*, Roma 2006.

⁵ M. DE CECCO, *Donato Menichella e la struttura del sistema bancario italiano*, in UFFICIO RICERCHE STORICHE DELLA BANCA D'ITALIA (ed.), *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma - Bari 1986, pp. 75-83.

⁶ Speech given by Menichella on June 26, 1954 to the seminar week on banking studies held at Passo della Mendola; now in F. COTULA - C.O. GELSOMINO - A. GIGLIOBIANCO (eds), *Donato Menichella. Stabilità e sviluppo dell'economia italiana 1946-1960*, vol. 2: *Considerazioni finali all'assemblea della Banca d'Italia*, Roma - Bari 1997, 1, p. 533.

⁷ F. BELLI, «Controllo-governo» del credito: *indagine sull'evoluzione dell'ordinamento*, in P. VITALE (ed.), *L'ordinamento del credito fra due crisi (1929-1973)*, Bologna 1977, pp. 25-78.

Constitution⁸, it also favoured approval of legislative Decree no. 691 of July 17, 1947, which instituted the Interministerial Credit and Savings Committee (Comitato Interministeriale per il Credito e il Risparmio, CICR) and thus sanctioned the institutional separation between the administration of credit and its supervision. The former was the responsibility of the CICR, which had the task of linking economic and credit policies while exercising vigilance on behalf of the Bank of Italy⁹. The entire reorganisation came about with the approval of the reconstituted Italian Banking Association (Associazione Bancaria Italiana, ABI), which shared responsibility for initiatives intended to apply and integrate the 1936 reform law, adapting it to the requisites of both reconstruction and reintegrating the Italian economy into the international system¹⁰.

There thus effectively began a new season for Italian banking activity, which now exhibited two distinctive features: the territorial and operational specialisation of credit institutions and the massive presence of state agencies – primarily the IRI – in the credit system¹¹. According to the Bank of Italy, the objectives to be pursued by banking policies in the post-war years of reconstruction had to rest on certain immutable pillars. The first was the financial stability of the banking system, and therefore the gradual removal of industrial credit from public protection, with the consequent transfer of risk from the state to enterprises. The second was the enforcement of the distinction legislatively enacted in 1936 between short-term and long-term credit. The third was constant vigilance against possible bank failures, with the consequent costly bailouts financed by taxpayers. In addition, the fourth was a constant endeavour to curb currency risks¹².

⁸ Subsection 1 of Article 47 states: «The republic encourages and protects saving in all its forms, it regulates, coordinates and controls the provision of credit».

⁹ E. D'ALBERGO, *Tutela del risparmio e controllo del credito*, in «Rivista bancaria», 27, 1947, 3-4, pp. 39 ff.; G. SANGIORGIO, *Le autorità creditizie e il loro potere*, in «Quaderni di ricerca giuridica», 27, marzo 1992, pp. 16 ff.

¹⁰ P.F. ASSO - S. NEROZZI, *Storia dell'ABI. L'Associazione Bancaria Italiana 1944-1972*, Roma 2006, p. 38, pp. 114-115.

¹¹ G. ALBARETO - M. TRAPANESE, *La politica bancaria negli anni Cinquanta*, in F. COTULA (ed.), *Stabilità e sviluppo negli anni Cinquanta* (Collana storica della Banca d'Italia, 3: Politica bancaria e struttura del sistema finanziario), Roma - Bari 1999, p. 9.

¹² P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo del credito mobiliare negli anni del Governatorato Menichella*, in F. COTULA (ed.), *Politica bancaria*, p. 337.

2. *The banking system and reconstruction*

A document drawn up in June 1947 on behalf of the deputy Governor of the Bank of Italy, Donato Menichella, furnishes insights into the decisions taken at that time. The document, entitled *Financing the Reconstruction and the Control of Investments (Finanziamento della Ricostruzione e Controllo degli Investimenti)*, drawn up by the Servizio Vigilanza (the Bank of Italy's supervisory authority), began by emphasising the propulsive function that the banks would be required to assume in reconstructing Italy and reintegrating it into the international economic system¹³. «The first important function of the credit institutions in this phase of the post-war economy is to engage – with suitable actions of education and propaganda and, above all, a coordinated credit policy – in the process of saving formation, stimulating the latter and promoting accumulation and development»¹⁴. However, it was necessary to go further, by generating what was defined as «the essential function of credit institutions»: namely «to impart, through a well-designed system of choices on the market, the most vigorous and highest return on capital because they are applied to the most productive investments in the technical-economic sense and in conformity with the overall purposes that are to be achieved. It is evident that, in this field, the credit institutions cannot be unconstrained in their action and undertake unilateral initiatives: it is necessary to establish clear directives in regard to the regulation of bank loans and the issue of credit, which is tantamount to laying down credit policy lines which, if they are to be implemented successfully, must be strictly linked to an overall economic plan and be included within the broader framework of the state's economic policy directions»¹⁵.

Among the undertakings deemed of particular importance in relaunching the Italian economy, the report of June 1947 cited the impulse that the banking system could give to the Italian production system's re-entry into international markets. Indeed, the main task of the banks would be that of «contributing to the progressive reconstitution of our trade relations with foreign countries, interrupted or diverted or slackened or even paralysed by the war and the defeat. There is an entire world to reconstruct. The

¹³ Archivio Storico della Banca d'Italia (henceforth ASBI, Vigilanza sulle aziende di credito, pratt., no. 36, fasc. 1, *Relazione del 18 giugno 1947*.

¹⁴ ASBI, Vigilanza sulle aziende di credito, pratt., no. 36, fasc. 1, *Relazione del 18 giugno 1947*.

¹⁵ ASBI, Vigilanza sulle aziende di credito, pratt., no. 36, fasc. 1, *Relazione del 18 giugno 1947*.

credit institutions with their good name, with their tradition, with their organisation, are the instruments best suited to reactivating international trade flows»¹⁶.

After the end of the war, it was necessary to ascertain whether the structure adopted in 1936 had proved efficacious in addressing the problems of reconstructing and relaunching the Italian production system. In effect, the vacuum left by the demise of the mixed bank did not appear easy to fill, in that the creation of special credit banks was envisaged but not enacted. Although specialised intermediaries (land credit institutes, agricultural credit institutes, the Credit Institute for Public Utilities [Istituto di Credito per le Imprese di Pubblica Utilità, ICIPU]) already operated in the medium-long term to the advantage of agriculture and the construction, industrial firms were still waiting for new intermediaries, whose creation would depend on the endowments decided by the state. It was not possible to determine in what direction the latter would move, once the corporative trappings imposed by the previous regime had been removed, and while the structure assumed by the financial market was still not entirely clear. There was no certainty, in fact, that it would be able to convey savings, independently of public intervention, towards investments that would anyway have to be integrated with state interventions targeted on the achievement of important goals of a general nature¹⁷.

It should nevertheless be borne in mind that the first post-war governments had implemented an emergency plan which envisaged schemes for financing industrial reconstruction. But because this plan had been drawn up in a particularly turbulent phase, its provisions were decidedly uncoordinated. Moreover, it had emitted the first signals of a possible mix between short-term credit and industrial credit¹⁸. The result was that the set of emergency initiatives dissatisfied both the industrialists, who complained to the Treasury about the paucity of the appropriations allocated to reconstruction, and the heads of the industrial credit banks,

¹⁶ «It is through their experience», the report added, «that the existence and the extent of the possibilities of absorbing and supplying the other markets can be identified; it is through their work of penetration that the placement of our products and services can be achieved. The work of the credit institutes, in this specific sector, transcends the dimension of mere credit and acquires broader economic and political features» (ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 36, fasc. 1, *Relazione del 18 giugno 1947*).

¹⁷ G. NARDOZZI, *Note sull'accumulazione di capitale e sulla politica della Banca d'Italia negli anni Sessanta*, Milano 1979, pp. 63-64.

¹⁸ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 324-325.

particularly IMI (Istituto Mobiliare Italiano) and ICIPU, worried about the curtailment of their function and about the lack of directives in the field of industrial credit¹⁹.

Faced with a situation that displeased all parties, the Governor of the Bank of Italy, Luigi Einaudi, firmly rejected the suggestion that the Bank of Italy might concern itself directly with credit for industry. In Einaudi's opinion, with regard to industrial credit, the central bank should not exceed its remit of defining and directing the operational framework. It should obviously supervise the institutions issuing credit of that kind, but it should not participate directly in the allocation of resources²⁰. The Treasury consequently resorted to the state-owned banks in order to support industrial companies. The result was that ordinary credit encroached on the industrial credit sector, and the Treasury had to resort to normative devices to maintain the distinction between short and medium/long-term credit, which – according to the provisions of the 1936 law – had to be issued by formally distinct structures²¹. The birth of the industrial credit sections and the other «special» sections of the state-owned banks therefore came about in a situation, which was fundamentally one of emergency, with the objective of disbursing, in the form of medium/long-term loans, the funds made available by the state to support the country's industrial revival²².

The law in force also stipulated that the only way in which banks granting long-term loans could raise funds was through the issue of bonds, so that they were precluded from collecting any form of monetary deposits. These, therefore, were «non-banks»²³. In fact, however, the creation of the special sections, starting with the industrial credit section of the Banco di Napoli²⁴, could generate confusion, as Menichella complained in a letter

¹⁹ S. BATTILOSSI, *L'eredità della banca mista. Sistema creditizio, finanziamento industriale e ruolo strategico di Mediobanca, 1946-1956*, in «Italia contemporanea», 185, dicembre 1990.

²⁰ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 326-327.

²¹ *Ibidem*, p. 331.

²² F. COTULA (ed.), *Politica bancaria*, p. XXI.

²³ P. BARATTA, *Banche e non banche. Menichella, il credito mobiliare e il completamento della riforma bancaria nel dopoguerra. Commento*, in F. COTULA (ed.), *Politica bancaria*, pp. 594-595.

²⁴ P. CROCE, *Il credito industriale nel Mezzogiorno: il caso dell'ISVEIMER*, in F. COTULA (ed.), *Politica bancaria*, pp. 601-620.

to the Treasury on November 3, 1946²⁵. What the future Governor feared was that operation of these institutes portended a return to behaviour typical of the mixed bank, which he viewed as an eventuality to be averted at all costs.

3. *The role of the special credit institutions and the birth of Mediobanca and Centrobanca*

Given this setting, the Bank of Italy was evidently suspicious of any expansion of the special credit institutions, and of the uncontrolled growth of industrial credit, which was likely to produce a non-selective increase in facilitated credit. This would impose a heavy financial burden on the government budget, thereby diverting public action away from the structural interventions necessary to relaunch the national economy²⁶. Moreover, Italian entrepreneurs in the post-war period had inherited a system in which an oligopolistic production structure had prevailed, and which had gained conspicuous advantages from the protectionist ideology that permeated the dominant industrial culture and was substantially fostered by both the state and the banks²⁷. During the inter-war period, the financing of businesses had taken the form of the semi-compulsory requisitioning of funds whereby the latter «were channelled towards uses defined and implemented by a small elite of financiers and industrialists»²⁸. Even after the turning point of 1936, the self-financing capacity of companies, combined with a series of government orders, did not generate substantial demand for medium/long-term funds by the largest groups, whilst the small-firm system was unable to achieve sufficient dynamism to generate demand for long-term financing²⁹.

The situation in the post-war period was entirely different. Industrial companies had not only to undertake reconstruction but also to deal with the international production system, once the isolationist barriers

²⁵ Letter from the Director General of the Bank of Italy, Donato Menichella, to the Treasury on November 3, 1946; quoted in P. BARATTA, *Banche e non banche*, pp. 595-596.

²⁶ F. COTULA, *Introduzione*, in F. COTULA (ed.), *Politica bancaria*, p. XXII.

²⁷ G. FERRARI, *Credito speciale*, p. 17.

²⁸ M. DE CECCO, *Banca d'Italia e «conquista politica» del sistema del credito. Tecno-crazia e politica nel governo della moneta tra gli anni '50 e '70*, in *Il governo democratico dell'economia*, Bari 1976, p. 28.

²⁹ P. GRIFONE, *Il capitale finanziario in Italia*, Torino 1971, pp. 176-80.

created by the fascist regime had been removed. Moreover, the demand for medium/long-term credit was still not clearly defined, in that it was difficult to discern clear signals of dynamism in the private investment sector, even though firms could benefit from a high price level and low labour costs. This was matched by parallel growth in the cash endowment funds made available by the publicly owned enterprises, as well as in the bond issues that would yield new resources for industries. A more balanced composition of company liabilities therefore seemed necessary³⁰.

It was in this context that the three nation-wide banks took the initiative of creating – contrary to the wishes of the Bank of Italy – a new industrial credit institute: the Banca di Credito Finanziario, otherwise known as Mediobanca. A joint-stock company of this kind had been urged by the Banca Commerciale Italiana, and primarily by Raffaele Mattioli, who did so with the backing of Enrico Cuccia, who already in 1944 had drawn up a draft statute. The task of the new institute would be to finance only dynamic and profitable firms perhaps immobilised in production activities to be restructured and modernised. It would preferably deal with medium-sized firms, which would receive assistance for the period necessary for them to regain financial equilibrium and then directly address the stock and securities market³¹. The stockholders in the new joint-stock company would be the three nation-wide banks, the five state-owned banks, the Banca d'America e d'Italia, and the Banco S. Spirito, as well as the Bastogi financial company and three insurance companies: General, RAS and INA. However, after two years of negotiations, the new institute did indeed come into being, but with the support of decidedly fewer financiers, also because of the Bank of Italy's objection to the project and the outright opposition raised by the ABI³². In fact, when by a ministerial decree of April 29, 1946, Mediobanca received authorisation from the Treasury to begin operations, the new bank's founding capital was conferred, in equal parts, by only the three banks owned by the IRI³³.

The reaction of the banking system as expressed by the ABI was one of great concern: it was feared that the birth of Mediobanca would create a bias in the sector of financial and credit intermediation entirely to the

³⁰ G. FERRARI, *Credito speciale*, p. 18.

³¹ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 360-361.

³² P.F. ASSO - S. NEROZZI, *Storia dell'ABI*, pp. 131-136.

³³ M. DE CECCO - G. FERRI, *Le banche d'affari in Italia*, Bologna 1996, pp. 95-119.

advantage of the nation-wide banks. However, the loud protests voiced by the president of the ABI, Stefano Siglienti³⁴, were not followed by revocation of the authorisation to operate granted to Mediobanca; nor, as the president of the ABI wanted, by the suppression of the special credit sections and concentration of credit transactions for medium and long-term investments into a single institute. On the contrary, and more simply, a government decree of August 23, 1946, brought Mediobanca under the Bank of Italy's supervisory control³⁵.

Nevertheless, a rift had opened up in the organisational structure of the industrial credit sector. The advent of Mediobanca provoked ferment among the various categories of banks, which feared that the new institute would interfere in their normal banking activities, and obviously, in the medium-term operations which they also intended to undertake. Action was taken almost simultaneously in April 1946 by the ICCRI (the credit institute of the savings banks) and the central institute of the people's banks. The fears expressed to the Treasury by the representatives of these intermediaries was that Mediobanca might provoke a shift of savings accounts by offering higher rates, and that, in parallel, customers who usually applied to their institutes for normal short-term transactions might take out medium-term loans with Mediobanca and also transfer short-term operations to it³⁶.

This was the occasion to request that the authorisation to issue medium-term credit be extended to a wider range of banks. Because the applicants were representatives of banking companies operating throughout the country, the extension which they requested would have made it possible to remedy the limitations evident in that difficult period in the issue of medium-term credit to smaller firms. Nevertheless, although the Director General of the Bank of Italy, Menichella, accepted some of the arguments put forward by the proponents, his reaction was substantially negative, because he was hostile to the proliferation of new banks³⁷. Despite the opposition by Menichella – who amongst other things realised that if an institute administered by the people's banks was authorised, it would

³⁴ ASBI, Archivio Einaudi, fasc. 120, Associazione bancaria italiana – Corrispondenza, letter from the President Stefano Siglienti to the Treasury Minister Epicarpo Corbino and to the Governor of the Banca d'Italia Luigi Einaudi, Juli 15, 1946.

³⁵ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 368-369.

³⁶ *Ibidem*, p. 381.

³⁷ *Ibidem*, pp. 381-386.

have to cater to a clientele different from that already served by the institutes of medium-term credit already operating – in May 1947, the Treasury Minister, Pietro Campilli, gave his approval for Centrobanca to do medium-term business³⁸.

4. *The multiplicity of industrial credit banks*

Already in 1948 there were seventeen banks in Italy authorised to issue industrial credit: the IMI, the ICIPU and the Public Works Credit Consortium (Consorzio di Credito per Opere Pubbliche, CREDIOP), that is, publicly-owned institutes which collected savings by issuing bonds; two institutes opened on the initiative of both nation-wide credit institutes, and ones of a different kind: i.e. Mediobanca and Centrobanca, but also the Industrial Lending Institute (Ente Finanziamenti Industriali, EFI), which though created by the Treasury, issued bonds on a par with the other two institutes but could also draw on the market through forms of saving collection which likened it to the ordinary banks. There were then the industrial credit sections of the Banco di Napoli, the Banco di Sicilia, and the Banco di Sardinia, which operated with funds furnished by their respective banking companies and funds directly disbursed by the Treasury, but could also issue bonds. A particular position was occupied by the Institute for the Economic Development of Southern Italy (Istituto per lo Sviluppo Economico dell'Italia Meridionale, ISVEIMER), set up as an autonomous foundation of the Banco di Napoli and which drew entirely on the latter's funds. A further five institutes did not collect savings in any form and were entirely dependent on the credit companies of which they were branches: these were the sections of the BNL (Banca Nazionale del Lavoro) which issued credit to small and medium-sized firms, the hotel and tourism industry, the film industry, and for cooperative enterprises, as well as the mining credit section of the Banco di Sicilia. Added to these were the Cassa per il Credito alle Imprese Artigiane (which advanced credit to artisan firms), financed by the savings banks, and finally the Istituto di Credito per il Lavoro Italiano all'Estero (credit for Italian workers abroad), which was funded by the issue of state-guaranteed bonds³⁹.

³⁸ *Ibidem*, p. 387.

³⁹ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 8731, fasc. 1, *Relazione 1949 Vigilanza crediti speciali*, pp. 43-47.

In parallel with the growing number of industrial credit institutes, the Industrial Securities Finance Consortium (Consorzio per Sovvenzioni su Valori Industriali, CSVI) diminished in importance, although in the immediate post-war period it had resumed its industrial financing operations, substantially acting on behalf of the Bank of Italy⁴⁰. After 1947, however, its operations steadily dwindled because the Bank of Italy had decided to dispense with its services, with its subsequent demobilisation, which was formally decided in May 1958⁴¹. The fate of the EFI was different. Created in 1939 by the Treasury under the aegis of the Bank of Italy substantially to sustain the burden of war expenditure, on the initiative of Cesare Merzagora the EFI, was converted into an industrial credit institute⁴².

Therefore, in the exercise of medium/long-term credit intermediation, where, besides operating with funds collected by bond issues, banks distributed financial means made available by the Treasury and originating from international aid⁴³, and in parallel distributed the benefits granted to various industries by the state through special legislation, they acted without effective supervision by the Bank of Italy⁴⁴, reacting instead to the pressures applied by the ABI⁴⁵.

⁴⁰ G. PARRAVICINI, *L'ordinamento bancario e l'attività creditizia*, Milano - Roma 1947, pp. 101-108.

⁴¹ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 343-359.

⁴² In 1957, the institute's corporate name was changed to Efibanca, Ente Finanziario Interbancario. Its task became to act as a private channel for the recovery of foreign loans and for the collection of medium-term savings. It specialised in the placement of securities issued by its members through the creation of banking syndicates. During the 1950s it obtained various advances on current account from ordinary credit banks (*ibidem*, pp. 373-380).

⁴³ To be mentioned in particular are the funds allocated by emergency legislation to industry and to finance the engineering industry; aid for the *Mezzogiorno*; the funds allocated to shipbuilding and to restructuring the rail and road network; the funds made available by the Marshall Plan for the purchase of plant and machinery; and the counterpart funds managed by the IMI (M. TONDO, *I crediti speciali. Credito mobiliare*, Roma 1962, pp. 74-5; S. BATTILOSSI, *L'Italia nel sistema economico internazionale. Il management dell'integrazione. Finanza, industria e istituzione, 1945-1955*, Milano 1996, pp. 152-156; G. LOMBARDO, *L'apporto dello European Recovery Program (piano Marshall) alla ri-progettazione dell'industria italiana nel secondo dopoguerra: modernizzazione, conflitti e produzioni off limits*, in A. BONOLDI - A. LEONARDI (eds), *La rinascita economica dell'Europa. Il Piano Marshall e l'area alpina*, Milano 2006, pp. 61-86).

⁴⁴ S. BATTILOSSI, *L'eredità della banca mista*.

⁴⁵ P.F. ASSO - S. NEROZZI, *Storia dell'ABI*, pp. 145-150.

It should be pointed out, however, that it was mainly the IMI which handled the concession of public funds to industrial companies. The state had entrusted it with managing the disbursement of special funds, among which the various segments of the interventions envisaged by the ERP and those connected with them – FLAM 1 and FLAM 2 (funds to purchase machinery with lire), FAS (fund for purchases in pounds sterling) as well as the FIM (engineering industry fund) – operations undertaken by the IMI besides its normal bond activities and medium/long-term lending⁴⁶.

This was a situation, which – according to Confindustria – penalised small and medium-sized firms, which urged the creation of publicly supported regional institutes able to provide them, as well, with medium/long-term credit⁴⁷. However, when on June 22, 1950, Law 445 instituting the regional medium-term credit banks was enacted, facilitating their creation with special tax exemptions, the conditions were not yet in place for the innovative advance envisaged by the legislators.

5. *The regional medium-term credit institutes*

The special credit office of the Bank of Italy's Servizio Vigilanza was overtly sceptical about the viability of the regional medium-term credit institutes, and in their regard included the following somewhat caustic comment in its 1950 activity report. «No such institute, despite sporadic efforts, has come into being. The scant initiatives promoted – and which have gone no further than the enunciation of generic programmes – have started from the assumption of immediate and almost prior financial intervention by the state. More solidly-grounded and fruitful, instead, have been the initiatives undertaken to transform and expand the institutes already in operation»⁴⁸. In effect, besides the scepticism expressed by the Servizio Vigilanza, confirmation of the obstacles against the opening of medium-long credit institutes was forthcoming in July 1952, when Law

⁴⁶ G. FELICIONI, *L'IMI. Passato e presente del credito industriale*, Milano 1986; G. LOMBARDO, *L'Istituto mobiliare italiano, II: Centralità per la ricostruzione: 1945-1954*, Bologna 2000.

⁴⁷ G. GUALERNI, *Ricostruzione e industria*, Milano 1980, pp. 50-54.

⁴⁸ Despite its declared scepticism concerning the regional medium-term credit banks, the report specified: «the department has, however, drawn up a draft statute» for the regional Mediocredito banks, ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8731, fasc. 1, *Relazione 1950*.

949 established the Istituto Centrale di Credito per la Piccola e Media Industria (henceforth Mediocredito Centrale) even though only one regional institute – Mediocredito Piemonte – had been created⁴⁹.

This state of affairs was once again stigmatised by the Servizio Vigilanza of the Bank of Italy. Its 1952 report on the special credit sector stressed the breakthrough of the previous year⁵⁰; but in parallel, almost as if to affirm its inadequacy, urged the institute's administrators to devote greater attention to the problems of financing small and medium-sized firms, thereby concurring with the observations made by Confindustria: «Although medium-sized and small firms, which are of especial importance for the purposes of production and labour employment in the country, have not been entirely forgotten by the provisions enacted on the matter in this post-war period, they have not been able to benefit significantly from efficacious assistance, due to the paucity of the funds allocated to them, the excessively low credit ceiling (15 million lire) granted them, and finally the lack of a suitable decentralised credit system responding to local needs. It is true that Law no. 445 of June 22, 1950, sought to impose a solution to these problems by providing for the creation of special regional institutes, with the participation of credit and insurance companies, but the said institutes (for which the credit ceiling was raised to 50 million lire) would have to operate exclusively with their own means (capital grants, the issue of bonds). This without doubt impeded their creation, because the volume of business that they could undertake was by necessity very restricted, since they could not demobilise part of their loans before expiry and, moreover, could not rely on conspicuous endowments or grants from their participants ... Therefore the government has deemed it opportune to create a central agency through which all the said institutes may, within certain limits, support part of their loans through rediscounts, credit transfers, and absorption of securities issued by the institutes themselves»⁵¹.

However, the creation of Mediocredito Centrale also had the purpose of financing every type of industrial credit institute, and thereby institution-

⁴⁹ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 421-423.

⁵⁰ The reference is to Law 949 of July 25, 1952, which instituted the Istituto Centrale per il Credito a Medio Termine a favore delle Medie e Piccole Industrie, i.e. «Mediocredito Centrale».

⁵¹ «Obviously», the report concluded, «this central agency will be prohibited from entering into direct relationships with industrial companies», ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8731, fasc. 1, *Relazione 1952*.

alise the financing of small and medium-sized firms⁵². With the emission of credit through Mediocredito Centrale to the broader industrial credit system, the state would coordinate actions to rationalise production in the industrial sector but also remedy the disparities among the various areas of the country⁵³.

Governor Menichella nevertheless insisted that the creation of regionally based credit institutes would only make sense if they were able to operate with their own capital independently of state support. He was especially opposed to the logic that tied the institution of the regional «Mediocredito» banks to government aid. Such aid, Menichella argued, should not be prolonged beyond the end of the emergency, and it should always be of a temporary and extraordinary nature⁵⁴. This distrust in operations that might prove risky, or at least inadequate, because they were not sufficiently supported by local financial institutes, became fully manifest in 1961 when authorisation was refused for the creation of a medium-term credit institute for the region of Puglia⁵⁵. Although the proposal to create the Mediocredito Regionale Pugliese had been underwritten by fourteen banks in the provinces of Lecce and Brindisi, it was rejected on the grounds that it lacked real «regionality» and above all might harbour «interests which are instead personalistic and not entirely genuine»⁵⁶. Rather than creating new special institutes, the Bank of Italy stressed, those already in existence should be assisted by being adequately financed and allowed to operate at a more specifically local level. It was therefore necessary to take action in the country's various areas in order to supersede stakes by identifying local funding sources that would enable the new institutes to operate⁵⁷.

⁵² P. PELUFFO - V. GIACCHÈ (eds), *Storia del Mediocredito Centrale*, Roma-Bari 1997, pp. 60-62.

⁵³ D. SERRANI, *Lo Stato finanziatore*, Milano 1971, pp. 110-120.

⁵⁴ P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 412-415.

⁵⁵ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8729, fasc. 1.

⁵⁶ Advisory opinion issued on June 12, 1961 by the Servizio Vigilanza of the Bank of Italy, ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8729, fasc. 1. A subsequent memorandum sent to the Governor a few days later (on June 22, 1961) stated that «it would instead seem opportune that the small applicant banks, none of which is currently a member of ISVEIMER, should be invited to join that institute on the occasion of its expansion», ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8729, fasc. 1.

⁵⁷ P. PELUFFO - V. GIACCHÈ (eds), *Storia del Mediocredito Centrale*, pp. 15-32.

The slow take-off of the regional industrial credit institutes was due on the one hand to the inadequacy of the initiatives undertaken by the banks in the country's various regions, and on the other to obstacles raised by the supervisory authorities, which, as said, were sceptical that Law 445 could be effectively applied⁵⁸. However, through the creation of Mediocredito Centrale, the decision was taken to pay specific attention to the needs of small and medium-sized firms.

6. *Critical aspects of medium/long-term financing*

However, not everything worked satisfactorily nor, above all, in line with clearly-defined policies. «The strong growth of the Italian economy», commented Raffaele Mattioli, a leading figure in the banking system of those years, «was characterised by a proliferation of initiatives, a swarm of projects and plans, an ubiquitous desire for growth which generated a pressing and largely indiscriminate demand for credit and capital: demand which revealed the inadequacies of the bodies and mechanisms put in place, and which sought to bend all means available to its purposes. In such circumstances, the trend of financial credit could not be synchronous with that of ordinary credit. The former certainly functioned, and also developed, but at a rate which tended constantly to be overwhelmed by ordinary credit»⁵⁹. Mattioli's comments were certainly not out of place. Now that the most critical years of the immediate post-war period had passed, criticisms began to be voiced in the financial industry concerning the rigidities imposed on the Italian banking system by the law of 1936, whilst banks sought devices with which to circumvent them.

The 1951 report on the banking system sent to the Governor of the Bank of Italy by the Servizio Vigilanza signalled a «recrudescence of unauthorised loans amounting to more than one-fifth of corporate assets, or made to firms not within the bank's sphere of action», to the point that it had been necessary to intervene with «forceful warnings and severe admonitions to those banks exhibiting clear resistance to the regulations»⁶⁰.

⁵⁸ The *Premessa* to the 1950 report by the Bank of Italy's Servizio Vigilanza spoke of the «proliferation of new and not always opportune initiatives» liable to provoke «distortions in banking activity», ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 17, fasc. 7, *Relazione 1950*. This was a manifest expression of opposition against the regional Mediocredito institutes envisaged by Law 445 of 1950.

⁵⁹ R. MATTIOLI, *I problemi attuali*, p. 223.

⁶⁰ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 19, fasc. 2, *Relazione 1951*.

Already in 1951, therefore, the supervisory authority discerned evident symptoms of restiveness among certain banks, which in order to disguise transactions in breach of the law had adopted behaviour which was clearly to be censured: namely «accounting expedients devised to conceal profits or losses, trade-offs between assets and liabilities as devices to conceal loss-making transactions and to evade the rules on the 'banking reserve' or, sometimes, also to eliminate accounting records connected with illegitimate or anyway censurable activities ... Also to be emphasised is the development, in defiance of reprimands again addressed to banks, of transactions undertaken solely to assist clients in the avoidance of taxes, taking the form of credit openings with simultaneous payment of the proceeds into savings accounts, i.e. of forwards for minimal sums in comparison to the amount of the securities»⁶¹. The fact that the provisions of law on investments intended to avoid lock-ups and in every way to prevent direct – or even worse, exclusive – shareholdings between banks and enterprises, was evaded in operational practice through breaches of credit ceilings and the prolongation of loan repayment schedules. Such behaviour was also stigmatised in the 1952 report by the Servizio Vigilanza of the Bank of Italy. «The unauthorised granting of credit exceeding one-fifth of assets to firms located outside the bank's zone of competence continues to occur with a certain frequency, especially in the case of banks which, operating in areas that offer greater opportunities to collect deposits, appear to be in possession of excess current assets»⁶².

Faced with a constant growth in bank deposits – which had increased from 2,233.3 billion lire in 1950 to 2,688 billion in 1951, climbing to 3,335.4 billion in 1952, 4,000 billion in 1953, 6,000 billion in 1956, 7,500 billion in 1958, and then exceeded the 10,000 billion threshold in 1960⁶³ – and a production system in constant expansion and therefore hungry for financial resources, it was logical for the credit institutes to seek organisational arrangements able to fill the vacuum created by the abolition of the mixed banks.

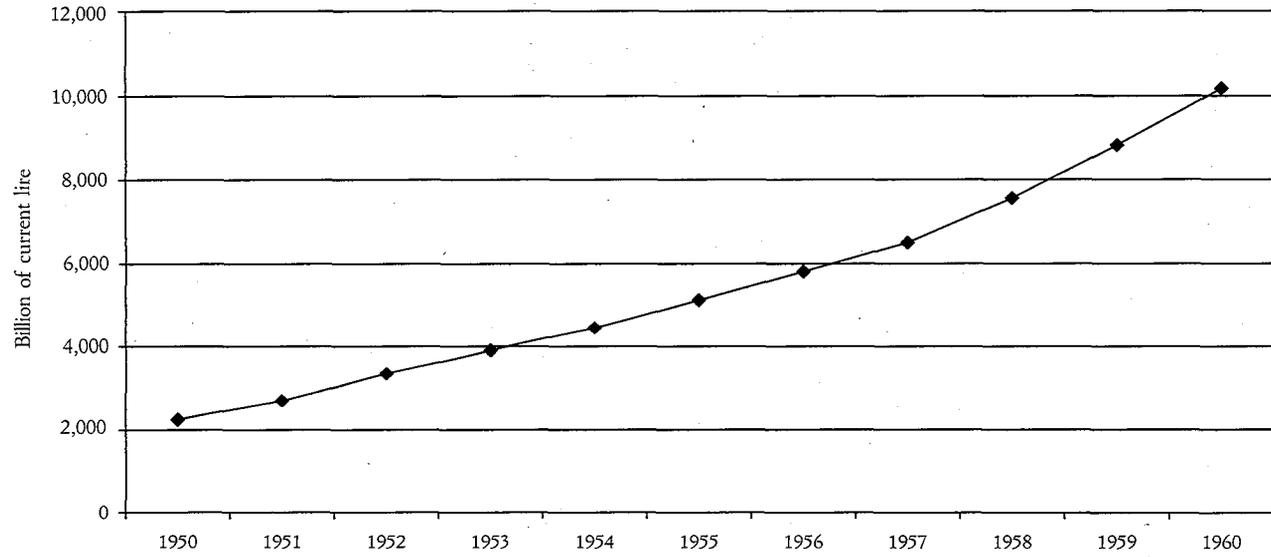
Consequently, given the need to finance the relaunching of the industrial system once the process of post-war reconstruction had been completed,

⁶¹ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 19, fasc. 2, *Relazione 1951*.

⁶² ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 20, fasc. 1, *Relazione 1952*.

⁶³ BANCA D'ITALIA, *Adunanza generale ordinaria dei partecipanti. Relazione 1950*, Roma 1951; *Relazione 1952*, Roma 1953; *Relazione 1953*, Roma 1954; *Relazione 1954*, Roma 1955; *Relazione 1955*, Roma 1956; *Relazione 1956*, *Relazione 1957*; *Relazione 1958*, Roma 1959; *Relazione 1959*, Roma 1960; *Relazione 1960*, Roma 1961.

Graph 1. *The fiduciary assets of banks (1950-1960)*



Source: ASBI, *Vigilanza sulle aziende di credito, pratt., Relazioni 1950-1961.*

and with the demands of companies intending to modernise their equipment and introduce advanced technologies so that their products could compete on international markets, it was evidently not possible to rely exclusively on self-financing operations⁶⁴. The Bank of Italy reacted to these requirements by orchestrating a covert transformation of industrial credit that complied with the principle of separateness between bank and company, and consequently maintained the distinction between ordinary and industrial credit⁶⁵. In parallel, as repeatedly emphasised by the reports of the Servizio Vigilanza, «moral suasion» was constantly applied to all types of banks so that credit transactions be directed towards sustainable business initiatives, besides securities on mortgages, and the maximum attention paid to the needs of small and medium-sized firms.

7. *An interesting analysis on the financing of small and medium-sized firms*

Overall, as De Cecco stressed, the financial system was not fully aware of the needs of a broad array of firms operating in unprecedented circumstances⁶⁶. In the second half of 1952, however, immediately after the enactment of Law 949, the Bank of Italy's Servizio Vigilanza directed Governor Menichella's attention to an interesting dossier profiling Italy's industrial structure, and which stressed the financing needs of the various categories of enterprise⁶⁷. The dossier began by pointing out that «the bulk of industrial activity [is] undertaken by small and even micro firms». It then went on to describe the organisational and productive structure of such firms. The most interesting part of the document – which shows that at least the Bank of Italy had endeavoured to identify the financial requirements of the country's small and medium-sized firms – examined the need of such enterprises for both fixed and floating capital.

«In many cases», the dossier reported, «part of fixed investments are acquired by small and medium-sized firms in the form of operating costs ...

⁶⁴ A. GIGLIOBIANCO - G. PILUSO - G. TONIOLO, *Il rapporto banca-impresa in Italia negli anni Cinquanta*, in F. COTULA (ed.), *Politica bancaria*, pp. 233-234.

⁶⁵ F. COTULA, *Introduzione*, in F. COTULA (ed.), *Politica bancaria*, p. 31.

⁶⁶ M. DE CECCO, *Banca d'Italia*, p. 31.

⁶⁷ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 9281, fasc. *La struttura dell'industria italiana*. The document is unsigned, but it is attributable to the Servizio Vigilanza, which forwarded it to the Governor, who must have read it, given that it bears the initials 'DM' (Donato Menichella).

As regards coverage of short- and long-term capital requirements, first to be considered is that the majority of small and medium-sized firms are family-owned businesses ... The destiny of these firms is often tied to their owners' lives. The personal and familial nature of these firms enhances their capacity for self-financing ... Their low plant costs allow rapid amortisation, so that, if need be, they request medium-term rather than long-term credit, which, in fact, is almost never in demand. The same medium-term credit, in the sense of credit whose amortisation takes place according to a pre-established schedule, is ill-suited to the needs of these firms»⁶⁸. Hence it followed that the most suitable assistance for such firms would be the granting of short-term credit, which in effect was issued «for the purchase of plant and machinery, [given] that the banker adapts the transaction, without distorting its nature, to that of the firm's economic situation»⁶⁹. It often happened, however, that firms asked for extensions of short-term credit, so that – with authorisation by the Servizio Vigilanza of the Bank of Italy – it was converted into medium-term credit.

On these grounds, the dossier contradicted the report with which the fifth Senate committee had accompanied, on July 8, 1952, the law on the «Provisions to Develop the Economy and Increase Employment», which created Mediocredito Centrale. The dossier had stated that small and medium-sized firms represented 70% of the Italian industrial sector but received only a small proportion of medium/long-term financing (24.8%). According to the Servizio Vigilanza, however, this figure was wholly inaccurate, because the medium/long-term credit requirement of small and medium-sized firms was «enormously smaller» than the 70% requirement of the industrial sector as a whole⁷⁰.

The final part of the document conducted detailed analysis of outstanding loans made to manufacturing and mining companies in 1951 by the

⁶⁸ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

⁶⁹ «The problem of credit for small and medium-sized firms», the report continued, «takes the form of an alternative between the direct granting of credit to the firms themselves and the granting of credit to machinery-manufacturing firms, in which case it will be such firms that transfer the credit to their clientele of small and medium-sized firms», ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

⁷⁰ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

industrial credit institutes, the purpose being to show that small and medium-sized firms, too, had benefited. A few months earlier, on March 21, 1951, the Servizio Vigilanza had reported that, in accordance with decree Law no. 1419 of December 14, 1947, the sums granted by the state for small and medium-sized firms in the Mezzogiorno alone amounted to 5,000 million lire, added to which were the 30,000 million issued by the state through the Banco di Napoli, the Banco di Sicilia, and the Banco di Sardinia for the industrialisation of the South as a whole⁷¹. The overall figure reported by the 1952 dossier, which referred to outstanding loans throughout the country, was different, but it substantially confirmed the finding of March 1951: an overall amount of 322,902 million lire. Hence, «outstanding loans to manufacturing and mining firms, not exceeding a fixed unitary amount and therefore made to small and medium-sized firms, were at least equal to 33,938 million lire»⁷². Some 41.2% of these loans had been issued – in accordance with legislative measures enacted to favour the industrialisation of the Mezzogiorno⁷³ – by the special sections of the southern banks and by ISVEIMER; 14.7% of them were ERP loans managed by the IMI; 14.4% had been issued by the special sections of the BNL, the Banco di Sicilia and by the Banco di Sardinia under decree Law no. 1419 of December 15, 1947 on credit to small and medium-sized firms⁷⁴; 8.8% consisted of credit granted by the IMI on the basis of the provisions on credit to purchase machinery (FLAM 1 and FLAM 2 funds), and 6.5% of operations undertaken by the IMI on the basis of loans granted by the Export-Import Bank⁷⁵.

⁷¹ The 5,000 million lire allocated to small and medium-sized firms were instead transferred via the BNL, the Banco di Napoli and the Banco di Sicilia (ASBI, Vigilanza sulle aziende di credito, Pratt., no. 8734, fasc. 4, nota del 21 marzo 1951).

⁷² ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

⁷³ These legislative measures were: legislative Decree no. 1598 of December 14, 1947; legislative Decree no. 121 of March 5, 1948; Law no. 1482 of December 29, 1948; Law no. 261 of May 9, 1950.

⁷⁴ With respect therefore to the 5,000 million lire granted by the state under the same legislative measure and reported on March 21, 1951 by the Servizio Vigilanza of the Bank of Italy, 4,883 million were defined here as loans already issued by the three banks, ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

⁷⁵ The remaining medium/long-term loans issued to small and medium-sized firms divided among 5.1% for lending operations undertaken by the IMI for the purchase of machinery and equipment in the sterling area (FAS fund for purchases in pounds

Data of such precision were never subsequently collected by the Bank of Italy. Nevertheless, the annual reports produced by the special credit office of the Bank of Italy's Servizio Vigilanza contained quantitative statistics of indisputable interest, which highlighted the constant increase in the loans issued by the medium/long-term credit institutes during the 1950s.

8. *The volume of medium/long-term operations during the 1950s*

It is interesting to note that medium/long-term financing to manufacturing enterprises grew *pari passu* with the marked increase in the fiduciary assets collected by the ordinary credit institutes and in parallel with the transfer of funds from the ordinary banks to the medium/long-term credit institutes.

Whilst in 1950 the fiduciary assets of banks amounted to 2,233.3 billion lire, by 1960 they had risen to 10,177 billion. The increase had been particularly marked in 1951 (+20.4%) and 1952 (+24%).

It then slowed down between 1953 and 1957, when the rate was lower than in the previous year (+11.7%), but rose again substantially in 1958 (+16.2%), 1959 (+16.8%), and 1960 (+15.3%).

In parallel, outstanding loans by the industrial and special credit institutes, which amounted to 310.5 billion lire on December 31, 1950, had risen to 2,160 billion by December 31, 1960. In this case, too, the increase was constant. Whilst relatively modest in 1950 and 1951 (+5.9%), the growth was enormous in the following year (+77.4%) but then more contained in 1953 and in 1954 (respectively +20% and +17%). It then resumed strongly in 1955 (+36.4%) and slackened in 1956 (+12.4%). In 1957 it matched the trend in the fiduciary assets of the banking system as a whole by diminishing (only +5.3%) but then increasing vigorously between 1958 and 1960 (+14.2%, +16.2% and +22%).

sterling), 4.8% for statutory operations by the IMI within its ordinary competences; 2.9% for initiatives again undertaken by the IMI, but through the lira fund for the steel industry and through the FIM (engineering industry fund), as well as the ordinary loans by Mediobanca's Industrial Loans Consortium, and by the EFI; and finally 1.6% for operations undertaken by the IMI in application of legislative Decree no. 449 of May 8, 1946 for the restructuring of industrial enterprises, which had appropriated a total of 13,000 million lire, of which 550 were allocated to small and medium-sized firms, ASBI, Vigilanza sulle aziende di credito, Pratt., no. 9281, fasc. *La struttura dell'industria italiana*.

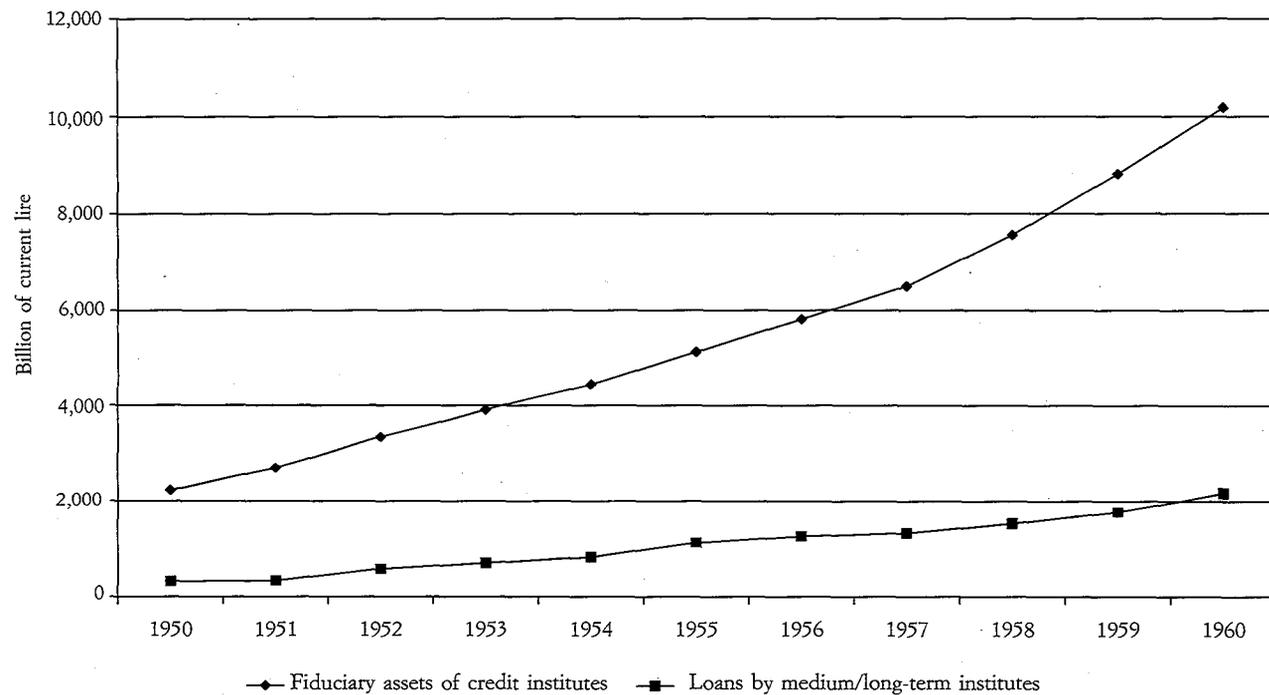
Table 1. *Volumes relative to ordinary credit and special credit institutes*

	1938	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Fiduciary assets collected by credit institutes	55,5	2,233,3	2,688	3,335	3,910,3	4,473	5,143	5,814,6	6,496	7,552	8,822	10,177
«Transit» of funds from credit institutes to medium/long term institutes				340,7	414,6	471,1	556,2	589,8	541,5	638	732,4	946
Loans by medium/long term credit institutes	10,8	310,5	328,9	583,4	704,7	825,5	1,126,1	1,266	1,334	1,524	1,771	2,160

Values in billions of current lire.

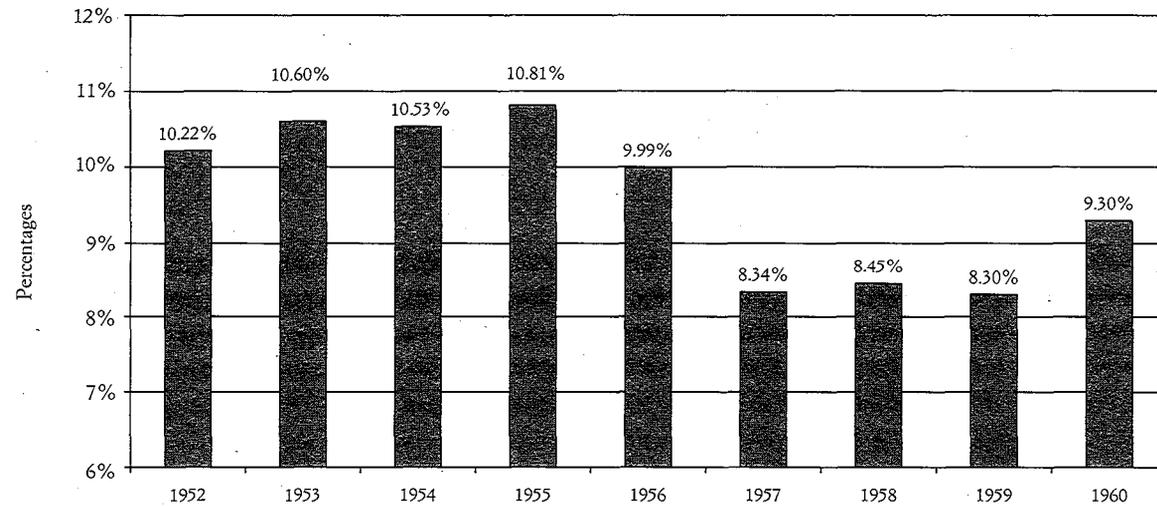
Source: ASBL, *Vigilanza sulle aziende di credito, pratt., Relazioni 1950-1961.*

Graph 2. Loans by medium/long-term institutes compared with the fiduciary assets of the credit institutes



Source: ASBI, *Vigilanza sulle aziende di credito, pratt., Relazioni 1950-1961.*

Graph 3. Percentage of 'transit' of funds from ordinary credit institutes to medium/long-term institutes on the total fiduciary assets of credit institutes



Source: ASBI, Vigilanza sulle aziende di credito, pratt., *Relazioni 1950-1961*.

The Bank of Italy's Servizio Vigilanza only began to issue figures on the transfers of financial means from the ordinary credit institutes to the institutes of industrial and special credit in 1952. From that year until 1960, such transfers invariably made up a consistent proportion of lending by the credit system, rising from 8.3% of the fiduciary assets administered by the country's banks in 1959 to a maximum of 10.8% in 1955. Once again, the increase was constant, given that such transfers amounted to 340.7 billion lire in 1952 and in 1960 to 946 billion. The only period in which there was no growth was between 1956 and 1957, when the «transit of funds» decreased from 580.8 billion to 541.5 billion.

9. *Interventions in the Mezzogiorno*

These quantitative data conceal a series of intractable problems and issues, however. One of them was access to long-period credit by smaller firms, and particularly by those already or potentially operating in the Mezzogiorno, where a new productive system had to be created, and whose distinctive feature would be a widespread network of small and medium-sized firms.

The turning point came in 1950, and was completed in 1952 with the creation of the Cassa per il Mezzogiorno⁷⁶, whose action, adequately funded by the state, was intended to respond to the needs of an evolving productive system and promote its growth. In such a climate, therefore, it became of increasing importance to take decisions that would enable credit, too, to stimulate productive reorganisation in the southern areas of the country⁷⁷. Since its inception, in fact, the Cassa had evidenced the need to coordinate and simplify the procedures for financing development schemes in the Mezzogiorno, and thereby influence the credit system in the southern regions⁷⁸.

Expectations regarding the propulsive role which the credit system could perform in the Mezzogiorno, with coordination and direct intervention by

⁷⁶ The reference is to Laws 646 of 1950 and 949 of 1952, M. NIGRO, *Il complesso organizzativo bancario*, in S. CASSESE (ed.), *L'amministrazione pubblica in Italia*, Bologna 1974, pp. 333-352.

⁷⁷ G. RAITANO, *L'intervento straordinario per il Mezzogiorno e l'organizzazione del credito all'industria*, in SVIMEZ, *L'unificazione economica dell'Italia*, Bologna 1997, pp. 393-401.

⁷⁸ P. CROCE, *Il credito industriale nel Mezzogiorno*, pp. 616-637; P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 438-443.

the Cassa – despite the misgivings of the ABI⁷⁹ – had been clearly and authoritatively expressed since 1953 by the periodical *Moneta e Credito*. This urged in particular that the banks operating in the regions of the South should, with the support of the Cassa, assume the task of assisting customers to develop their businesses, not only by issuing credit but also by providing them with fiscal, commercial and technical-economic advice on how to obtain mortgages, thereby fostering the gradual maturation of southern entrepreneurs and their awareness of their own capacities⁸⁰.

The purpose of creating the Cassa per il Mezzogiorno was to induce conditions for change in the South through the execution of a large-scale programme of public works. By means of Law no. 634 of July 29, 1957, the intention was to undertake – as stressed by the Bank of Italy's Servizio Vigilanza in its 1957 report – «more vigorous action to foster the formation of new agricultural and industrial activities as permanent sources of a larger labour supply, the progressive growth of income in the Mezzogiorno, and the basis of the development plan for the national economy»⁸¹.

Indeed, the Cassa per il Mezzogiorno launched a series of schemes to support firms. To do so it drew on the facilities of the ISVEIMER, the IRFIS (Istituto Regionale per il Finanziamento delle Medie e Piccole Industrie in Sicilia) and the Banco di Sardinia and its agency, the CIS (Credito Industriale Sardo, set up in 1954). However, the local banking system failed to develop the network of services to southern businesses envisaged by the BNL journal⁸². Nor was any particular encouragement forthcoming from the Bank of Italy, which instead, in a memorandum of April 1954, stated that it had always pursued a credit policy that «did not discriminate among regions»⁸³. The Bank of Italy therefore deemed that it had fulfilled its duty simply by making it possible to implement Law no. 298 of April 11, 1953, which provided for more decisive intervention by the state in the sector of credit to small and medium-sized firms, «which are of such importance especially for Italy's South and

⁷⁹ P.F. ASSO - S. NEROZZI, *Storia dell'ABI*, pp. 288-291.

⁸⁰ C. ALHAIQUE, *Luci ed ombre in materia di crediti per l'industrializzazione del Mezzogiorno*, in «Moneta e credito», 6, 1953, 23, pp. 341-354.

⁸¹ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8732, fasc. 1, *Relazione 1957*.

⁸² P. CROCE, *Il credito industriale nel Mezzogiorno*, pp. 620-625.

⁸³ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8734, fasc. 4, note dated April 9, 1954.

the Islands»⁸⁴. However, this was evidently not enough to create a social fabric upon which a new relationship between industry and credit intermediaries could flourish.

Not even the ISAP (Istituto per lo Sviluppo delle Attività Produttive) created in 1955, with financial intervention by the Banco di Napoli, the Banco di Sicilia, the BNL and the IMI, and whose purpose was also to promote and support new industrial activities in the Mezzogiorno⁸⁵, was able to generate a network among the various banks operating in the South. Certainly, the expansion of the ISVEIMER and its financial consolidation in the second half of the 1950s enabled that institute to issue credit on particularly advantageous conditions, but its growth was not accompanied by any development of the local banking system⁸⁶.

The quantitative data show an indisputable increase in medium/long-term lending to the advantage of businesses in the Mezzogiorno, rising between 1951 and 1960 from 107 to 470 billion lire, with an increase of 258.9% for the South and of 511.8% for the Islands. This was matched, however, by an overall increase in medium/long-term lending, which in the decade considered amounted to 363 billion lire in the Mezzogiorno, whilst in the North the increase was fully 939 billion, equal to 267.5%.

In percentage terms, investments grew more substantially in the southern regions than in those of the North. However, account should be taken of the initial weakness of the South when the magnitude of such investments is evaluated. The Bank of Italy's Servizio Vigilanza introduced a further factor for more correct assessment of the above figures. «The favourable impression», the 1960 report noted, «that one might gain of the improved position of the Mezzogiorno in the national context does not find confirmation if the attention shifts to the 'movement' of loans, or in other words, to the ratio between revenues and expenditures. (For the period 1952-1960 the revenue/expenditure ratio was 41% for the North and 36% for the South.) One observes, in fact, that the ratio is

⁸⁴ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 8734, fasc. 4, note dated April 9, 1954.

⁸⁵ Besides participating in the capital of industrial companies, the task of the ISAP was to assist entrepreneurs in both the preliminary phase of business start-up and that of management, SVIMEZ (ed.), *Sintesi delle agevolazioni per l'industrializzazione del Mezzogiorno*, Roma 1963.

⁸⁶ A.L. DENITTO, *Istituti e dinamiche dei finanziamenti straordinari: l'ISVEIMER dalle origini agli anni del miracolo economico*, in L. D'ANTONE (ed.), *Radici storiche ed esperienza dell'intervento straordinario nel Mezzogiorno*, Roma 1996, pp. 243-328.

Table 2. *Lending by the special credit institutes in the Mezzogiorno to industry and public works*

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Banco di Napoli	13,639	17,749	23,980	28,981	31,466	33,639	34,857	32,808	32,707	31,247	26,902	22,160
Isveimer	3,429	5,152	5,345	7,842	10,195	16,170	24,689	33,545	42,776	53,174	70,950	100,712
Banco di Sicilia	9,306	11,770	17,198	24,003	28,443	34,303	38,078	37,132	36,193	43,588	54,539	57,501
Irfis					1,043	4,939	9,800	16,930	27,607	44,110	64,081	80,041
Banco di Sardegna		138	1,163	3,218								
Cis					5,229	7,432	8,656	10,556	12,794	14,556	18,610	22,018
Total	26,374	34,809	47,686	64,044	76,376	96,483	116,080	130,971	155,047	186,675	235,082	282,432

End-of-year amounts in millions of current lire.

Source: ASBI, Vigilanza sulle aziende di credito, pratt., *Relazioni 1950-1961*.

substantially lower for the Mezzogiorno, with a wider gap for 1960 (36 against 19), which is indicative that southern businesses have increasing repayment difficulties»⁸⁷.

10. *Operations by the special credit institutes in the Mezzogiorno*

Hence, the 1950s saw industrial credit shift towards the more industrially backward areas of the country. According to the Bank of Italy, this was due on the one hand to public policies to aid the Mezzogiorno, but on the other to the fact that firms in the North, and above all in the North-West, had proved increasingly able «to finance themselves outside the credit system»⁸⁸. In the South, therefore, the only sources of financing for firms were schemes promoted on the initiative of the special credit institutes.

In general terms, it is of interest to examine the amounts of medium/long-term credit that flowed through the southern industrial and special institutes to the regions of the Mezzogiorno.

The industrial credit section of the Banco di Napoli made a significant contribution to industrial lending in the Mezzogiorno until the mid-1950s. However, from 1957 onwards, its total volume of loans diminished. By contrast, the special section of the Banco di Sicilia issued a constantly increasing amount of credit to industry – with the sole exception of a downturn in 1957 – and in the second half of the 1950s outstripped the Banco di Napoli. Moreover, the IRFIS, although it began by lending modest amounts in 1954, was also extremely active in the second half of the 1950s. Not particularly dynamic, though, were the initiatives by the special section of the Banco di Sardegna – after 1954 the CIS – in contrast with increasingly decisive action by the ISVEIMER, which at the end of the 1950s was the largest lender to firms in southern Italy.

The purpose of the loans granted by these institutes was – as underlined by the 1959 report of the special credit office of the Bank of Italy's Servizio Vigilanza – «to support the industrial development of the Mezzogiorno. In fact, local firms currently account for fully 94% of loans outstanding with the said institutes at the end of 1959. Moreover, on the same date, those institutes covered 50% of lending by all institutes of industrial

⁸⁷ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 30, fasc. 1, *Relazione 1960*.

⁸⁸ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 30, fasc. 1, *Relazione 1960*.

credit to firms in the Mezzogiorno»⁸⁹. Therefore, the remaining 50% of medium/long-term loans to firms operating in the South was issued by the nation-wide credit institutes.

Behind this flow of direct financing to the South there lay – as already emphasised – a specific policy aimed at remedying the damaging impact of an economic dualism between North and South, which was one of the most evident factors conditioning not only the country's economic life, but also its social structure⁹⁰. From the strictly financial point of view, the cost of launching the industrial development of the Mezzogiorno, in order to reduce its gap with respect to the northern regions of Italy, entailed remarkably high costs. Comparative sectoral studies carried out in the mid-1950s revealed that the cost of creating jobs in the industrial sector was markedly greater in the South than in the North. A detailed analysis conducted in 1957 by the IRFIS reported that «in the Mezzogiorno the inadequacy of economic infrastructures entails extra plant costs of substantial proportions»⁹¹.

A survey conducted by the Palermo institute pointed out that creating one job in the South required an average 7.6 million lire of capital. This contrasted with an estimate in 1953 by the CICR which found that an investment made for the same purpose in the rest of Italy required an expenditure of 3 million lire. At the basis of this marked discrepancy, besides the costs due to the lack of infrastructures, was the fact that «the entire process of the Mezzogiorno's industrial development has to date been predominantly oriented to sectors in which even the most modern initiatives are highly capital-intensive, owing to the large degree of mechanisation required by the technological production process and by modern manufacturing applications»⁹². This was a somewhat ambiguous admission,

⁸⁹ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 29, fasc. 1, *Relazione 1959*.

⁹⁰ There is a large body of studies on Italy's North/South dualism. Qtd. here are only some of them: P. SARACENO, *L'unificazione economica italiana è ancora lontana*, Bologna 1988; L. CAFAGNA, *Dualismo e sviluppo nella storia d'Italia*, Venezia 1989; SVIMEZ (ed.), *L'unificazione economica dell'Italia*; C. PETRACCONE, *Le «due Italie». La questione meridionale tra realtà e rappresentazione*, Roma - Bari 2005; V. DANIELE - P. MALANIMA, *Il prodotto delle regioni e il divario Nord-Sud in Italia (1861-2004)*, in «Rivista di Politica Economica», 2007.

⁹¹ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8725, fasc. 1. Report sent on March 23, 1957 by the IRFIS to the Bank of Italy, CICR and Mediocredito Centrale entitled *Caratteri distintivi delle medie e piccole industrie*.

⁹² The IRFIS's evaluation was based on the concrete results of investments made by the institute until December 31, 1956: industrial investments of 72,488 million lire had

given that on the one hand it stressed the innovative approach taken to relaunch the economy of the South, whilst on the other (how consciously it is difficult to say) it seemingly acknowledged the inadequateness of industrial policies involving enormous costs because they were unsuited to the local economic system and, moreover, were likely to give rise to «cathedrals in the desert».

11. *Operations by the regional medium-term credit banks in the Centre and North*

Comparison between the total amount of lending by the medium-term and special credit institutes operating to the exclusive advantage of the Mezzogiorno against lending by the regional medium-term credit banks, which instead operated solely in the Centre and North of Italy, shows that financing operations to support small and medium-sized firms – undertaken not only by regional medium-term credit institutes but also by large part of the southern institutes – was greater in the Mezzogiorno than in the North throughout the 1950s.

Also bearing in mind the slow take-off of the medium-term credit institutes, one deduces from the data collected by the Bank of Italy's Servizio Vigilanza that, throughout the 1950s, total lending by the special institutes in the Mezzogiorno to firms enormously outweighed analogous lending by the medium-term credit institutes. In 1953, by which year only the medium-term credit institutes of Piedmont, Lombardy and Lazio had begun operations, their loans to industry and public works amounted to

generated an increase in employment amounting to 9,440 labour units, the cost of which varied from 4 million lire in the food industry, where 1,541 new jobs had been created, to more than 18.5 million lire in the chemicals industry, in which 1,956 new jobs had been created; ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8725, fasc. 1. Report sent on March 23, 1957 by the IRFIS to the Bank of Italy, CICR and Mediocredito Centrale entitled *Caratteri distintivi delle medie e piccole industrie*. In regard to the figures given by the IRFIS report, it should be stressed that they are entirely at variance with those reported by the Bank of Italy's Servizio Vigilanza and set out in the above Table (which perfectly match those produced by P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 570-511), and which suggest that the loans to firms and public works made by the IRFIS between 1954 and 1956 amounted to 15,782 million lire. It therefore seems that the figure of 72,488 million lire stated in the report of March 23, 1957 was obtained by considering industrial investments made by other institutes before the creation of the IRFIS and then transferred after 1954 to the new body, whose mandate was to promote, on behalf of the Cassa per il Mezzogiorno, the start-up and consolidation of small and medium-sized firms in Sicily.

2,416 million lire, whilst those issued by the ISVEIMER and the special sections of the Banks of Naples, Sicily and Sardinia amounted to 64,044 million⁹³. In 1955, when nine regional medium-term credit institutes were active – though those of Friuli and Liguria were still not operational – lending in the above-mentioned sectors was equal to 11,686 million lire, which was just 12.1% of lending by the five special institutes in the Mezzogiorno⁹⁴.

In the last years of the decade, when the physiognomy of the regional medium-term credit banks appeared definitive, although the gap began to narrow, it was still sizeable, given that lending in the above-mentioned sectors by the medium-term credit institutes in 1958 was 17.9% of that by the special institutes of the South. In 1960 it was 22.6%, and in 1961, with loans amounting to 101 billion lire, 35.9%⁹⁵. In addition, the credit disbursed by the special institutes was the only source of financing for local firms in the South.

Concerning the most dynamic medium-term credit institutes, the importance of operations by the Lombard institute comes as no surprise⁹⁶. But the role of Mediocredito Trentino-Alto Adige⁹⁷ may instead seem odd, given that this was an institute which operated in a marginal region. However, in the 1950s it issued loans to an amount greater than those by the Piedmontese institute, which operated in a highly industrialised region, or also compared with the Veneto and Lazio institutes, which did business in decidedly more dynamic regions.

Although the overall amount of lending by the various regional medium-term credit institutes grew constantly in volume, its function – again at the end of the 1950s – was not assessed in enthusiastic terms by the Bank of Italy. «The credit assistance by these institutes» commented the 1959 report of the special credit office of the Bank of Italy's Servizio Vigilanza,

⁹³ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8731, fasc. 1, *Relazione 1953*.

⁹⁴ IRFIS had been merged with ISVEIMER, whilst the Banco di Sardegna had taken over the CIS, which therefore flanked the special sections of the Banco di Napoli and the Banco di Sicilia, ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 8731, fasc. 1, *Relazione 1955*.

⁹⁵ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 29, fasc. 1, *Relazione 1959*; Pratt., no. 8732, fasc. 3, *Relazione 1959*.

⁹⁶ On this institute see the article in this volume by Pietro Cafaro and Andrea Locatelli.

⁹⁷ On this institute see the article in this volume by Cinzia Lorandini.

Table 3. *Lending by the regional medium-term credit institutes to industry and public works*

	1953	1954	1955	1956	1957	1958	1959	1960	1961
M. Lombardia	1,696	4,505	6,422	8,194	9,136	9,483	10,564	17,656	41,696
M. Piemonte e Val d'Aosta	593	1,005	1,402	1,971	2,639	3,275	3,920	6,085	10,800
M. Umbria		28	90	160	174	173	168	693	1,523
M. Emilia Romagna			150	900	1,620	2,079	2,344	3,842	7,321
M. Lazio	127	745	1,358	2,059	2,505	2,367	2,388	3,239	5,541
M. Toscana			355	1,061	2,218	2,814	2,746	3,152	5,233
M. Friuli						94	2,071	4,274	7,880
M. Liguria				95	338	619	702	918	2,940
M. Marche		168	418	621	621	626	676	1,473	3,060
M. Trentino-Alto Adige		357	1,383	1,952	3,722	4,295	6,325	8,476	10,176
M. delle Venezie			108	1,029	1,656	2,002	2,659	3,370	5,463
Total Italian Mediocredito banks	2,416	6,808	11,686	18,042	24,629	27,827	34,563	53,178	101,633

End-of-year amounts in millions of current lire.

Source: ASBI, *Vigilanza sulle aziende di credito, pratt., Relazioni 1950-1961.*

«can be considered overall rather modest, especially in regard to those institutes operating in central Italy»⁹⁸. However, the report pointed out that 93% of the total lending was allocated to manufacturing firms, and it stressed that 52% of the credit issued had been transferred to the various regional medium-term credit institutes by Mediocredito Centrale. In the second half of the 1950s, therefore, also the regional medium-term credit institutes – like the special institutes in the Mezzogiorno – had directed a significant part of their activities to the distribution of facilitated credit, which they issued, drawing on Mediocredito Centrale, to small and medium-sized firms in their geographical areas of competence.

Thus one of the issues that had animated the parliamentary debate prior to the approval of Law 445 of 1950 was reiterated. On that occasion it was decided that the endowment funds of the regional medium-term credit institutes could be augmented by government grants intended to support small firms. Given that large firms were eligible for aid from the ERP, the option was taken of making benefits available, via the regional medium-term credit institutes, to a production sector deemed of strategic importance – perhaps more in economic than social terms – for employment by small and medium-sized firms⁹⁹.

12. Operations by the other special institutes

Of course, both the institutes operating to the exclusive advantage of the economy of the Mezzogiorno, and the regional medium-term credit institutes active only in the Centre and North, represented only part of the agencies supporting entrepreneurial activity, given that other institutes were present, with their own initiatives (obviously across the entire national territory), and which were unquestionably the intermediaries that moved the largest amounts of capital: primarily the IMI, but also CREDIOP, ICIPU, BNL with its special sections, as well as Mediobanca and, albeit to a lesser extent, Efibanca and Centrobanca¹⁰⁰.

⁹⁸ ASBI, *Vigilanza sulle aziende di credito*, Pratt., no. 29, fasc. 1, *Relazione 1959*; Pratt. no. 8732, fasc. 3, *Relazione 1959*.

⁹⁹ *Il Mediocredito lombardo di Giordano Dell'Amore (1954-1980)*, in S. ZANINELLI - P. CAFARO - A. LOCATELLI, *La banca delle imprese. Storia del Mediocredito lombardo*, I: *Uno sviluppo possibile*, Roma - Bari 2007, pp. 19-26.

¹⁰⁰ In the second half of the 1950s, the CSVI ceased lending to industry, P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo*, pp. 343-359.

It was indubitably the IMI that undertook the largest amount of financing, both through its ordinary operations – those representing continuity with its operational set-up since the 1930s¹⁰¹, and which in the second half of the 1950s continued to represent the bulk of its operations – and through its special sections.

The IMI, in fact, was given responsibility for managing the bulk of public resources and the American aid furnished through the UNRRA and above all through the ERP, as well as the funds connected with these and disbursed to support entrepreneurial activity between 1945 and 1952: that is, in precisely the years of reconstruction and stagnation of the financial market. In 1953, in fact, the special sections of the IMI recorded the highest amount of lending to industry, although this was followed by a constant decrease until the beginning of the 1960s, when the aid furnished under the Marshall Plan ceased.

Decidedly less substantial was the IMI section disbursing funds from the Treasury to finance the engineering industry, over 90% of which were allocated to firms operating in the North¹⁰².

Of increasing importance, especially in the second half of the 1950s, was the CREDIOP. However, as observed by the 1959 report of the special credit office of the Bank of Italy's Servizio Vigilanza, «among the reasons for the sizeable increase in credit to public works are those concerning the need for anti-depression remedies to attenuate the effects of the slowdown in economic growth». Consequently, the CREDIOP expanded apace, financing mainly «public buildings, works and services»¹⁰³. Operating in the same area was the ICIPU, which had also increased its lending, to the benefit also of electricity companies, engineering firms, and those operating in the telecommunications sector.

Of decidedly more modest proportions were the loans issued by the other special institutes. The most important of the latter, the so-called «non-banks» with a lesser number of interventions, was certainly Mediobanca, which, although it offered financing in the chemicals sector, had expanded its operations with financial companies¹⁰⁴. The growth of lending by the special sections of the BNL was due more to transactions in the hotel

¹⁰¹ *Ibidem*, pp. 444-445.

¹⁰² *Ibidem*, p. 493.

¹⁰³ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 29, fasc. 1, *Relazione 1959*.

¹⁰⁴ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 29, fasc. 1, *Relazione 1959*.

Table 4. *Lending by the special credit institutes to industry and public works*

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
BNL (sez. credito PMI)	1,915	1,835	2,055	2,282	1,589	3,175	5,585	8,416	11,279	13,365	14,299	16,545	29,431
BNL (altre sez. speciali)	1,680	3,147	5,460	7,892	10,917	15,578	17,823	21,867	28,277	30,757	32,055	38,245	52,35
IMI (operaz. ordinarie)	34,957	51,398	78,838	107,884	144,982	179,758	228,898	295,267	345,287	399,688	478,846	554,487	674,274
IMI (gestioni speciali)	36,751	71,904	166,498	251,217	295,993	301,379	285,094	275,724	267,051	251,667	228,728	198,121	190,170
IMI (FIM)	34,056	43,604	46,734	39,225	36,670	36,707	36,773	36,863	28,669	29,737	26,278	21,167	19,909
CREDIOP	40,210	40,117	68,330	70,300	121,468	172,207	196,348	299,750	314,025	329,935	379,774	495,128	611,850
ICIPU	22,881	38,199	44,048	55,626	69,476	84,114	101,105	131,588	156,548	170,429	195,245	242,195	271,192
CSVI	20,837	19,731	18,540	20,111	17,790	17,261	15,858	12,159	8,784	8,017			
Mediobanca	6,054	6,992	12,170	17,610	20,841	23,762	33,009	39,188	44,294	61,395	68,389	81,540	104,153
Efibanca			1,068	3,202	5,025	9,008	14,103	12,491	21,391	27,764	40,003	46,948	48,900
Centrobanca						769	1,519	2,756	5,707	9,712	14,123	18,194	23,269

End-of-year amounts in millions of current lire.

Source: ASBI, *Vigilanza sulle aziende di credito, Pratt., Relazioni 1950-1961.*

credit sector, or for the construction of infrastructures to promote the tourist industry¹⁰⁵, than to initiatives in the manufacturing sector. Efibanca concentrated mainly on providing support to engineering firms and, to a decidedly less significant extent, firms processing hydrocarbons¹⁰⁶. Finally, lending by Centrobanca, which also covered served sectors, was largely absorbed by the «fund to increase productivity»¹⁰⁷.

13. *The growing importance of the special credit institutes and recourse to multi-bank loans*

Lending by the medium/long-term credit institutes to industrial companies grew constantly throughout the 1950s. The total of outstanding loans at the end of 1960 (2,160.2 billion lire) was equal to seven times the amount in December 1950 (310.5 billion). Those specific to the industrial sector underwent particularly marked expansion between 1957 and 1960, rising from 586 billion to 881 billion. By contrast, in those same years, lending in the construction and public works sector increased from 714 to 1,162 billion, and loans to services rose from 34 to 117 billion¹⁰⁸.

During the decade a practice had become consolidated which the Bank of Italy's Servizio Vigilanza described thus: «Whilst some large companies, such as those in the electricity sector, have decided that they can better satisfy their financial needs through direct recourse to the capital market, thereby decreasing their demand for credit from the special institutes, there has by contrast been greater demand for loans and mortgages by other industrial sectors (mining, chemicals, telephone services, harbour installations) and by agencies for public works constituting the infrastructures essential for the development of the national economy (roads and railways) or for the improvement of the population's standard of living (public housing, aqueducts, sewage systems, schools, hospital facilities)»¹⁰⁹. Law no. 623 of July 30, 1959, which introduced new incentives for small

¹⁰⁵ Envisaged by Law no. 622 of July 24, 1959, were extraordinary credit schemes for hotels and sports facilities also in concomitance with construction of the infrastructures necessary for the Olympic Games of 1960.

¹⁰⁶ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 29, fasc. 1, *Relazione 1959*.

¹⁰⁷ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 29, fasc. 1, *Relazione 1959*.

¹⁰⁸ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 30, fasc. 1, *Relazione 1960*.

¹⁰⁹ ASBI, Vigilanza sulle aziende di credito, Pratt., no. 29, fasc. 1, *Relazione 1959*.

and medium-sized enterprises and crafts firms, imparted further impetus to this change of direction¹¹⁰.

Hence, within the context of stability and constant economic growth that characterised the 1950s as a whole, small and medium-sized firms were the most direct recipients of outlays by the special credit institutes. The large companies could instead rely on self-financing, but without forgoing direct relationships with the financial intermediation system, to the point that the supervisory authorities were constantly worried that dangerous collusion between banks and industry might resume. Therefore, in face of the multiplicity of bank types operating in the country, increasingly frequent recourse was made to multi-bank loan pools, which enabled risk to be shared and increased the elasticity of credit¹¹¹. Even the most robust banks regarded investment in information necessary to develop exclusive relationships with specific firms as costly and unproductive. When those of smaller size were called upon to contribute to the financing of large groups, albeit with small quotas, they relied on the evaluative criteria used by the three nation-wide banks, which evidently constituted some sort of guarantee for them. Moreover, due account was not taken of the fact that the three large banks also certainly operated according to the criteria of the trustee company, which were those of the former mixed banks¹¹².

Although the circulation of information was not of the best, throughout the 1950s the largest banks undertook initiatives which directed the financial structure of firms towards development trajectories of decisive importance¹¹³. In parallel, local banks were able to make a significant contribution to the growth of regions where particularly dynamic sectors were emerging and which would achieve exceptional growth in subsequent decades¹¹⁴.

¹¹⁰ ASBI, *Vigilanza sulle aziende di credito*, pratt., no. 29, fasc. 1, *Relazione 1959*.

¹¹¹ A. GIGLIOBIANCO - G. PILUSO - G. TONIOLO G., *Il rapporto banca-impresa*, pp. 278-290.

¹¹² *Ibidem*, pp. 278-287; G. NARDOZZI, *Commento alla relazione di A. Gliobianco, G. Piluso e G. Toniolo*, in F. COTULA (ed.), *Politica bancaria*, pp. 303-307.

¹¹³ A. GIGLIOBIANCO - G. PILUSO - G. TONIOLO, *Il rapporto banca-impresa*, p. 290; A. CONFALONIERI, *Durata del credito bancario e finanziamento alle aziende industriali*, in «Il risparmio», dicembre 1955.

¹¹⁴ S. COSCI - F. MATTESINI, *Credito e sviluppo nelle province italiane*, in F. CESARINI - G. FERRI - M. GIARDINO M. (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997, pp. 89-101; P. CAFARO, *La solidarietà efficiente. Storia e prospettive del credito cooperativo in Italia (1883-2000)*, Roma - Bari 2001, pp. 408-420.

14. Concluding remarks

The Italian credit system stabilised during the 1950s. The redistribution of financial intermediation between the state-owned and local banks reaffirmed the public-service function performed by the credit institutions¹¹⁵. Whilst in that period it was not yet possible for the Italian banking system to develop structures enabling it to compete fully on the international market, it nevertheless created the means necessary for it to meet the needs of a productive and distributive system in rapid expansion¹¹⁶.

«Compared with twenty-five years ago», Donato Menichella stated to the general assembly of the Bank of Italy on May 31, 1960, on the occasion of his last Governor's Report, «the operational capacity of the banking system, measured by the volume of deposits, has roughly tripled ... Alongside the organisation of ordinary credit, and independently from it, there has come about an efficient organisation of industrial credit which draws the bulk of the funds necessary for its operations directly from the market ... The capital market, in its turn, has expanded to an extent not yet achieved by countries richer than ours»¹¹⁷.

The development of the productive system during the years of Italy's reconstruction and «economic miracle» was certainly not hindered by a lack of credit. Italian firms – albeit to different extents in the different parts of the country – obtained the credit that they needed from the banking system. Analysis of operations by the medium/long-term credit institutes, however, reveals a number of anomalies. Whilst in some areas of the country – particularly the regions of the Centre and North-East – such institutes fostered growth and thereby contributed to particularly robust economic dynamics¹¹⁸, in other areas, and not only the South, they certainly did not perform a propulsive function. The hope expressed in 1953 by Claudio Alhaique in *Moneta e Credito* that the banks operating in

¹¹⁵ M.S. GIANNINI, *Istituti di credito e servizi di interesse pubblico*, in «Moneta e credito», 2, 1949, 5, pp. 105-119.

¹¹⁶ F. CESARINI, *Commento alla relazione di G. Albereto e M. Trapanese*, in F. COTULA (ed.), *Politica bancaria*, p. 170; A. LEONARDI, *Il sistema bancario nella ricostruzione del Paese: tra vecchi e nuovi equilibri*, in S. LA FRANCESCA - G. CONTI (eds), *La banca* (Storia d'Italia. Annali), Torino 2008.

¹¹⁷ Speech by Governor Donato Menichella to the assembly of the Bank of Italy on May 31, 1960; now in F. COTULA - C.O. GELSOMINO - A. GIGLIOBIANCO (eds), *Donato Menichella*, p. 458.

¹¹⁸ S. COSCI - F. MATTESINI, *Credito e sviluppo*, pp. 89-101.

the regions of the South would not only assist local entrepreneurs but also develop their entrepreneurial skills¹¹⁹ seems not to have been fulfilled¹²⁰.

However, the limited propulsive capacity of banks, and specifically of the special institutes, was not restricted to the Mezzogiorno alone. It was also manifest in other areas of the country, where such institutes seemed unable to perform any active role in driving the growth of industrial firms. In the case of small and medium-sized firms, in particular, for whom access to self-financing was not always practicable and recourse to multi-bank loans was difficult, the special credit institutes more often seemed to be pull rather than push factors. Moreover – as has been recently emphasised – they were more the passive recipients of information from enterprises than their crucial interlocutors in a delicate phase of corporate restructuring¹²¹. The structuring of the industrial credit institutes themselves, almost all of which were owned by several ordinary banks, certainly did not encourage closer relationships between individual banks and firms¹²².

¹¹⁹ C. ALHAÏQUE, *Luci ed ombre*, pp. 341-354.

¹²⁰ P. CROCE, *Il credito industriale nel Mezzogiorno*, pp. 637-647.

¹²¹ A. GIGLIOBIANCO - G. PILUSO - G. TONIOLO, *Il rapporto banca-impresa*, pp. 288-289.

¹²² G. NARDOZZI, *Commento*, pp. 303-307.

Local Credit and Territorial Development

General Aspects and the Italian Experience

by *Silvio Goglio*

I. INTRODUCTION

However paradoxical it may seem, the relationship between the credit supply and the development of a given territory is one of the aspects least explored by the economics of local development. Only recently has it attracted attention, and more from a theoretical point of view than an empirical one. One might be tempted to justify this omission with the unequivocal evidence for the relationship: credit is a necessary condition for development and therefore performs a positive function. Put in these terms, however, the question is simplistic and of scant use. The fundamental issue is not whether credit is necessary; but rather what type of credit or, more specifically, what financial system – constituted by the financial markets, the institutions operating in them, and the predominant type of financial contract – best responds to the development needs of a given territory. What matters is the kinds of services which a financial system provides, as well as the efficiency with which it does so¹. This may depend on the extent to which the financial institutions are rooted in the territory, their ownership form, their size, their level of integration with the national financial system, the function of subsidised credit, and so on.

The paradox is also apparent in the Italian case. Whilst on the one hand the multi-regionality of development, the importance of diffused entrepreneurship and the substratum of small and micro enterprises, the weight of light industrialisation, and agricultural restructuring are

This study pertains to the national research programme (MIUR - Cofin 2005): «Intervento pubblico, dirigismo e programmazione economica in Italia: continuità e cambiamenti (1922-1956)»; operation unit: «Il ruolo del sistema bancario: dalla specializzazione funzionale alla diversificazione territoriale».

¹ See R. CAMERON - O. CRISP - H.T. PATRICK - R. TILLY, *Banking in the Early Stages of Industrialization. A Study in Comparative Economic History*, Oxford 1967.

by now widely acknowledged and studied, on the other, relatively little attention has been paid to the territorial diversification of finance, and in particular to the function of local credit and small banks. As is to be expected, the few existing studies on the matter have concentrated on industrial districts and on the period since the 1970s. Comparatively neglected have been non-district or non-industrialised areas, and above all the period between post-war reconstruction and the end of the 1960s. Generally, with few exceptions, studies on industrialisation take it for granted that «the financial leverage of small firms operating in 'light' industry has pivoted substantially on their capacity for self-financing sustained by prolonged periods of growth and on the high competitiveness of flexible organisation»².

The purpose of this article is to explore the relationship that arose in Italy between local financial systems and local production systems in the period of the country's post-war reconstruction, when it rejoined the trajectories of modern economic development. Those years, in fact, saw definition of the features of the domestic political, economic and institutional context that interacted with the subsequent organisational and operational surge of small and medium-sized firms which so profoundly marked the development of large part of the Italian economy and its regions³. Careful examination of the period is therefore useful, if not necessary, for assessment of how the attitudes dominant in the period and the consequent decisions helped generate, through a mechanism of path dependence, some of Italy's current economic equilibria and disequilibria.

This will be done by verifying two hypotheses. The first is of a more general nature. It states that, in a given territory, the supply of credit, and the financial system supporting it, constitute only one local factor in development. They combine with numerous other factors, even ones uncorrelated with them, which may be present in varying proportions according to the coordinates of time and place, and which give rise to the set of opportunities for investment. The function of credit is to encourage pursuit of those opportunities, on the one hand by stimulating the availability of external financing for firms and reducing its cost, a function

² G. CONTI, *Banche e imprese medie e piccole nella periferia economica italiana (1900-1939)*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997, p. 152.

³ Explanation of Italian development during the period – strongly conditioned as it was by exports – must obviously consider the political, economic and institutional dynamics of the international context.

which mainly concerns more financially dependent sectors and firms⁴; and on the other, in general by engendering a selecting-out process among firms based on efficiency and innovative capacity. The presence of financial development, therefore, is not necessarily accompanied by economic development. It is consequently essential to evaluate the interactions that take place between a local financial system, on the one hand, and the level and quality of human capital, social capital, entrepreneurial function and company structure, on the other. In other words, it is essential to determine how a financial system interacts with the cumulative causation processes which shape the system economies of a territory.

The second hypothesis tested in what follows concerns Italy in particular. It states that certain public choices of the post-war period, functional to specific political strategies and to more generic strategies of medium-period growth, proved unable in the long period to sustain a modern equilibrium among factor endowments, socio-cultural components, and the political-administrative apparatus. Although such choices might have been justified by the conditions at the time, as their shortcomings became apparent the inability or unwillingness to correct them hampered the country's development, making broad-gauge private choices difficult, albeit leaving space for more agile and decentralised ones. This came about in particular through a distortion in the system of economic incentives due to three main factors. Firstly, there was little concern to strengthen small and medium-sized firms in qualitative terms. Modern legislation was not enacted to furnish a clear normative framework for contractual, social security and fiscal matters. And no measures were introduced to promote the supply of modern services dedicated to the sector, primarily banking: for instance, not only was the selective function of the financial system not enhanced, it was perverted by being substantially restricted to increasing the supply of secured credit and integrating this with subsidised credit. Secondly, the state progressively increased company production and transaction costs with normative rigidities, administrative sluggishness, short-sightedness, and burdensome taxation, as well as with corruption, thereby inducing firms to circumvent these obstacles with irregular behaviour. Thirdly, the state – both to facilitate the survival of the backward part of the production system and to strengthen the international competitiveness of the more advanced one (which the

⁴ A firm's financial dependence does not derive solely from the fact that it belongs to a sector financially dependent because, for instance, it is highly capital-intensive. It also depends on the firm's phase of development: for example, if it is young or undergoing production restructuring.

state weakened with its inadequacy) – was compelled to grant a series of protective and anti-competitive concessions, often giving rise to tacit collusion with the sectoral and trade-union confederations.

The hypotheses will be verified by considering the main findings in the theoretical and empirical literature on the general aspects of the relationship between financial systems and territorial development (Chapter II), and by examining the odd relationship between credit and local firms in Italy (Chapter III). In regard to the latter, a distinction will be drawn between the premises constituted by certain choices taken during the period between the two wars and the compromises reached between continuity and innovation of the first fifteen years of the post-war period, with the consequences of these in subsequent years, given the lack of structural reforms. Brief conclusions are drawn in Chapter IV.

II. CREDIT AND DEVELOPMENT

1. *Financial system and development*

The influence exerted by the financial system on development has long been a matter of controversy, and it has been examined, within broader topics, more by economic theory in general than by the economics of development in particular⁵, and with little or no empirical verification. On the one hand, one can identify a trend of thought which has explicitly argued for its positive function, dividing nevertheless between those who have identified this function as support for capital accumulation⁶ and those who have seen it as the selection of projects, and therefore of entrepreneurs, through the allocation of credit⁷. On the other hand, there are those who, like Joan Robinson, 1952, have hypothesised a reverse causal connection whereby finance, like the Napoleonic *Intendance*, follows the advance of companies. Between these two extremes lie a medley of positions: those wholly sceptical that there is any causal relationship between the two variables⁸; those doubtful and suggesting the existence

⁵ See R. LEVINE, *Financial Development and Economic Growth: Views and Agenda*, in «Journal of Economic Literature», 35, 1997, pp. 688-726.

⁶ W. BAGEHOT, *Lombard Street: A Description of the Money Market*, London 1873, and J. HICKS, *A Theory of Economic History*, Oxford 1969.

⁷ J.A. SCHUMPETER, *Theorie der wirtschaftlichen Entwicklung*, Leipzig 1912.

⁸ R.E. LUCAS jr, *On the Mechanism of Economic Development*, in «Journal of Monetary Economy», July 1988, pp. 3-42.

of a mere correlation due to the dependence of both variables on a third one, namely the propensity of households to save⁹; and more nuanced ones which maintain that the financial markets anticipate future development and that financial development is therefore only a 'leading indicator', rather than a causal factor.

It was only in the 1970s that the relationship between financial development and economic growth became an independent subject of inquiry¹⁰ which subsequently received impetus, in both the theoretical and empirical fields, from progress in the economics of information and agency relationships and in the theory of financial intermediation¹¹. In light of the latter, it was evidenced that productive activity and investment may be hindered by the existence of imperfections in credit markets: by favouring situations of adverse selection and moral hazard, information asymmetries and contractual asymmetries¹² may lead to credit ration-

⁹ R.W. GOLDSMITH, *Financial Structure and Development*, New Haven CT 1969.

¹⁰ See e.g. R.W. GOLDSMITH, *Financial Structure and Development*; R.J. MCKINNON, *Money and Capital in Economic Development*, Washington DC 1973, and E. SHAW, *Financial Deepening in Economic Development*, London 1973.

¹¹ In the theoretical field see J. GREENWOOD - B. JOVANOVIĆ, *Financial Development, Growth and the Distribution of Income*, in «Journal of Political Economy», 98, 1990, 5-1, pp. 1076-1107; V.R. BENCIVENGA - B.D. SMITH, *Financial Intermediation and Endogenous Growth*, in «Review of Economic Studies», 58, 1991, pp. 195-209; V.R. BENCIVENGA - B.D. SMITH, *Some Consequences of Credit Rationing in an Endogenous Growth Model*, in «Journal of Economic Dynamic Control», 17, 1993, pp. 97-122; J.H. BOYD - B.D. SMITH, *Intermediation and the Equilibrium Allocation of Investment Capital: Implications for Economic Development*, in «Journal of Monetary Economics», 30, 1992, 3, pp. 409-432; R. LEVINE, *Financial Structure and Economic Development*, Working Paper WPS 849, The World Bank, February 1992; R. KING - R. LEVINE, *Financial Intermediation and Economic Development*, in C. MAYER - X. VIVES (eds), *Capital Markets and Financial Intermediation*, Cambridge 1993. In the empirical field see WORLD BANK, *World Development Report*, Washington DC 1989; A.H. GELB, *Financial Policies, Growth, and Efficiency*, World Bank PPR Working Paper no. 202, 1989; N. ROUBINI - X. SALA I MARTIN, *Financial Development, the Trade Regime and Economic Growth*, NBER Working Paper, no. 4062, 1991; R. KING - R. LEVINE, *Financial Intermediation and Economic Development*; R. KING - R. LEVINE, *Finance and Growth: Schumpeter May Be Right*, in «Quarterly Journal of Economics», 108, 1993, pp. 717-737.

¹² Contractual asymmetry derives from the nature of the contract: a bank will tend to prefer low-risk projects, with a higher expected return for the creditor, while the client will prefer riskier projects with a higher expected return for the debtor; this, also with overall expected return remaining equal, and risk-neutral contracting parties, see E. STIGLITZ - A. WEISS, *Credit Rationing in Markets with Imperfect Information*, in «American Economic Review», 71, 1981, 3, pp. 393-410.

ing¹³, slow development in comparison to potential, and give rise to suboptimal equilibria. The «Modigliani-Miller theorem» – stating that how a firm is financed is irrelevant to whether or not it undertakes an investment – was thus superseded, and the financial structure of firms became central to explanation of productive choices. The task of a financial system (that is, of financial markets, institutions and instruments) is therefore to relax liquidity constraints and to mitigate the effects of information and transaction costs. More specifically, this entails the following: eliminating or reducing information asymmetries in the evaluation (screening) and control of projects and companies (monitoring)¹⁴; increasing the propensity to save or activating idle funds; mediating the transformation of long-term debt into less binding deposits; furnishing an implicit insurance service¹⁵; and facilitating the payments system. These objectives are more easily achieved if the financial system is able to establish continuous relationships with clients; but insider banks must be prevented from taking advantage of their greater knowledge to appropriate part of company profits (the hold up problem), provoking recourse to multiple lines of credit by companies.

Recent theoretical and empirical research based on international comparisons and analysis at sector and firm level therefore corroborates the existence of a meaningful relationship between financial development, on the one hand, and capital accumulation, technological change and productive improvements on the other, as summarised by the following¹⁶.

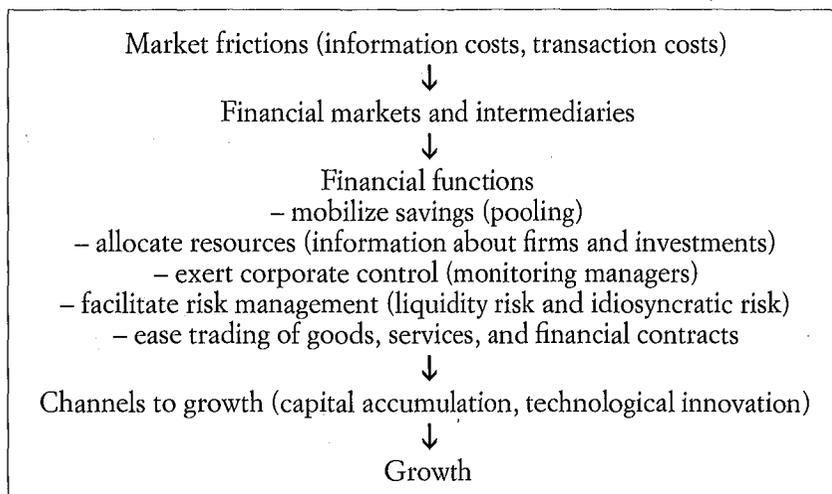
Among the functions in the scheme, both the theoretical literature and the few econometric estimates performed report that the best allocation of credit among alternative projects and more careful selection of investments according to their marginal productivity (the so-called Schumpeterian channel) prevail over the push effect on capital accumulation exerted by the greater supply of liquidity (the Hicksian chan-

¹³ «If the phenomenon of credit rationing exists, it is very likely that the distribution of information is one of its causes»; L. CANNARI - L.F. SIGNORINI, *Rischiosità e razionamento: un'analisi dell'efficienza allocativa delle banche di credito cooperativo e dei divari Nord-Sud*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997, p. 341.

¹⁴ D. DIAMOND, *Financial Intermediation and Delegated Monitoring*, in «Review of Economic Studies», 59, 1984, pp. 393-414, defines a bank as an institution of delegated monitoring.

¹⁵ Through emergency credit lines and interest rates smoothing.

¹⁶ See R. LEVINE, *Financial Development and Economic Growth*, p. 691.



nel)¹⁷. For instance, De Gregorio¹⁸ estimates that «financial intermediation affects growth mainly by increasing the marginal productivity of capital» at a ratio of three to one¹⁹.

¹⁷ The Schumpeterian functions operate by screening entrepreneurs and certifying their quality, thereby promoting specialisation and the development of entrepreneurship, as well as the adoption of new technologies. In the Hicksian functions, the intermediation of saving performed by the financial system through the diversification of risks and the reduction of transaction costs provokes an increase in the saving rate and the fraction of saving channelled into investment, directing investments to uses with greater returns. The Hicksian channel is more explicitly considered by the new neoclassical theories of growth, while the Schumpeterian channel has been evidenced by, among others, E. FAMA, *What's Different about Banks?*, in «Journal of Monetary Economics», 15, 1985, pp. 29-30; A. GALETOVIC, *Credit Market Structure, Firm Quality, and Long-run Growth* (Discussion Papers in Economics, 171), Woodrow Wilson School, Princeton University, Princeton NJ 1994; R. KING - R. LEVINE, *Finance, Entrepreneurship and Growth. Theory and Evidence*, in «Journal of Monetary Economics», 32, 1993, 3, pp. 513-42; R. LEVINE, *Law, Finance, and Economic Growth*, in «Journal of Financial Intermediation», 8, 1999, pp. 8-35; H. MINSKY, *Stabilizing an Unstable Economy*, New Haven CT 1986; B.J. MOORE, *Horizontalists and Verticalists: the Macroeconomics of Credit Money*, Cambridge 1988; E. STIGLITZ - A. WEISS, *Banks as Social Accountants and Screening Device for the Allocation of Credit*, NBER Working Paper, no. 2710, 1988.

¹⁸ J. DE GREGORIO, *Il ruolo della banca locale. Un confronto internazionale*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997, p. 70.

¹⁹ The ratio between credit internal to the private sector and GDP is used as the indicator of the degree of financial intermediation. Excluding credit to the public sector, this

It seems therefore permissible to conclude that «the development of financial markets and institutions is a critical and inextricable part of the growth process» and that adequate comprehension of long-period development is not possible until the evolution and functioning of financial systems has been understood. However, this conclusion must be drawn «hesitantly and with ample qualifications»²⁰, and by reprising some of the hypotheses alternative to those of Schumpeter and Hicks. Firstly, not to be neglected is the fact that the functioning of a financial system is dependent on the ongoing pattern of development and the socio-political and economic context in which it operates. We therefore have an ambivalent relationship, a mechanism of reciprocal interaction which makes it difficult to precisely identify the direction of the causal connections. Secondly, whilst one may state that financial development has a positive overall effect on economic development – despite the presence of exceptions which should be duly considered – it is also evident that ‘financial development’ is too generic a term²¹. Assessing this impact and the importance of these exceptions requires two linked frameworks. The first must specify the relations between the financial structure and the functioning of the financial system: that is, how different markets, institutions, and contractual forms reduce information and transaction costs and influence saving rates, investment decisions, and technological innovation – all aspects insufficiently explored for firm conclusions to be drawn. The second framework must specify the characteristics of the economic and productive system and the various relations which are established, according to these characteristics, with the financial sector: in other words, it must appraise the territorial aspects of the relationship between financial development and economic development.

ratio more accurately represents the channelling of funds to the private sector: that is, the degree of financial intermediation impacting on investment and its efficacy. The indicator well captures the financial development that comes about through the banking system, but not that induced by the stock market. To be pointed out, however, is that in the early phases of development and in small firms, very little use is made of the financial market.

²⁰ See R. LEVINE, *Financial Development and Economic Growth*, pp. 688-689. See also M. PAGANO, *Financial Markets and Growth: An Overview*, in «European Economic Review», 37, 1993, pp. 613-22 and M. PAGANO, *Banche e distretti industriali: una relazione speciale?*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale. Un'indagine della Banca d'Italia sui distretti industriali*, Corigliano Calabro 2000.

²¹ This may also induce errors in measurement of a financial system's functioning: «Measuring the performance of one part of the financial system [e.g. equity markets] may generate a misleading indicator of the functioning of the whole financial system», R. LEVINE, *Financial Development and Economic Growth*, p. 714.

2. *Financial system and territory*

One premise for evaluation of the territorial aspects of the relationship between economic development and financial development is that the latter does not have the same impact on all sectors and all firms, and consequently on all territories. Since markets and financial institutions reduce – through the mechanisms that we have seen – the cost of loan money, their development will have much greater repercussions on those firms and sectors which depend most on external financing: namely, new firms and sectors with greater investment commitments, who are more capital-intensive and/or more innovative. Scant financial development will instead favour firms already present on the market, as traditional sectors, and those with low investment intensity²². This possibility of expanding or reducing the potential for new firms and technological and innovative sectors is an important factor «in determining the size composition of an industry as well as its concentration»²³. And in general it is an important channel of influence on patterns of economic development at national, regional or subregional level.

A second important aspect concerns a financial structure's capacity to reduce the information and incentivisation problems posed by firms for financiers, for it is on this capacity that its functionality for development depends. Since financial structures of different kinds, performing different roles, obtain different results in this regard, it is evident that, depending on the features of the economic system and its informational frictions, certain solutions will be more functional than others. In particular, as the evolutionary theory of the firm shows, the youngest and smallest firms raise the most serious problems of information asymmetry, mainly because they do not have long examinable records and/or have not yet established structured relations with the financial system. Moreover, these firms are unable to sustain the fixed costs necessary to access the financial

²² «Our estimates suggest that financial development has almost twice the economic effect on the growth of the number of establishments as it has on the growth of the average size of establishments». «The existence of a well-developed [financial] market ... represents a source of comparative advantage for that country in industries that are more dependent on external finance. Similarly, the cost imposed by a lack of financial development will favour incumbent firms over new entrants»; R.G. RAJAN - L. ZINGALES, *Financial Dependence and Growth*, in «American Economic Review», 88, 1998, pp. 560 and 584.

²³ *Ibidem*, p. 584.

market and the stock exchange²⁴. This explains why bank credit is of particular importance not only for this type of firm but also, in general, for a territory or country in its early phases of development, when small firms requiring specific financial services predominate, and the financial and stock markets are neither liquid nor able to meet the demands of a large part of the production system. By contrast, bank credit diminishes in importance as firm size increases and with sectoral and territorial growth.

Finally, it should be borne in mind that the existence of a developed financial system is not a sufficient condition for a given territory's development. Aside from the presence of opportunities and a propensity to invest, if financial intermediaries and banks are to become important agents of a given territory's development, they must be able to reconcile two, sometimes conflicting, exigencies: the pursuit of managerial efficiency, and the pursuit of territorial efficiency. The latter requires that banks must not settle for comfortable arrangements with firms and society, and content themselves with easy rent positions. They must not entrench themselves behind stringent equity requirements, encouraging low-risk and immediately profitable liabilities. Moreover, they must invest resources in human capital able to perform the functions of screening, contracting and monitoring; they must be able and willing to adapt flexibly to different situations; and they must assume the risk and «responsibility of supporting the local market and production activities, even during recessions and to the detriment of their own balance sheets». In short, «there is no point in having efficient banks if they do not contribute to local development»²⁵.

Nevertheless, as often happens in the logic of development, at this juncture a cumulative mechanism operates whereby the virtuous combination of the two efficiencies becomes easier to accomplish with the progress of the economy, and more difficult when situations of backwardness must

²⁴ «Perhaps the most important characteristics defining small business finance is informational opacity ... Small firms do not enter into contracts that are publicly visible or widely reported ... do not issue traded securities ... do not have audited financial statements that can be shared with any provider of outside finance. As a result, small firms often cannot credibly convey their quality ... may have difficulty building reputations to signal high quality or nonexploitive behavior to overcome informational opacity», A.N. BERGER - G.F. UDELL, *The Economics of Small Business Finance: The Roles of Private Equity and Debt Markets in the Financial Growth Cycle*, in «Journal of Banking and Finance», 22, 1998, p. 616.

²⁵ P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*, in «Moneta e credito», 221, marzo 2003, pp. 30 and 27. The same applies to the relationship between national-level banks and development.

be remedied. The explanation for this apparent paradox is that «in the case of territorial efficiency, the features that define it are typical factors of externality»²⁶. The next step is therefore to determine what type of financial institute produces these externalities most, and to devise policies which incentivise business strategies to concur with territorial efficiency. It is obviously not the same thing to run a bank in a developed or backward territory, to work with systems of small-to-medium firms or with large national or international groups. Hence, reconciliation between the two different efficiencies differs according to the context. It is therefore necessary to consider the differences in this regard between local banks and national and international ones, which substantially means evaluating the difference between small and large banks. But it is just as important to appraise the weight of the institutional and corporate nature of banks, as well as the background and composition of their boards of directors.

3. *Local banks and local development*

Whilst the empirical evidence points quite straightforwardly to the conclusion that the role and importance of banking vary according to the pattern and level of a territory's development, more controversial is the hypothesis that the growth rates of local economies increase significantly with the territorial structuring of the banking system and the degree of development of local banks – defined as banks of small size operating in a circumscribed territorial setting and run by local managements²⁷. This positive influence may operate not so much by increasing accumulation as by improving the allocation of credit²⁸ through the greater effectiveness and efficiency of screening, monitoring and enforcement. Rootedness in the territory and participation in the life of the community may off-set disadvantages of scale and generate «relationships of various kinds, not necessarily economic, whereby each member acquires information about the others which an external operator cannot have, or can only have by sustaining substantial costs»²⁹. It thus may become easier to ascertain the

²⁶ *Ibidem*, p. 34.

²⁷ G. FERRI, *Introduzione*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997.

²⁸ P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*, p. 24

²⁹ P. ANGELINI - R. DI SALVO - G. FERRI, *Disponibilità e costo del credito per le piccole imprese: relazioni di clientela e banche cooperative*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997, p. 298.

debt class of debtors, verify the extent of their opportunistic behaviour, and ensure that debts are repaid by inflicting or inducing social sanctions³⁰. These advantages may be even greater in the case of cooperative credit banks (consider for instance the greater efficiency of peer monitoring) and may be further strengthened by the possibility of regaining economies of scale at the level of consortia and by the tax concessions granted to such banks³¹.

Because the hypothesis of the greater impact of local banking systems on a territory's growth hinges on their ability to establish closer and more flexible relationships with small and medium-sized firms, and to monitor their profitability, a first aspect to verify is the specific importance of this source of finance. A firm's financial evolution depends on size, age, and informational transparency. We may thus deduce that small, young and informationally opaque firms are forced to rely mainly on internal financing, commercial credit, and angel finance³². Only increased size and proven matches among balance sheet, orders portfolio and economic solidity give access to financial intermediation through private equity, venture capital, or indebtedness with banks and financial companies, and thereafter, in the case of the largest firms, access to public equity and the debt market. This evolutionary process seems to be confirmed by research. Berger and Udell³³ report that the main financial sources (around 70% of total financing) for small firms are the principal owner, commercial banks, and commercial credit: this percentage diminishes, but not greatly, with the size and age growth of the firm. If, despite informational opacity, young firms are able to achieve a balance between internal and external financing, this is due to the fact that a significant proportion of external financing is in reality of internal origin because it is guaranteed by personal assets, mainly those of the owners – which highlights the financial interweaving between entrepreneurs and their

³⁰ See J.E. STIGLITZ, *Peer Monitoring in Credit Markets*, in «World Bank Economic Review», 4, 1990, pp. 351-366; K. HOFF - J.E. STIGLITZ, *Introduction: Imperfect Information and Rural Credit Markets – Puzzles and Policy Perspectives*, in «World Bank Economic Review», IV, 1990, pp. 235-50, and H.R. VARIAN, *Monitoring Agents with Other Agents*, in «Journal of Institutional and Theoretical Economics», 146, pp.153-174.

³¹ G. FERRI, *Introduzione*.

³² See footnote 24.

³³ A.N. BERGER - G.F. UDELL, *The Economics of Small Business Finance and Debt Markets*, pp. 613-673.

firms³⁴. A small firm's debt composition also depends on the sector in which it operates, with a greater likelihood of external equity investments (angel finance and venture capital) in sectors with high growth potential but also with high risk, and of external indebtedness with banks and other financial institutes in sectors with stable returns³⁵.

A second aspect to consider is that the contribution by local banks to the growth of local economies considerably decreases when, instead of intermediating funds between savers and borrowers, they do no more than allocate credit deriving from and/or guaranteed by the government or other public bodies, as in the case of credit/finance support for targeted groups and/or areas. Adherence to these schemes – which have scant flexibility because they are based on highly standardised loan arrangements – may be a prudent strategy for the bank because they enable losses to be socialised to some extent. But it is not a particularly successful strategy, because the incentives for the effective control and selection of credit, as well as for its better collection, diminish. In these cases only a rigorous institutional project can prevent banks from «transforming themselves into inefficient instruments for the transfer of facilitated credit (at rates below market rates) to targeted groups, with poor results»³⁶. However, even when local banks undertake normal credit intermediation activity, their greater capacity does not necessarily concretise in an allocation of credit best suited to the territory's development. The duration and intensity of the credit relationship may foster phenomena which undermine allocative efficiency. An example is provided by situations of *ex post* information monopoly (bank capture). Firms with larger concentrations of credit with a bank have less financial leverage because, as the concentration increases and the cost of the investment necessary to assess the firm's creditworthiness grows, the bank acquires greater bargaining power, which enables it to impose more onerous conditions on rates and services and to appropriate part of the firm's profits³⁷. For firms, this may neutralise

³⁴ According to A.N. BERGER - G.F. UDELL, *The Economics of Small Business Finance*, p. 638, «91.94% of all small business debt to financial institutions is secured, backed by collateral; 51.63% is guaranteed by the owners of the firm».

³⁵ The diversity of funding among similar firms may also be due to the fact that «different sources of funding may be substitutes or complements ... angel finance and venture capital are often complementary sources ... venture capital and public equity are also complements», *ibidem*, pp. 619, 622-624, 626 f.

³⁶ J. DE GREGORIO, *Il ruolo della banca locale*, p. 80.

³⁷ See S.A. SHARPE, *Asymmetric Information, Bank Lending, and Implicit Contracts: A Stylized Model of Customer Relationships*, in «Journal of Finance», 45, 1990, 4, p. 1069-1087

their potential advantages accruing from the easier solution of information problems made possible by enduring client relations, inducing them to reduce the bank's informational control by resorting to multiple lines of credit and/or relying on short-term loans to manage their long-term financing. These reactions inevitably consolidate the insurance approach by banks at once not desirous and unable to direct and control firms already loath to subject themselves to their scrutiny, and they penalise the financing of new and smaller-scale business initiatives with greater information asymmetry problems³⁸.

Moreover, continuous and exclusive client relations may foster collusion between bank officials and local vested interests which large banks normally seek to prevent by rotating personnel. Or they may induce local banks to adopt conservative low-risk strategies which prioritise exclusive financial relationships with known firms undertaking activities already present in the area, to the disadvantage of new business initiatives and new production lines. This is because the habitual practice of examining the openings of credit in a given area may have reduced the ability to analyse and react to novelties, and because the success of new innovative firms may cause difficulties for those already operating, and in old sectors, threatening their solvency. Inevitably, this banking sclerosis also negatively affects the stimuli to innovate for already-operating local firms and thus impoverishes the territory's competitive potential³⁹.

Finally, the territorial rootedness of a local banking system may influence a territory's development through the intensity with which it helps propagate possible exogenous economic shocks (regional credit channel) or intensifies endogenous crises. This depends not only on the informational segmentation of local credit markets but also on the geographical segmentation of banking systems. The business efficiency of banks induces them to react to a shock, exogenous or endogenous, by adopting more restrictive credit policies which safeguard their financial positions, thereby

and R.G. RAJAN, *Insiders and Outsiders: The Choice between Informed and Arm's-Length Debt*, in «Journal of Finance», 47, 1992, 4, pp. 1367-1400.

³⁸ «The insurance approach is desirable for banks because it divides not only information about the firms but also the relative financing, and therefore possible losses, among a multiplicity of uncoordinated banks. This approach also presupposes ample recourse to loan guarantees», G. FERRI, *Introduzione*, pp. 21-22.

³⁹ See P. ALESSANDRINI - A. ZAZZARO, *L'evoluzione dei sistemi finanziari locali: i nodi da sciogliere*, in P. ALESSANDRINI (ed.), *Il sistema finanziario italiano tra globalizzazione e localismo*, Bologna 2001p. 88, and P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*, p. 13.

amplifying and prolonging the effects of the initial shock and decreasing territorial efficiency. The multiplier effect will be greater where the credit market is more closed and banks are less geographically diversified, because the impact of local economic conditions on their balances is stronger, and the difficulties encountered by firms in accessing external credit markets restrict the ability of the local banking system to grant them credit. Banks operating in several geographical areas are instead better able to off-set difficulties in the crisis zones with the better results obtained in the other operational zones. This multiplier effect, however, may be partly dampened by the greater propensity of local banks to financially sustain their clients if it is easier for them to internalise the future benefits of their financial support⁴⁰.

4. *Non-local banks and local development*

Research reveals not just the greater dependence on bank credit of small firms, but also the lesser commitment of large banks to the latter. There are various reasons why large banks tend to neglect smaller firms: greater portfolio diversification, which makes it more costly for them to select and control smaller clients; organisational diseconomies, which may induce them to forgo certain market segments; the standardisation of local-level client relations adopted to remedy information and agency problems; the centralising to company headquarters of final decisions; prudential behaviour by often transitory branch managements⁴¹. Their relationships with smaller firms consequently tend to privilege high-quality credit, which can be evaluated with the same financial analysis procedures as used with large firms, and this helps explain why they can apply significantly lower prices in these cases⁴².

Nevertheless, assessment of a local financial system's influence on the development of a territory must necessarily examine the role of national and international credit institutes and their different behaviours and strategies. Inasmuch as the evolution and efficiency of a local credit market is reflected in those of the productive system with which it works with a sufficiently precise geographical overlap, its behaviour and performance

⁴⁰ E. BERETTA - M. OMCICOLI - R. TORRINI, *Banche locali e amplificazione degli shock economici attraverso il canale creditizio*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale*.

⁴¹ See P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*.

⁴² See A.N. BERGER - G.F. UDELL, *The Economics of Small Business Finance*, p. 658.

also reflect the territorial structuring of the banking system: where branches of external banks predominate, corporate policy will centre mainly on considerations of size, economies of scale and variety, and diversification; where small autonomous banks predominate, policy will mostly centre on considerations of continuity and rootedness in the territory. Moreover, the relationship between bank and company is influenced not only by the incidence of size and the similarities in the cost of banking and on the selection of local clients, but also by the company's life period. In periods of calm, «local banks can deal with the competitive impact of the larger banks by exploiting all their advantages of rootedness, continuity and customer loyalty». At extraordinary times (of start-up, crisis, quality and/or size change), the larger banks have «a clear competitive advantage which may counterbalance their lack of information about the local situation»⁴³. Entry into a territory by large banks, «in whatever form this comes about, whether on prices, on quantities, or on ways to undertake bank/firm relations», therefore also impacts «on the allocation of credit (and of real resources) among firms and production systems»⁴⁴.

In this context, bank mergers and takeovers may have marked repercussions on the development of a territory if they significantly modify the characteristics of its local financial system. The consequences will be negative if rootedness and participation in community life is weakened and, above all, if lines of credit to efficient but small-sized firms, and to those in the start-up phase, are restricted⁴⁵. They will be positive if they generate a better-quality and more abundant credit supply. That is: if local banks weak in terms of business and/or territorial efficiency are taken over; if the absorption into a bank of larger size preserves the autonomy and the experience of the local bank, allowing it at the same time to grow quantitatively and qualitatively; and if the merger with other local banks is the result of an internal strengthening strategy⁴⁶. In

⁴³ See P. ALESSANDRINI - A. ZAZZARO, *L'evoluzione dei sistemi finanziari locali*, p. 84. However, local banks can compensate for these limitations by improving their capacity to select firms and by activating forms of collaboration with specialised intermediaries and exploiting cultural and environmental affinities.

⁴⁴ P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*, p. 11.

⁴⁵ «The reduction of loans to small firms would be a loss in terms of well-being for the community only to the extent that the firms to which the lines of credit have been discontinued had profitable investments», *ibidem*, pp. 19-20.

⁴⁶ It should be borne in mind that when «mergers and takeovers have involved two or more small banks, or when a small bank has been the incorporating bank, loans to small firms have tended to increase», *ibidem*, 2003, p. 19.

general, a local bank which consolidates and becomes more competitive can offer the «greater guarantees of local credit markets less conditioned by the extra-territorial strategy of the external banks, which in their turn will be induced to compete on specific local objectives»⁴⁷. On the other hand, entry into a local market by national and international banks may induce the already-existing smaller institutes «to create a niche market with local clients of smaller size, making it convenient to use 'house bank' facilities with the latter»⁴⁸.

III. LOCAL CREDIT AND TERRITORIAL DEVELOPMENT IN ITALY

The financing of Italian small firms and their relationship with the local banking system are not easily referable to the two paradigms most customarily used: the British and American, which substantially leaves the connection between saving and investment to the market; and the German and Japanese, which is based on the presence of intermediaries. The available research and data show, in fact, that the collection of risk capital in Italy is based more frequently than elsewhere on personal or familial trust relations. Almost entirely absent are not only forms of firm control based on diffuse ownership, but also those exercised through forms of financial supervision by intermediaries. The reasons for this pattern should be looked for in «the insufficient information available to the investor, a lack of corporate instruments giving an active role to the investor, the inadequacy of certain rules designed to protect minority shareholders, and the costs involved in stock market quotation»⁴⁹. On the other hand, Italian local banks seem less able than elsewhere to support local clients, to overcome their suspicion of information control risks, and to evolve into the *Hausbank* form⁵⁰. Symptomatic of this peculiar relationship between banks and local companies in Italy it is not only the greater frequency of multiple credit lines, but also the fact that even within industrial districts, companies seemingly do not enjoy significantly better

⁴⁷ *Ibidem*, p. 34.

⁴⁸ *Ibidem*, p. 10.

⁴⁹ I. ANGELONI - V. CONTI - F. PASSACANTANDO (eds), *Le banche e il finanziamento delle imprese*, Bologna 1997, p. 9.

⁵⁰ See P. ALESSANDRINI - A. ZAZZARO, *L'evoluzione dei sistemi finanziari locali*; G. CONTI, *Banche e imprese medie e piccole*; A. GIGLIOBIANCO, *Banche locali negli anni Cinquanta*, F. CESARINI - G. FERRI - M. GIARDINO M. (eds), *Credito e sviluppo. Banche locali cooperative e imprese minori*, Bologna 1997.

treatment by local banks, compared with those operating in non-district areas⁵¹. Any client relations more favourable to small firms relate to the cooperative form of banks, rather than to their generic localism⁵². This chapter seeks to clarify the economic dynamics and policies that have favoured and consolidated this pattern, evaluating how it has interacted with Italy's patterns of development.

1. *The background*

a. The pre-war situation

From the normative point of view, the turning-point in the relationship between banks and companies in Italy was the 1936 banking law. Intended to stabilise the banking system, to restrict margins of hazard, and to furnish greater guarantees for savers, this law, however, reduced the efficiency of intermediaries. Three aspects in particular limited the influence of banks over firms and conditioned future developments. Firstly, the separation among short-term, medium-term and long-term credit reduced the risks of intermediation but led to the segmentation and specialisation of banking activity in operational and informational terms, thereby hampering unitary evaluation of the activities and financial positions of firms, and stimulating the mobility of clients and multiple lines of credit. Secondly, the prohibition on banks to acquire direct shareholdings in firms restricted the range of banking operations but obstructed possible synergies arising from the simultaneous management of credit, consultation and shareholding relationships. Thirdly, the Bank of Italy's tightening of supervision and control over banking activity gave greater stability to financial markets but inhibited competition.

It should be specified that the provisions of 1936 represented a break with the hitherto predominant mixed-bank model only for the few large national banks, which were the only ones to have relations with the big industrial enterprises. Those provisions only marginally affected the behaviour of the remaining smaller banks, which were largely extraneous to the model. This split in banking activity reflected the heterogeneity of

⁵¹ See L.F. SIGNORINI (ed.), *Lo sviluppo locale*.

⁵² P. ANGELINI - R. DI SALVO - G. FERRI, *Disponibilità e costo del credito per le piccole imprese: relazioni di clientela e banche cooperative*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo* and G. FERRI, *Introduzione*; G. FERRI - M. MESSORI, *Bank-firm Relationship and Allocative Efficiency in Northeastern and Central Italy and in the South*, in «Journal of Banking and Finance», 24, 2000, pp. 1067-1095.

the Italian production system, which at that time was divided between, on the one hand, a liberal-protectionist capitalist economy characterised by industrial-financial concentrations and dependent on state-subsidised credit and support in times of crisis, and on the other, a peripheral economy dominated by fragmentation and short-run investments, by a lack of specialisation, closure, and protection against competition by mass production. The provincial systems displayed very different levels of development, often marked by the marginality and backwardness in the country's South. Overall, technological innovation and long-term industrial investment were scarce, and so too was the propensity to increase the size of firms. The most common entrepreneurial strategy was to diversify activities and then abandon those which were no longer profitable⁵³.

The financial systems operating in the peripheral economy consisted mainly of small banks with simple organisational structures. Although the local credit market was profoundly changed between the two wars, both by the collapse of numerous smaller savings banks and by a more or less obligatory process of concentration⁵⁴, there was a still relatively dense system of competing banks and branches in the Centre and North. In the South, by contrast, credit (above all outside the main urban centres) was often in the hands of unofficial operators, with easily imaginable consequences for the conditions. The strategy of these institutes – savings banks, people's banks, Catholic banks, and rural banks – was normally based on credit conservatism, with a preference for investment in government securities, activities guaranteed by local bodies, and loans to property-owners and affluent clients. Despite diffuse shareholding, the people's banks were generally managed by «presidents and board members from the local notability (nobles in decline, professionals, local personages with political ambitions, etc.), most of them property-owners but, it seems, with few links with industrial affairs», and with whom only some bank executives entertained close relations⁵⁵. In this context two behaviours predominated

⁵³ See G. CONTI, *Banche e imprese medie e piccole*, p. 158.

⁵⁴ Until World War I, the three or four large private ordinary credit banks and the galaxy of local banks more or less equally divided saving deposits between them. After the war, the strong increase in the number of banks created overbanking and potential instability. These were countered both with the 1926 law, which imposed a series of additional obligations and controls on banks and confined the institution of new banks within the limits of law, and by various forms of dissuasion and the encouragement of mergers. As a result, the 4000 banks operating in 1926 had diminished to fewer than 2000 on the eve of World War II.

⁵⁵ *Ibidem*, p. 195.

which fuelled each other, and consequently attenuated the informational advantages deriving to banks from knowledge of the territory. Clients, even those operating on a small commercial or business scale, resorted to multiple credit lines. This enabled them «to put the banks in competition with each other ... obtain credit in greater quantity, protect their independence and confidentiality, while increasing, in fact, their weak bargaining power *vis-à-vis* the same local banks»⁵⁶. In their turn, the banks, in order to reduce the costs of information and monitoring clients, preferred to involve second-order discounters in credit lines, such as property-owners and speculative business operators⁵⁷, privileging as solvency requirements commercial morality and, above all, financial solidity.

The character of the relationships between banks and peripheral firms prevailing in the pre-war period prompts Conti to doubt whether, in regard to financial aspects, the Italian model of diffuse industrialisation originated in the decades preceding World War II. A bank's difficulty in acquiring the knowledge necessary to control the production process and the market situations of companies to be financed strongly restricted the formation of close relations between commercial and industrial interests and financial ones, and the possible realisation of local models of the mixed bank. If anything, there was space only for «mercantile and speculative undertakings, which the banks ... had little ... inducement to enter.» After all, the Bank of Italy itself, in order to counterbalance possible shocks deriving from the industrial and financial «centre», was particularly vigilant, especially in the case of people's banks and cooperatives, to ensure that their relations with industry did not cross the limits of financing⁵⁸.

b. The compromise between continuity and break-up and policies for the middle class

The war and the new democratic regime did not mark a true watershed in the Italian economy: the dilemma between continuity and break-up was resolved by reaching a compromise between very different ideas and interests, between attitudes and institutes inherited from the past and

⁵⁶ *Ibidem*, 1997, pp. 169-170.

⁵⁷ This was a «complex system of principal-agent arrangements where information and responsibility proceeded in cascade from the bank to the final client, dispersing, via co-obligors, into a thousand rivulets», *ibidem*, p. 196.

⁵⁸ *Ibidem*, pp. 190-193.

new models and productive orders, so that subsequent modernisation was only partial and the bases were laid for contradictions which still today are being laboriously and belatedly addressed⁵⁹. Great private capital was favoured both by the choice, partly obligatory, of international liberalism, and by the curbing of wages and workers' rights. In parallel, continuing the pattern set in the 1920s and 1930s, the so-called «autonomous public bodies» (mainly state-controlled enterprises) were not only «confirmed and consolidated as means to mobilise and allocate savings but ... employed as the central institution for the management of resources and for the strategic direction of economic development»⁶⁰.

Although this policy – concentrating the management of huge financial resources and the design of industrial development strategies into a few hands of proven experience – was efficacious for a certain period of time, it had two main shortcomings. Firstly, it relied excessively on the personal talents and sense of mission of the executives of the bodies themselves, taking continuity amid turnover for granted: an assumption resoundingly belied by the events of the following decades. Secondly, it privileged extraordinary intervention, while at the same time failing to do the following: design general planning policies; intervene in the ordinary workings of the economy, reforming the capital and goods markets, regulating the conflicts of interest inherent to them and re-establishing their selective function in the allocation of resources; reform public administration, freeing it from the rigidities and privileges that impeded its efficiency⁶¹.

⁵⁹ It may be useful to summarise Barca's fifty-year periodisation: I. 1945-1962: from Liberation to the onset of severe tensions in the labour market and the full political maturation of the centre-left: 1.a. 1945-1947: reconstruction in partial continuity with the previous thirty-year period; 1.b. 1948-1958: fruitful compromise among the different cultural and political components of society; the demise, especially in the mid-1950s, of opportunities to reform the rules of the political-institutional game; 1.c. 1959-1962: following the first signs of crisis, a profound and enduring shift of the original model to a «public neo-capitalism». II. 1963-1968: temporary resumption of high growth rates with increasing distortions in the allocation of resources. III. 1969-1976: a long crisis, first mainly domestic, then also international, resolved by a new political change (governments of national solidarity), and the start-up of large-firm restructuring. IV. 1977-1992: «recovery without reforms: institutional immobility and inability to move beyond the logic of makeshift solutions; terminated with the economic and political crisis of 1992/93; *Compromesso senza riforme nel capitalismo italiano*, in F. BARCA, *Storia del capitalismo italiano dal dopoguerra ad oggi*, Roma 1997, p. 29.

⁶⁰ *Ibidem*, p. 29.

⁶¹ The most serious attempt, unfortunately a failure, to undertake a long-period development programme conjugating private and public enterprise, the selective function of

The drawbacks and costs inherent in this compromise solution became evident in the late 1950s and early 1960s with the disappearance of the favourable conditions that had made it possible: the international economic situation, the submissiveness of workers, the quality and dedication of the public executives, non-interference by the party in power in the management and strategic choices of the «autonomous public bodies». However, also the new policies of the centre-left preferred compromise to taking up the challenge of reforming the markets and public administration, so that there began a phase of planning without reforms and of public neo-capitalism⁶².

One of the contradictions inherent in the compromise at the basis of the new regime should be stressed in particular. The decision not to implement active politics for industry and the other sectors, not to regulate markets, and not to reform public administration, made it difficult to strengthen the productive middle class required by the new ruling class mistrustful not only of the ministerial bureaucracy (of pre-republican if not pre-fascist ancestry) but also of many sectors of large industry and finance⁶³. In order to meet the economic needs of traders, artisans and farmers, under decisive pressure applied by their trade associations, the government set about constructing a complex preferential system for small businesses, especially industrial and agricultural ones. Established in the 1950s and developed in subsequent decades, this system consisted of an array of measures designed to compensate for the lack of institutional action by reducing costs. *Ad hoc* credit institutes, like Artigiancassa, extended the subsidised credit hitherto granted only to large firms⁶⁴; funds were allocated and directly managed by special institutes connected to

credit and modernisation of the state, was the so-called «Vanoni Plan» enacted in the summer of 1954.

⁶² See F. BARCA, *Compromesso senza riforme*, pp. 33 and 62.

⁶³ The already-existing dense network of acquaintance, consonance and solidarity among managers, *grands commis* and bankers, public and private, also cemented together by shared professional trajectories, was not affected by the mild purges of the post-war period, see D. FELISINI, *Uno sguardo al passato e uno al futuro: Imprese e banche pubbliche in Italia dal 1943 al 1946 fra epurazione e occupazione*, in «Ventunesimo secolo», 2, 2003, 4. On the other hand, large industry was suspected of harbouring monopolistic ambitions: De Gasperi himself spoke of the «imperialistic ambitions of the capitalist plutocracy».

⁶⁴ The decrees granting subsidised credit to large firms were those of November 1, 1944, and May 8, 1946. Forms of subsidised credit for small firms acquired increasing weight after the 1964 recession and during the 1970s.

the public banks⁶⁵ and by specially-created regional bodies (among which the regional Mediocredito banks)⁶⁶; a wide range of benefits and normative and fiscal exemptions were introduced, ranging among greater freedom to hire and fire, exemption from certain administrative and accounting obligations, partial exemption from compulsory social security contributions; and benign neglect in checks on non-compliance was adopted⁶⁷. Although small companies were subject to more liberal regimes in almost all the European countries, only the Italian regime was so extensive, incisive, and accompanied by effective exemption from fiscal controls.

c. The transformation of local banks

Simultaneously with the economic consolidation of the middle class – or what some commentators have called its «artificial construction»⁶⁸ – a new role was devised for the smaller banks, the purpose being to involve them more closely in the financing of the peripheral economies. Although

⁶⁵ The first provision on subsidised credit (L. 1419) was enacted in 1947 with the creation of a special credit section at the Banca Nazionale del Lavoro and recourse to the Banco di Napoli and the Banco di Sicilia.

⁶⁶ Special regional institutes for the disbursement of subsidised credit to small southern firms were created or reformed between 1950 and 1953 (Isveimer, Cis, Irfis). The law instituting the regional Mediocredito banks (L. 445) was enacted on June 22, 1950. Nevertheless, as shown by the slowness of their take-off and their limited results, various conditions hampered their affirmation, among them scant banks participation and the difficulties interposed by the supervisory authorities. As for the Mediocredito Centrale (the central institute for medium-term credit to SMEs), founded to rediscount medium-term bank bills for institutes authorised to grant medium-term credit to SMEs, this was instituted by Law no. 949 enacted on July 25, 1952, and its statute was approved by Treasury ministerial Decree on December 12, 1952; new powers were attributed to it by Law no. 955 of December 22, 1953; finally, a ministerial decree of April 26, 1954 modified its statute.

⁶⁷ «The advantages of the special regime for small firms consisted of exemptions (for the artisan and his/her family members) from the higher costs incurred by the 'industrial' entrepreneur for social security and welfare, from the closer constraints and higher contributions connected with the employment of dependent labour, from higher fiscal pressure and the greater bureaucratic costs for fulfilments, and by a reduction in the cost of loan money. Moreover these advantages were extended to a progressively broader range of firms, and eligibility was made increasingly definitive and certain», A. ARRIGHETTI - G. SERAVALLI, *Istituzioni e dualismo dimensionale nell'industria italiana*, in F. BARCA (ed.), *Storia del capitalismo italiano dal dopoguerra ad oggi*, Roma 1997, p. 361.

⁶⁸ A.M. BANTI, *I proprietari terrieri nell'Italia centro-settentrionale*, in *Storia dell'agricoltura italiana in età contemporanea*, vol. 2: P. BEVILACQUA (ed.), *Uomini e classi*, Venezia 1990.

this was not «a well-defined and systematic programme, nor a strategy pursued with determination», the two processes «moved in unison along a development path founded upon the diffusion of the means of production among small agricultural, artisanal, commercial and industrial proprietors to form a society of diffuse capitalism without severing conflicts»⁶⁹. The credit authorities thus had to reconcile two partially conflicting objectives: besides continuing to stabilise the banking system and to curb overbanking, a process which had begun in the 1920s, they had to foster industrial recovery and new entrepreneurship, guaranteeing efficacious credit assistance to all businesses, also smaller ones, within the constraints imposed by banking law.

Stabilisation policies substantially continued the pre-war pattern throughout the 1950s. Not only did they encourage a new wave of bank mergers which only began to subside in 1947/48⁷⁰, but they pruned back the territorial ramifications of the former mixed banks in order to reduce their power and to prevent them from granting local credit to risky enterprises. The creation of new banks was blocked or greatly curtailed; so-called national-interest banks were effectively prevented from opening new branches in small towns, where by law credit assistance was to be furnished by public institutes or by the expansion of existing local banks⁷¹. «After the policy on branch openings was liberalised under Luigi Einaudi's governorship, the relative quotas for the number of branches and deposits collected among the various categories of credit institutions gradually stabilised until the 1970s, except for the relative growth of the branches of people's banks and saving banks and the deposit quotas of the latter, at the expense, especially after 1953, of policies to contain postal saving deposits⁷². However, the reorganisation of the smaller banks did not alter the difference between the banking system in north-western Italy, mainly oriented to the ordinary credit institutes, and that of north-eastern Italy, more favourable to the rural banks.

The main issue in development policies concerned the roles to be attributed to national and local banks. Both Governor Einaudi and his successor Menichella believed that priority should be given to the development

⁶⁹ G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, in F. BARCA (ed.), *Storia del capitalismo italiano dal dopoguerra a oggi*, Roma 1997, pp. 436 and 435.

⁷⁰ The total number of credit banks fell from 1378 in 1946 to 1257 in 1961.

⁷¹ A. GIGLIOBIANCO, *Banche locali negli anni Cinquanta*, p. 206.

⁷² G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 435.

of peripheral areas, which should therefore be endowed with a suitable supply of banking services. Best suited to this purpose, they maintained, were the small local banks, given the fear that the broader objectives of the larger banks might induce them to use the periphery more to raise deposits than to invest savings. Therefore, after 1946, a decentralisation policy was pursued which, by relaxing the constraints of banking law, favoured the local banks, especially the savings banks, and enhanced their role⁷³. This solution, however, gave rise to an ambiguous relationship between bank and company, characterised by the strong dependence of the latter on the former, and by the absence of close relations between them, and which was therefore alien to both the German model of the *Hausbank* and to the British and American one of the purely commercial bank. «This ambiguity did not favour the banker's professionalism; nor could it furnish suitable financial support for the growth of the best entrepreneurship within Italian society»⁷⁴.

Banking decentralisation was accompanied by a 'political conquest' of the savings banks which was accomplished mainly by altering the system of co-optation to administrative posts⁷⁵. The old local notability was gradually replaced by emergent social groups in a process made particularly delicate and complex by closer links with the political system and the magnitude of the interests involved in regard to the savings banks. Not always and everywhere did the new incomers represent the productive system and the industrial middle class. This was mainly due to the socio-economic features of the territories concerned. It may be said that the political conquest of the local credit institutes consecrated them as non-profit organisations in every sense: «nobody was interested in profitability and business efficiency, while the ambitions of board members and administrators were directed to the pursuit of other objectives, such as authoritativeness for the politicians, personal prestige for the professionals, control over the allocation of credit for the various representatives of industry and commerce: the exercise of control was not balanced by executive liability as in private companies. The co-optation mechanism in the savings banks, which in the regions of Third Italy corresponded to

⁷³ *Ibidem*, p. 444.

⁷⁴ G. ARDOZZI, *Il localismo come opportunità per la banca italiana nella globalizzazione*, in P. ALESSANDRINI (ed.), *Il sistema finanziario italiano tra globalizzazione e localismo*, p. 43.

⁷⁵ M. DE CECCO, *Sulla politica di stabilizzazione del 1947*, in M. DE CECCO, *Saggi di politica monetaria* (Pubblicazioni dell'Istituto di politica economica e finanziaria della Facoltà di economia e commercio dell'Università di Roma, 6), Milano 1968, pp. 109-141.

the local banks, had become a «Trojan horse» for the political control of credit, and above all for separation between liability and control in medium-sized and small banks. The latter were thus the locus of the formation of entrenched oligarchies of local interests, with the recruitment of board members from the emergent industrial middle class, and influential actors tied to it through consultancies, positions of representation, and business relations of various kinds». Moreover, «'savings' institutes enjoyed increasingly broad margins of manoeuvre and acquired a relative monopoly in smaller areas, where they were often sheltered against competition. This enabled them to exercise covert but tenacious control over credit in their zones of influence»⁷⁶.

The economic results of this broad restructuring of the local banking system were contradictory. On the positive side, the Italian peripheral economy did not in general suffer from a shortage of credit. However, this was not a sufficient condition for development: as shown by the geographical distribution of economic success, also necessary was the territorial efficiency of the investment selection system⁷⁷. Restructuring had scant effects on the allocative efficiency of credit. Not only in the small banks, but also in those of medium and large size, credit continued to be granted largely on the basis of personal guarantees, mainly property-based, so that little assessment was made of the applicant's future earning prospects: after all, few banks were able to analyse a firm's profit and loss account⁷⁸. This behaviour also prevailed in the mortgage and loans banks. Established to issue mortgages repaid out of future profits from the initiatives financed, these banks were further discouraged from investing resources in monitoring by the expansion of public facilitations in capital account and interest, and by the statutory requirement that loans must be approved by the public administration.

⁷⁶ G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, pp. 438-439 and 456.

⁷⁷ Consider what happened in Southern Italy, where the ineffectiveness of the local banking system increased the cost of money. «More than running costs and higher business risks, the causes of this were banking regulations undifferentiated on a national scale and unable to induce competition in the sector. Consequently, the local banks, even if numerous, have little inclination to renew their operational practices and to exploit possible informational and positional advantages in regard to industrial and commercial clients», G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 458.

⁷⁸ In the 1950s, loans were generally small, granted in a ratio to assets of 1/10 or 1/20. What counted for the Bank of Italy inspectors was «the certainty that the credit would be returned sooner or later: sufficient to this end was that the firm's capital should be many times greater than the credit granted», A. GIGLIOBIANCO, *Banche locali negli anni Cinquanta*, p. 217.

This situation induced broad recourse to self-financing, as well as to development credit camouflaged as commercial credit, with obvious negative repercussions on corporate investment decisions on a broad quantitative and qualitative scale, and therefore with long-period returns. This damaged above all those young and innovative firms of small-to-medium size which, because they could not offer sufficient guarantees on past results, had to wager on their prospects for growth and future profits to obtain finance. However, it should be pointed out that neither of the two groupings into which private industrialists divided seemed interested in the transformation of the financial system and its repercussions on business decisions. The innovators relied on their capacity for self-financing, and the conservatives on high market power, both of them confident that the virtuous investments-profits-investments circle would continue and that growth was assured⁷⁹.

These conclusions are partially contradicted by the finding of Cosci and Mattesini⁸⁰ that the ordinary credit banks performed an important role in the organisation of Italian industry in the first decades of the post-war period. «Those provinces with a higher level of intermediation in 1951 and in 1963, and a greater incidence of lending by the credit banks on value added, grew more quickly than others in the following period ... The gathering of information and the selection of investment projects by the credit institutes seemingly exerted a positive influence on the growth of investments and on the allocation of resources, thereby stimulating capital accumulation, technological innovation, and growth»⁸¹. However, this influence gradually dwindled away, as can be deduced from the correlations between banking activity and growth in the 1970s and 1980s. Also Cosci and Mattesini blame this on the growth of distortionary interference by the state in the credit market⁸² and on the increasing

⁷⁹ See F. BARCA, *Compromesso senza riforme*, p. 19.

⁸⁰ S. COSCI - F. MATTESINI, *Credito e sviluppo nelle province italiane*, in F. BARCA (ed.), *Storia del capitalismo italiano dal dopoguerra a oggi*.

⁸¹ *Ibidem*, p. 124-125.

⁸² «When state intervention in the credit market was relatively insignificant, as during the first post-war period, the banks performed a crucial role in driving development ... When the state assumed a more incisive role in the allocation of financial flows, and banks lost part of their autonomy in management decisions, as during the 1970s, the relationship between financial structure and growth gradually diminished in importance», S. COSCI - F. MATTESINI, *Credito e sviluppo*, p. 126. Between 1963 and 1970, the volume of facilitated credit with respect to GDP (on which a state grant was paid, excluding land and agrarian credit) rose from 4% to 7% (from 7% to 14% in the South).

weight of the special credit institutes, which negatively influenced the growth rate⁸³.

2. *The consequences*

a. The strengths and weaknesses of policy for small firms

The provisions for small firms constituted less a coherent economic policy than an endeavour by the party in government⁸⁴ to gain consensus, as well as to compensate for harm caused to the system's efficiency by a lack of reforms and active policies for small firm sectors⁸⁵. Nevertheless, according to Conti and Ferri⁸⁶, although these provisions «sometimes lacked an overall vision and were individually of limited scope, and in other cases had purposes other than real reform or the remedying of productive distortions and pockets of economic inefficiency, they slowly but steadily helped eliminate the credit discrimination afflicting small firms». Even more positive is the verdict passed by Arrighetti and Seravalli⁸⁷, who maintain «that state action produced effects much superior to the simple preservation of a backward segment of the industrial structure; indeed, it substantially increased the efficiency of smaller firms, creating the bases for an initially weak component of the production system to act as a factor consolidating the economy as a whole».

These assessments are partially borne out by the sustained quantitative development achieved by SMEs until the early 1990s. In particular, when

⁸³ «The ample flow of facilitated credit which the special credit institutes were obliged to grant by extraordinary intervention policies changed them, in certain respects, from financial intermediaries acting in accordance with market principles into bureaucratic organisations which restricted their activity to the mere disbursement of funds», S. COSCI - F. MATTESINI, *Credito e sviluppo*, p. 98.

⁸⁴ «The middle classes feared that they would be fodder for the iron laws of the market ... The DC [Christian Democrat party] turned itself into the mouthpiece of the provinces and the rural zones of the country», see G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 441.

⁸⁵ «The transfers, facilitations and exemptions from normative obligations particularly favourable to artisanal firms were benefits unconditional on performance. They were extended to the entrepreneurial middle class in order to compensate both for the shortcomings of the financial system and the public services, and for the limited opportunities for growth due to scant competition on markets», F. BARCA, *Compromesso senza riforme*, p. 60.

⁸⁶ G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 444.

⁸⁷ A. ARRIGHETTI - C. SERAVALLI G., *Istituzioni e dualismo dimensionale nell'industria italiana*, pp. 348-349.

in the late 1970s and early 1980s large firms, first private and then public, began the costly restructuring process necessary to regain international competitiveness, the SMEs exploited the further strengthening of the preferential regime which they already enjoyed, and the opportunities created by the large firms' difficulties, to leverage their internal resources of enterprise and community, and their renewed entrepreneurial capacity. They thus achieved a surge in growth which, besides securing them broad profit margins, enabled the country to curb the economic and social costs of a difficult conjuncture.

On the other hand, these provisions were indubitably a compromise to evade active policies, which would have required greater courage and greater technical abilities, and replace them with extraordinary intervention. Opting for a system of exemptions and transfers accompanied by selective decentralised interventions, giving the public administration the merely formal task of vetting applications without monitoring the efficacy of interventions, disincentivising the banking system via the lesser risks of screening, gave normalcy to a normative and financial mechanism which in reality was anomalous. It may have been possible to justify these choices in the immediate post-war period, arguing that particularly delicate and unstable social and political equilibria would have been disrupted by a strategy to break with the past and profoundly restructure the economic system. But less comprehensible is why they were not only protracted, with nothing being done to make them temporary, but indeed intensified in the 1970s. And this to react to these difficulties – of origin first domestic and then international – which derived in large measure from, or were amplified by, failure to modernise the ordinary mechanisms of regulation represented by the market and the public administration. These contradictions, inherent in the initial compromise and not remedied by the 'recovery without reforms' of the 1976-1992 period, became all the more evident when increasing international competition made it necessary to switch from a pattern of quantitative development to a qualitative one. Yet attempts to undertake the necessary reforms invariably encountered «insuperable difficulties once the country had learned how to operate with extraordinary instruments and had become addicted to them»⁸⁸.

⁸⁸ F. BARCA, *Compromesso senza riforme*, p. 64.

b. Territorial differences and the allocative efficiency of investments

The prolonged success of the SME system can only be partly explained by the policies in its favour, since these also comprised aspects detrimental to its qualitative improvement. The policies worked very well when they interacted with other territorial factors: the positive results were in fact apparent mainly in the Centre and North, where networks of informal communitarian and familial relations, efficient local administrations, trade associations, and local banks integrated with the production system were able to perform the role of screening, selecting and monitoring investments neglected by policies. Where these conditions were lacking, the policies not only failed but often caused the system to degenerate.

Nor can the weight of territorial factors be neglected when evaluating the allocative function of local financial systems. The fact that these shared with debtors a communitarian network of strong trust relations suggests that they played a leading role in the decentralised development of the central and northern regions, especially in regard to new and/or small firms⁸⁹. However, the results of the few empirical studies conducted on the matter are equivocal, and they raise questions which solicit further investigation. For instance, Cosci and Mattesini⁹⁰ report a positive effect of financial intermediaries on the growth rates of the Italian provinces, especially in the organisation of industry, but only so in the first decades of the post-war period. However, Lucchetti, Papi and Zazzaro⁹¹ have not found this effect at regional level, even if their research reveals a complex linkage between the banking system and income variation: particularly significant is the channel which connects lending in the region by banks and special credit institutes with the regional GDP and the efficiency of regional banking systems. A survey conducted at provincial level by Ferri and Mattesini⁹² yielded contradictory results: on the one hand, it

⁸⁹ «This widespread endowment of local banks gave rise to a denser banking structure in the NEC [Centre-North-East] than in the rest of the country, and even in the more developed North-West. In its turn, the growth of the NEC was to the disadvantage of the larger banks more specialised in the rest of the country: between 1951 and 1981, the share of the BIN [national-interest banks] and the ICDP [publicly-owned credit institutes] of the deposits market fell from 42.7 to 31.2 percent»; G. FERRI, *Introduzione*, pp. 25-26.

⁹⁰ S. COSCI - F. MATTESINI, *Credito e sviluppo nelle province italiane*.

⁹¹ R. LUCCHETTI - L. PAPI - A. ZAZZARO, *Efficienza del sistema bancario e crescita economica nelle regioni italiane*, in P. ALESSANDRINI (ed.), *Il sistema finanziario italiano tra globalizzazione e localismo*.

⁹² G. FERRI - F. MATTESINI, *Finance, Human Capital and Infrastructure*.

confirmed the close relation between the presence of financial intermediaries and development until the 1970s; on the other, it recorded an inverse relationship between the bank branches/total population ratio and future development. In the case of cooperative credit banks, however, the relationship between the relative density of branches and the development of provinces was positive in the Centre-North, but it was so only after 1970: when, that is, the influence of the other local banks on development ceased because of the expansion of facilitated credit. In the Mezzogiorno, by contrast, the positive impact of cooperative credit on development was still generally weak, as well as the negative impact of the relative density of bank branches⁹³.

Hence, whilst «thorough evaluation of the historical role of the local banks in industrialisation ‘without cleavages’ still requires detailed analysis of the various situations and circumstances»⁹⁴, it is nevertheless likely that there is a cumulative causal mechanism – which recovers and adapts Joan Robinson’s notion – whereby the development of the local credit system is not of exogenous origin alone, but also reflects the growth of the territory’s productive system and income⁹⁵. In other words, whilst the initial development of the areas of small industrial firms were favoured by the pre-existence of certain features of the local financial systems⁹⁶, «the proliferation and expansion of the smaller local banks was due, *inter alia*, to deliberate action undertaken by nascent local entrepreneur-

⁹³ The importance of location in determining access to credit has been highlighted by P. FINALDI-RUSSO - P. ROSSI, *Costo e disponibilità del credito per le imprese nei distretti industriali*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale*, who show that – size and performance remaining equal – firms in the South are subject to a higher cost of credit and tighter financial constraints.

⁹⁴ G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 455.

⁹⁵ As said, the theoretical and empirical literature generally confirms the existence of significant links between finance and development, although it is difficult to precisely determine the direction of the causal connections.

⁹⁶ Until 1970, the peripheral banking system was characterised by a markedly smaller presence of large banks, such as the publicly-owned credit institutes (Icdp), and a slightly smaller presence of cooperative banks (people’s banks and rural and artisan banks), compared with a much larger incidence of savings banks, ordinary credit banks (Boc), and, though to a negligible extent, the large former mixed banks, known at the time as national-interest banks; see G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*, p. 448. Also to be considered are the local banks (more for their role as points of stable reference than for the magnitude of the flows intermediated) in local commercial credit circuits, often also informal, which rested upon compensation on balances of firm financiers within the same value chain, *ibidem*, p. 454.

ial micro-forces intent on creating a primordial capital market able to mobilise the community's savings, thus to transform the already-existing structures and to start up new peripheral productive systems. Such action was supported, owing to a heterogenesis of goals, by the favour shown by economic policy, especially Christian Democratic, for small land and business ownership»⁹⁷.

This positive effect of local entrepreneurialism on the allocative efficiency of credit could operate where the composition and behaviour of the boards of local banks reflected an orientation to profit. Where instead boards were mainly interested in redistribution – that is, the pursuit of rent – the peripheral banking system (which, moreover, was a crucial channel for the distribution of industrial policy incentives and the facilitation of credit) did no more than issue loans to predefined groups and/or with standardised criteria. This negatively influenced the selection of investments and the marginal productivity of capital, although not necessarily the bank's business efficiency⁹⁸. This mechanism began to change in the 1970s as a result of the success itself of the peripheral economy, and when the large banks found it convenient to cater to the new centres of development now beginning to demand services which only they could supply⁹⁹. Nevertheless, the underlying logic remained the same: the large banks were attracted to territories undergoing development – that is, with a leading class oriented to productive profit.

c. The industrial districts

Analysis of circular causation between financial development and local development must necessarily concern itself with industrial districts, given their quantitative and qualitative importance¹⁰⁰. As predictable, the present-

⁹⁷ *Ibidem*, p. 430.

⁹⁸ On the relationship between the productive or redistributive orientations of the managing classes and economic development see S. GOGLIO, *Local Public Goods: Productive and Redistributive Aspects*, in «Economic Analysis», 2, february 1999, 1, pp. 5-21, and S. GOGLIO, *Crime, Collective Action and Development*, in «European Planning Studies», 12, September 2004, 6, pp. 853-869.

⁹⁹ In general, «the constraints on territorial expansion by banks, which were partially removed in the 1980s and eliminated at the beginning of the 1990s, favoured the constitution of local credit markets with relatively stable configurations over time», F. FARABULLINI - G. GOBBI, *Le banche nei sistemi locali di produzione*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale*.

¹⁰⁰ If we compare the share of employment in the national total of specialised small firms operating in districts with that of small firms operating externally to districts, from 1951

day industrial districts have developed in areas already characterised prior to World War II by a greater density of local banking initiatives and branches, with a marked prevalence of small banks, but not micro ones (the so-called «small giants») – mostly Casse di Risparmio and Banche Popolari, rarely Casse Rurali e Artigiane – with a local specialisation broader than the district and extending into adjoining local systems¹⁰¹. More recently, the cooperative credit banks and people's banks have exhibited a greater tendency than other institutes to perform the role of local banks in industrial districts, as well as in non-district areas¹⁰². Overall, the financial level in districts is higher than in similar peripheral local systems¹⁰³, although Farabullini and Gobbi¹⁰⁴ do not find this superiority in regard to those non-district areas located in the same geographical area as districts and sharing their demographic features.

The principal issue here is the generalizability of the hypothesis – long accepted despite a lack of detailed research – of a particular district banking localism constituted by small institutes embedded in the local community, closely integrated with the productive system and performing a privileged role¹⁰⁵. This hypothesis not only implies that a local bank concentrates a large part of its loans portfolio in the area, but also that firms in that area concentrate a large part of their debts at the bank¹⁰⁶. However, a Bank of Italy survey on industrial districts conducted by Signorini¹⁰⁷ does not confirm the existence of this twofold concentration. Establishing and maintaining a long-term relationship between a bank and an enterprise is no easier than elsewhere, even for a local bank with a particularly large share of the district's credit market. The greater presence of local

to 1991, in the former case the figure increases from 4.2% to 15.9%, in the latter from 23.8% to 16.4%, S. BRUSCO - S. PABA, *Per una storia dei distretti industriali italiani dal secondo dopoguerra agli anni novanta*, in F. BARCA (ed.), *Storia del capitalismo italiano dal dopoguerra a oggi*, Roma 1997, pp. 265-333, here p. 302.

¹⁰¹ See F. FARABULLINI - G. GOBBI, *Le banche nei sistemi locali di produzione*.

¹⁰² The cooperative credit banks undertake this function in the smaller districts, but without providing significant support to the districts themselves, see A. BAFFIGI - M. PAGNINI - F. QUINTILIANI, *Localismo bancario e distretti industriali: assetto dei mercati del credito e finanziamento degli investimenti*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale*.

¹⁰³ G. CONTI - G. FERRI, *Banche locali e sviluppo economico decentrato*.

¹⁰⁴ F. FARABULLINI - G. GOBBI, *Le banche nei sistemi locali di produzione*.

¹⁰⁵ See G. BECATTINI (ed.), *Mercato e forze locali: il distretto industriale*, Bologna 1987.

¹⁰⁶ See A. BAFFIGI - M. PAGNINI - F. QUINTILIANI, *Localismo bancario e distretti industriali*.

¹⁰⁷ L.F. SIGNORINI (ed.), *Lo sviluppo locale*.

banks does not seem to generate particular forms of intermediation¹⁰⁸ or closer relations between district firms and local banks which reduce «the 'normal' difficulty encountered by small and medium-sized firms in obtaining credit»¹⁰⁹. District firms do not have significant advantages on the cost and availability of credit; nor does it seem that banks perform an insurance function against interest rate increases. If anything, there is evidence of a closer dependence of district firms on internal sources of financing, and of greater credit rationing, probably because of the tighter financial constraints, compared with those of non-district firms, due to more cash flow-sensitive investments¹¹⁰. Also confirmed is the existence of a mechanism whereby the banking system transmits and amplifies the economic effects of a geographically localised shock (regional credit channel)¹¹¹.

¹⁰⁸ «Historically, credit intermediation has been no greater in districts than in local labour systems (SLL) with similar demographic characteristics, when indicators like the density of bank branches and per capita bank loans are considered; and the supply of credit in districts has not been significantly more concentrated than elsewhere», M. PAGANO, *Banche e distretti industriali*, pp. 161 and 162. See also P. FINALDI-RUSSO - P. ROSSI, *Costo e disponibilità del credito per le imprese*.

¹⁰⁹ M. PAGANO, *Banche e distretti industriali*, p. 164.

¹¹⁰ This phenomenon has also been found by M. PAGNINI, *I vincoli finanziari per le imprese distrettuali: un'analisi su dati bancari*, in F. SIGNORINI (ed.), *Lo sviluppo locale*, who shows that districts record a higher incidence of overdrafts exceeding the amount granted: it is possible that interdependence among district firms generates specific transaction costs reflecting the cost and availability of external financing. These costs would be due to information asymmetry (it is not enough to know the firm; it is also necessary to know the entire district of which it is part) and to contractual incompleteness (district membership alters a firm's direct management, transfer or liquidation), A. BAFFIGI - M. PAGNINI - F. QUINTILIANI, *Localismo bancario e distretti industriali*.

¹¹¹ «When the local economy is hit by a crisis, banks react to the worsening of the financial position of their creditors and to the deterioration of their own balances by adopting more restrictive credit policies. This endogenous reaction tends to amplify and prolong the effects of the initial shock». The effects are tendentially more intense in provinces where the banking system is more closed: «the existence itself of a local credit channel seems to depend on the territorial segmentation of the banking markets. When the geographical diversification of banks is limited, the impact on their balances of local economic conditions is stronger. By contrast, banks operating in several territorial areas are better able to off-set their difficulties in the crisis zone with the better results obtained in their other operational zones», E. BERETTA - M. OMICCIOLI - R. TORRINI, *Banche locali e amplificazione degli shock economici attraverso il canale creditizio*, in L.F. SIGNORINI (ed.), *Lo sviluppo locale*, p. 283. See also A. BAFFIGI - M. PAGNINI - F. QUINTILIANI, *Localismo bancario e distretti industriali* and M. PAGANO, *Banche e distretti industriali*.

The few studies conducted on banking localism in districts therefore tend to play down the role of credit structures in explaining the geographical differential in the economic development. The fact that the greater concentration of the banking supply in the districts is not accompanied by long-period banking relationships more important than elsewhere is indubitably due to two converging factors: on the one hand, the desire of firms (already amply discussed) not to depend excessively on one bank; on the other, the need of banks to diversify loans and risks. The territorial concentration of the loans portfolio in a strongly specialised area may in fact exacerbate the impact on the local financial system of idiosyncratic shocks, turning banking localism from an element of stabilisation into a factor amplifying crises in the district economy, and neutralising the possible advantages that the local bank may derive from district externalities (closer relations with firms, informational advantages, accurate selection of debtors, peer monitoring and extra-economic sanctions on insolvent debtors). These factors, besides small size and the increasing operational limits to the modernisation of districts, may explain the tendency of local banks to reduce their functionality to districts over time, and to thin out their presence, unless they have particularly close relations with firms¹¹².

However, as Farabullini and Gobbi¹¹³ note, research findings fail to answer the question as to whether, from a historical perspective, «there is a causal nexus between the presence of these types of banks and the birth of districts, and if so, in which direction it operates». In other words, it is necessary to investigate whether the diffusion and intensity of relationships between banks and companies have been important for the birth and the initial development of districts, despite their subsequent attenuation. «Recent studies have ... found that the structure of credit markets influences the birth rate of companies, and that the magnitude of the effect varies according to the degree of informational opacity and the capacity of the various sectors of economic activity to offer guarantees»¹¹⁴. The widespread presence of banks of average and small size may therefore have had a maieutic role not dissimilar from that of venture capital, valid in general for developed territories, districts or otherwise, and distinguishing them from less-developed regions.

¹¹² A. BAFFIGI - M. PAGNINI - F. QUINTILIANI, *Localismo bancario e distretti industriali*.

¹¹³ F. FARABULLINI - G. GOBBI, *Le banche nei sistemi locali di produzione*, p. 184.

¹¹⁴ *Ibidem*, pp. 184-185.

d. Cooperative credit

The hypothesis that the allocative and territorial efficiency of a financial system depends to a significant extent on its interaction with the local economy's pattern of development, and on the social context in which firms operate, seems also confirmed in the case of cooperative credit¹¹⁵. Since the 1970s, contemporaneously with the second wave of SME expansion, the cooperative credit banks have undergone notable growth in both their market shares and their support for small firms: whilst in 1961 they accounted for 1.2% of deposits and 0.8% of bank loans, by 1993 the amounts had risen to 6.9% and 4.5%¹¹⁶. Their activity is largely directed at their members: mainly households, artisans and farmers. They can thus achieve the minimum size efficient for these purposes, and by federating under a central consortium, compensate for their excessively small size¹¹⁷. Moreover, at least under the extant law, they can avert the danger of mergers taking place outside the cooperative system. The share of credit lines extended to family-run and artisanal firms is above the average, while that allocated to financial enterprises is minimal: the average amount of credit is around half that of other banks. The observable characteristics of clients remaining equal, they have less risky portfolios, as shown by the default/loan ratio, and they make less frequent recourse to credit rationing, with particularly high use ratios even with overdrafts. «The performance of the cooperative credit banks, however, is geographically diversified. While the default/loan ratio for those in the North and Centre is less than that for the other banks in the same territorial area, the contrary is the case in the Mezzogiorno»¹¹⁸.

The competitive advantage of the cooperative credit banks seems to have augmented in most recent years, thanks to the exploitation of capacities which distinguish them from the ordinary banks. Besides enjoying fiscal and parafiscal privileges, they are rooted in the territory and have good knowledge of the latter. They are thus able to reduce information asym-

¹¹⁵ On the history and prospects of cooperative credit in Italy see P. CAFARO, *La solidarietà efficiente. Storia e prospettive del Credito Cooperativo in Italia*, Roma - Bari 2002.

¹¹⁶ See R. DI SALVO - G. FERRI, *Credito cooperativo, finanziamento alle piccole e medie imprese e sviluppo decentrato: valutazioni teoriche e primi riscontri empirici*, in «Cooperazione di Credito», ottobre-dicembre 1997, 158, pp. 309-369.

¹¹⁷ Interesting in this regard is the model of the German cooperative banks whereby the individual bank, an autonomous entity, furnishes services, also international, produced by other intermediaries.

¹¹⁸ L. CANNARI - L.F. SIGNORINI, *Rischiosità e razionamento*, p. 379.

metrics, assess individual creditworthiness more efficiently, cut monitoring costs (also through peer monitoring), more closely constrain the borrower's behaviour after credit has been granted, and reduce adverse selection and moral hazard. Moreover, they have an intrinsic ethical dimension and a greater propensity for territorial efficiency resulting from their cooperative ethos. Nor should one neglect the likelihood of cooperative credit banks and their clients establishing some sort of implicit contract whereby the bank undertakes to stabilise the availability and the cost of money for businesses, while these undertake not to abandon the bank at times of abundant and cheap credit¹¹⁹ – although a survey by Angelini, Di Salvo and Ferri¹²⁰ on the client relations of Italian cooperative banks does not confirm the above long-period hypothesis¹²¹.

On the other hand, the small cooperative banks suffer various other drawbacks besides diseconomies of scale and scant international openness not always remediable through federation, such as conflicts of interest in favouring local operators and associates, and excessive reliance on informal practices due *inter alia* to the lesser mobility of personnel. Whether «these potential negative factors actually become disadvantages depends both on the organisational structure of each individual bank and on the characteristics of the environment in which it operates». Whilst in some areas and/or market segments the competitive advantages of the cooperative credit banks may prevail over those of other banks, elsewhere their disadvantages may do so. Specifically, the organisation and ethos of the cooperative credit bank seem to yield the best results in those areas of the Centre and North where the local systems of small firms described by Becattini¹²² predominate – which confirms that their characteristics make them likely 'candidates' to alleviate the financial constraints on small and young firms. In territories characterised by different productive systems, the results will not be as good. In the case of the Mezzogiorno, moreover, not only do cooperative credit banks perform worse than other banks, but they tend to reinforce corporations and their rent positions¹²³.

¹¹⁹ See G. FERRI - G.B. PITTALUGA, *Il finanziamento delle imprese nelle fasi di restrizione monetaria. Il caso del credito cooperativo*, in F. CESARINI - G. FERRI - M. GIARDINO (eds), *Credito e sviluppo*.

¹²⁰ P. ANGELINI - R. DI SALVO - G. FERRI, *Disponibilità e costo del credito per le piccole imprese*.

¹²¹ Although it does confirm the peer monitoring hypothesis (see p. 298).

¹²² G. BECATTINI (ed.), *Mercato e forze locali*.

¹²³ See L. CANNARI - L.F. SIGNORINI, *Rischiosità e razionamento*, pp. 376, 348-9 and 337.

IV. CONCLUSIONS

The role of a bank is to assure finance in situations where information asymmetries and incentivisation problems obstruct a direct relationship between savers and firms. The financial circumstances of firms therefore differ according to the magnitude of information asymmetry and the need to prevent opportunistic behaviour. The financial theory of intermediation and practical experience suggest that small and medium-sized firms have financial exigencies different from those of large firms, and that banks may differ in their readiness to aid the development of small firms. One may therefore hypothesise a distinctive role for small banks, which, other conditions remaining equal, are better able to interpret the needs of nascent entrepreneurship and to place trust in it.

The weight of local banks in the «quantitative financing» of small firms is quite well documented by research. However, «the evidence on the efficiency of local banks in selecting clients and on their ability to stimulate the growth of local economies is rather meagre» – or, at least, rather ambiguous¹²⁴. In particular, the mechanisms that may facilitate the financing of small firms, and influence local development in general, seem to be more complex than those related to the role of local banks. They also comprise, besides the ways in which all the banks present on the territory operate, and the weight of commercial and personal credit, the characteristics of the social and economic system as a whole and their impact on the financial system. Although the existence of a positive relationship between development of the banking system and local economic growth is undeniable, much work still remains to be done before the causal connections among, and the importance of, the various channels of credit are properly understood. This conclusion follows not only from the scarcity of empirical research but also from the differences among financial and productive, national and regional, systems.

These considerations are also borne out by Italy, where small banks have historically been most active in regions with systems of small and medium-sized firms. The banking network is denser in the Centre and North-East than in the rest of the country or in the North-West. People's banks and cooperative credit banks predominate in the Triveneto and Lombardy, while in the other regions of the Centre and North-East savings

¹²⁴ P. ALESSANDRINI - L. PAPI - A. ZAZZARO, *Banche, territorio e sviluppo*, p. 21; see also P. ALESSANDRINI - A. ZAZZARO, *L'evoluzione dei sistemi finanziari locali*, pp. 85-86.

and private banks prevail¹²⁵. In Italy, however, the relationship between banks and small firms has developed in somewhat anomalous manner. Albeit with regional differences, small and medium-sized firms, especially in districts, exhibit a widespread under-capitalisation counter-balanced by massive amounts of floating capital with unduly high debt coefficients. Short-term bank indebtedness to finance investments is very common, as are multiple lines of credit. Private capital is used indirectly to cover the increased risks for banks. Exacerbated by the limitations of political choices, the problems of information asymmetry and scant transparency have bred a reciprocal distrust between banks and small firms. This has weakened the basic conditions to stabilise and modernise the financial component of these firms: that is, to develop new instruments and processes of venture capital, intervention by funds, bond issues, the opening of share capital and, eventually, quotation on the stock exchange.

Escaping from this impasse requires the business system to overcome its resistance to interference in its operations, which also creates problems during generational change, and to pay closer attention to company financial structure in order to drive down financing costs, even if this may have a certain impact on the ownership structure. The banks should strengthen their role as referents for firms, overcoming a fear of exposure not entirely justified by the difficulties of evaluating a closed and suspicious entrepreneurial world. They must be more courageous in acting as partners for firms, sharing risks and benefits with them, reducing risks in the sub-supply chain. They must switch from simple analysis of the financial structure to evaluation of the sector (or of the value chain) and relationships with clients and suppliers, and to dynamic evaluation of financial flows. They must be able to value local entrepreneurial initiatives, if they exist, so as to bring into being or expand a capital market which fosters the territory's development – that is, they must know how to mobilise local capital in the service of local entrepreneurship.

These problems have not been resolved by the great changes that have taken place in the Italian banking system in recent years, and which are still ongoing. If anything, they have been made more actual and urgent¹²⁶. Whilst numerous local banking companies have grown, larger banks are discovering the territory: the differences have therefore partly diminished. In the meantime, firms, even those of small size, have become increasingly

¹²⁵ G. FERRI, *Introduzione*.

¹²⁶ The same applies to the more intricate and ambiguous relationship between banks and large firms.

involved in international competition and have more sophisticated needs summed up in the concept of the direct banking: accurate knowledge of the territory and the needs of clients, flexibility and efficiency in the management of the relationship and in the supply of significant services, which now also comprise international ones. Still unresolved, therefore, is the issue of whether there is a binding relationship between the size of banks and their capacity to furnish services to the systems of small firms, district or non-district. And the more general question arises as to the consequences of concentration in the credit sector on the relationship between firms and banks.

On the Boundary of Western Europe

The Marshall Plan and Economic Development in Bavaria

by *Maximiliane Rieder*

Following the capitulation of Germany and its division into four occupied zones, Bavaria – under the control of the Americans – found itself on the boundary to the Soviet sphere of influence. The border between the American and Soviet zones cut the landlocked state off from its most important transport routes and economic connections to the north and north-east as well as to the coalfields in Silesia. These new transportation distances made a reorientation of traditional trade routes to the north-west necessary and led to the development of the transport infrastructure towards the Rhine and Ruhr area. Without any hard-coal sources and with only limited reserves of brown coal, Bavaria found itself in a precarious supply situation. The insufficient energy supply, combined with high transportation costs, formed the greatest hindrance to the development of trade and industry that had become essential due to the large population increase resulting from the immigration of refugees and expellees.

Bavaria found itself in an extreme outlying position as a result of the segmented German economic area, followed, in 1949, by the setting of the borders between the West and East German constituent states and this peripheral situation was further aggravated in 1957 by the foundation of the European Economic Community (EEC) with its original orientation to the west and north. The customs barriers between the EEC and the European Free Trade Association (EFTA) weakened the traditionally close ties to Austria and Switzerland. Bavaria had a 775 km long border to the German Democratic Republic (GDR) and Czechoslovakia (more than one-third of the total 2,000 km German border) as well as 38% of the area of the so-called «Zonenrandgebiet» – the border area between the FRG and GDR¹. The federal state in the south-east of the republic

Translated by Robert McInnes

¹ BAYERISCHES STAATSMINISTERIUM FÜR WIRTSCHAFT UND VERKEHR (ed.), *Bericht über die wirtschaftliche Entwicklung der strukturschwachen Gebiete Bayerns im Jahre 1968 sowie im Zeitraum 1959-1968*, Nr. 5990 NtA-I/4a-2020, p. 2.

remained a remote area on the outskirts of West Europe for decades until the fall of the Berlin Wall. In the 1989 border-area report, it was stated that Bavaria had regained its «hub and bridgehead function» and a «central position»². With the unification of the continent, the largest territorial state in the Federal Republic once again found itself in the heart of a Europe that was opening up towards the east.

However, Bavaria's development from an outlying region to one of the most strongly growing economic areas in Germany and Europe began before this. In Bavaria, the metropolitan region of Munich, with Siemens and numerous IT companies, is often referred to as a German *Silicon Valley*. Aviation and astronautics, as well as satellite navigation systems, are among the most important innovation motors. Bavaria's «characterisation as a research state» is the main reason for «its self-assessment and that of others» today. This is an image that formulates the modernisation that has taken place since the end of the war as a structural change from a rural-agricultural region with little industry to a high-tech state³.

What role did the American occupying forces and Marshall Plan play in this process? What was the contribution made by the enterprises supported by the European Recovery Program (ERP) and counterpart funds (ERP Special Fund), and the state and industrial research institutions with their renowned scientists, to the state's development into a high-tech location?

The American economic aid⁴ formed one of the strongest pillars in the close, special trans-Atlantic relationship between the USA and Germany.

² BAYERISCHES STAATSMINISTERIUM FÜR LANDESENTWICKLUNG UND UMWELTFRAGEN (ed.), *Grenzlandbericht. Bericht über die wirtschaftliche, soziale und kulturelle Entwicklung des bayerischen Grenzlandes und der strukturschwachen Gebiete Bayerns im Kalenderjahr 1989*, Munich 1990, p. 7.

³ H. TRISCHLER, *Nationales Innovationssystem und regionale Innovationspolitik. Forschung in Bayern im westdeutschen Vergleich 1945 bis 1980*, in Th. SCHLEMMER - H. WOLLER (eds), *Bayern im Bund*, vol. 3, München 2004, p. 123; St. DEUTINGER, *Vom Agrarland zum High-Tech-Staat. Zur Geschichte des Forschungsstandorts Bayern 1945-1980*, München 2001.

⁴ For information on the ERP in Europe and West Germany, I would like to draw attention to the most recent interpretive approaches with the most important literature: B. EICHENGREEN, *The European Economy since 1945. Coordinated Capitalism and Beyond*, Princeton NJ 2007; R. NEEBE, *Weichenstellung für die Globalisierung. Deutsche Weltmarktpolitik, Europa und Amerika in der Ära Ludwig Erhard*, Köln 2004. Also see: G. HARDACH, *Der Marshallplan. Auslandshilfe und Wiederaufbau in Westdeutschland 1948-1952*, München 1994, Ch. BUCHHEIM, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft. 1945-1958*, München 1990. The documents and publications for this contribution were

With a foreign trade volume of 25 billion euros, the United States has remained Bavaria's most important economic partner to this day. Approximately 750 Bavarian enterprises have branch offices in the USA and around 850 firms from the USA have established subsidiaries⁵ in Bavaria.

The support activities of the Marshall Plan in the western occupied zones of Germany initially concentrated on the reconstruction of the most important industries for raw materials and capital goods. I intend to concentrate on two aspects from the wide spectrum of areas of support that I feel to be particularly significant for the Bavarian «economic miracle».

One main accent will be placed on the ERP loans that the KfW, Kreditanstalt für Wiederaufbau (German bank for reconstruction and development), which had been established in Frankfurt in November 1948, was engaged in. Parallel to this, at the end of 1950, the Bavarian State Government founded its own instrument for reconstruction in the LfA, form of the Bayerische Landesanstalt für Aufbaufinanzierung (Bavarian State Institution for Reconstruction Financing) – since 2000, LfA Förderbank Bayern (Promotional Bank of Bavaria).

The second focus is on the Marshall Plan grants in the, originally not foreseen, area of research support. In 1950, the Americans provided West Germany with funds from their reconstruction programme for industrial research for the first time. The aeronautical and nuclear research activities of the extra-university research institutions of the Max Planck Society (MPG) and Fraunhofer Society (FhG) that developed into key technologies – in spite of the allied ban on research in these areas after 1945 – will form the core of this investigation.

1. The general conditions of the Bavarian post-war economy

The American military government re-established Bavaria as a state; however, without the Palatinate on the left of the Rhine that was occupied by the French. Considerable damage had been caused by allied air attacks but not to the level of destruction in the British-occupied Ruhr area. The

kindly provided by the archives of the KfW group, the LfA Förderbank Bayern and the Deutsche Bundesbank (HADB).

⁵ More than three-quarters of them were high-tech enterprises such as Compaq and Microsoft. General Electric established its European research centre near the Munich Technical University.

state had not suffered as much war damage as the rest of the occupied area and there was also less dismantling of industrial complexes⁶ by the US occupying forces. Bavaria's losses in industrial capacity, compared with the pre-war era, ranged between 75% (electro-technical industry and mechanical engineering) and 30% (breweries and ball-bearing factories). However, Bavaria did not reach the pre-war level of total industrial production until the end of 1949 – later than the western zones' average⁷.

Due to their geo-strategic position in the rapidly approaching Cold War, the West German occupied zones, respectively the Federal Republic since its foundation on September 20, 1949, assumed a special function in the bloc formation in Western Europe that Washington was forcing to counter Soviet hegemonic claims. The European Recovery Program that was passed by the US Congress in April 1948 already integrated the foundation of the West German state propagated by the politics of the western Allies. As the dominating occupying force, the USA had greater possibilities for exerting its influence than in other west European countries⁸. As early as October 1945, they installed the politically «clean» economics expert Ludwig Erhard⁹ as Bavarian Minister of Economics; he later headed the Economic Administration of the United Economic Area (Bizone), which had been formed in 1947 when the American and British zones amalgamated, in Frankfurt from March 1948. As a representative of ordoliberalism, the «father of the German economic miracle» replaced

⁶ The machines in armaments factories were dismantled after March 1946. At the beginning of May 1946, the Americans stopped these activities in their zone. Their principal interests in the area of economics policy were in breaking up groups of companies and cartels.

⁷ R. GÖMMEL, *Vom Wiederaufbau nach 1945 bis 1980*, in *Handbuch der bayerischen Geschichte*, vol. 4: *Das Neue Bayern. Von 1800 bis zur Gegenwart*, 2: *Die innere und kulturelle Entwicklung*, München 2007², p. 264; M. LANZINNER, *Zwischen Sternenbanner und Bundesadler. Bayern im Wiederaufbau 1945-1958*, Regensburg 1996, pp. 168 ff.

⁸ R. NEEBE, *Optionen westdeutscher Außenwirtschaftspolitik 1949-1953*, in L. HERBST - W. BÜHRER - H. SOWADE (eds), *Vom Marshallplan zur EWG. Die Eingliederung der Bundesrepublik Deutschland in die westliche Welt*, München 1990, p. 165.

⁹ After the 1949 federal elections, Erhard (1897-1977) was named Economics Minister and remained in office for 14 years. Despite his origins in Bavarian Franconia, he dissociated himself from the Christian-Social majority party in Bavaria (CSU) and did not join the CDU (Christian Democratic Union) until 1963; B. LÖFFLER, *Soziale Marktwirtschaft und administrative Praxis. Das Bundeswirtschaftsministerium unter Ludwig Erhard*, Stuttgart 2003.

state dirigisme with the principles of competition. His ideas – and those of the American occupying forces – on the organisation of a modern industrial economy show a great number of affinities¹⁰.

The USA advocated dismantling the major German banks and, with the foundation of the Bank deutscher Länder (Bank of the German Federal States) in March 1948, the establishment of central banks in the federal states. The British military government opposed the decentralisation of the German banking system for as long as the question of the central reconstruction institutions, and it was demanding, had not been resolved. Financing the reconstruction of the highly-industrialised British occupied zone – especially in the Ruhr area – was particularly pressing. After one year of negotiations, a compromise was reached in the summer of 1947 with the establishment of a central «Loan Corporation» to provide financing for reconstruction. The establishment of the KfW – permission for its foundation was granted by the Americans and the British on June 12, 1948 – was closely connected with the process and content of the discussions between the military governments on the future structure of the German banking system. Bavaria's representatives voted against the establishment of the Bank for Reconstruction on the grounds that «insufficient consideration was given to Bavaria and the states of southern Germany» concerning loans as well as fearing that the KfW would delay providing means. With 27%, Bavaria had the largest portion of the total number of refugees in the entire Bizone and the highest unemployment rate (27.3%) in the three western zones at the end of 1948. At the first meeting of the Bavarian Reconstruction Council, the representative of the Ministry of Economics demanded that the predominantly agricultural structure needed «to be changed into an agro-industrial structure». On the occasion of the council's constitution, the Prime Minister Hans Ehard (CSU) outlined the projects in housing construction and in «creating possibilities for employment, especially confronted with the necessary integration of refugees and evacuated persons into the economic and labour process» which Bavaria, due to the high refugee quota, was incapable of dealing with on its own. The question of loans would be a major problem of reconstruction». Bavaria's State Central Bank (Landeszentralbank) drew attention to the fact that a central credit institution conflicted with

¹⁰ V. BERGHAWN, *Ludwig Erhard und die Amerikanisierung der westdeutschen Industrie*, in «Aus Politik und Zeitgeschichte», Nr. 5, 28.1.2008. Berghahn had already dealt with recent «Americanisation» research in the Federal Republic in 1985, investigates the extent to which these affinities were a result of the influence of American hegemony.

the policy of decentralising banks being propagated by the US military government¹¹.

On the American side, the Economic Cooperation Administration (ECA)¹² was founded to implement the Marshall Plan with the Organisation for European Economic Cooperation (OEEC), established as a permanent institution in Paris in April 1948, as its European counterpart. The OEEC recommended the distribution of foreign aid to the participating countries, coordinated their economic policies and was intended to pave the way for the cooperation of their national economies. After the Permanent Bizonal OEEC Delegation had started its work at the OEEC in May 1948, the military governors of the three western occupied zones – the French zone was also represented with a separate administration for the Marshall Plan – signed the treaty, which was necessary for the economic aid, with the USA. The newly-established German constituent state became a member of the OEEC on October 25, 1949. The OEEC representation was the Federal Republic's first official foreign delegation; however, it remained an economic mission as the occupying powers continued to reserve the right to handle foreign relations for themselves¹³.

The treaty on economic cooperation between the United States of America and the Federal Republic of Germany of December 15, 1949 – the first state treaty to be signed by West Germany as an equal partner – came into effect in February 1950. This new ERP agreement assured the Americans of concrete possibilities for taking part in the redevelopment of West Germany in addition to far-reaching rights for deciding on the use of the commercial credit and their German counterpart funds. The importance

¹¹ Protokoll (minutes), 1. Arbeitstagung des Bay. Aufbaurats am 16.9.1948, 8.10.1948, gez. Stadtrat Fischer, and Protokoll über die konstituierende Sitzung des Bay. Aufbaurats am 16.9.1948, gez. Stadtrat Fischer, in HADB, B 331-Bay / 502; F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes zum Wandel der bayerischen Wirtschaftsstruktur nach dem Zweiten Weltkrieg*, in *Geschichte des Finanzplatzes München*, München 2007, pp. 208 ff.

¹² The military governor in Germany, and then (1949-1952) High Commissioner for Germany (HICOG) of the US government was, at the same time, the ECA representative for Germany.

¹³ W. BÜHRER, *Auftakt in Paris. Der Marshallplan und die deutsche Rückkehr auf die internationale Bühne 1948/49*, in «Vierteljahrshefte für Zeitgeschichte», 36, 1988, pp. 529-556 and W. BÜHRER, *Westdeutschland in der OEEC. Eingliederung, Krise, Bewährung 1947-1961*, München 1997; G. HARDACH, *Transnationale Wirtschaftspolitik: Der Marshall-Plan in Deutschland 1947-1952*, in D. PETZINA (ed.), *Ordnungspolitische Weichenstellungen nach dem Zweiten Weltkrieg*, Berlin, 1991, p. 67.

of the ERP for the reconstruction of the economy in the FRG lay mainly «in a qualitative, structural effect» (Hardach) because only food supplies and raw materials, but no finished products, were imported making it possible for the country to recover its traditional industrial specialisation and export orientation. Diverging from the other European agreements, the US occupying forces maintained the right for a repayment of the aid provided in order to assert its demands in a general debt and reparation settlement if necessary¹⁴. The D-Mark amounts (counterpart funds) paid by West German importers for ERP deliveries were collected by the Bank deutscher Länder (the later Deutsche Bundesbank) on counterpart accounts owned by the USA. Loan programmes to stimulate the economy were launched from these funds. The first ERP investment programme, initiated in December 1949 (DM 1.03 billion), was followed by a second in June 1950 with a volume of DM 1.16 billion and a third financing programme in 1951 (DM 1.5 billion). The KfW placed DM 3.4 billion of the total investment of 5.5 billion from the counterpart funds of the GARIOA Programme¹⁵ and Marshall Plan between 1949 and 1952. The funds, which were labelled as the ERP Special Fund after August 1953, grew from an original \$ 1.6 billion – this corresponds to a value of around three billion euros at the time – to almost 13 billion euros at the end of 2006. Today, loan and subsidy programmes are still financed from these assets. Since 1954, the federal government has drawn up an ERP economic plan¹⁶ with a yearly subsidy budget of, currently, around 4 billion euros targeted especially at medium-size enterprises. The subsidy volume has increased to a much greater extent than the assets of the fund: Investment loans amounting to a total of 121 billion euros had been made available up to the end of 2006.

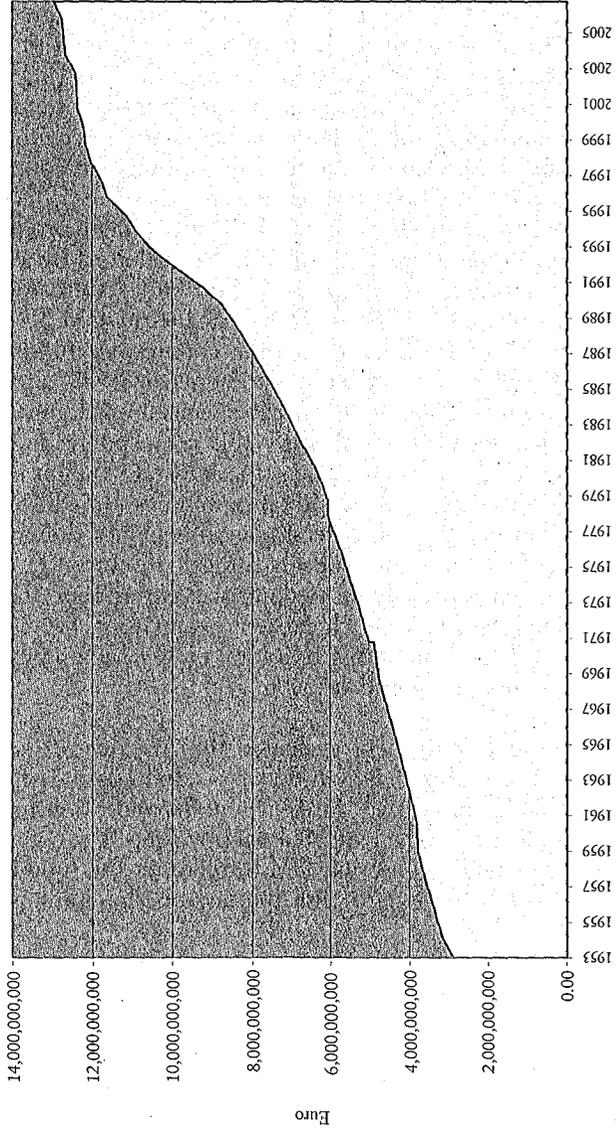
The 1953 London Debt Agreement evaluated the American foreign aid to West Germany at a total of 3 billion dollars – after some deductions. The Federal Republic received two thirds as a grant and Bonn had even repaid one billion dollars from the federal budget by 1966. The counterpart funds which already contained around DM 6 billion at the time became German property to the full extent with the law on the administration

¹⁴ W. ABELSHAUSER, *Die Langen Fünfziger Jahre. Wirtschaft und Gesellschaft der Bundesrepublik Deutschland 1949-1966*, Düsseldorf 1987, pp. 25 ff.; G. HARDACH, *Transnationale Wirtschaftspolitik*, pp. 79, 81, 86 f., 98 ff.

¹⁵ Government Aid and Relief in Occupied Areas was a US Army programme.

¹⁶ Drawing up an ERP economic plan was regulated by the «Law for the Administration of the ERP Special Assets» of 31.8.1953. *Bundesgesetzblatt I*, no. 59, p. 1312 ff.

Graph 1. Development of the ERP Special Fund in euros



Source: Federal Ministry for Economics and Technology.

of the ERP special assets of August 31, 1953 and, since then, decisions can be made autonomously. Seeing that, in Germany, ERP funds are always granted as roll-over loans – that means that on repayment they, once again, become available for subsidies – they continue to enter the economy as new long-term loans with a reasonable rate of interest.

The expectations *vis-à-vis* the market-economy situation and political stability were beneficial for the establishment of enterprises in Bavaria, Baden Württemberg and Hesse – the states in the American zone. The Americans supported the market economy and the protection of property and opposed nationalisation which the British Labour Party government favoured in their zone. The ban on immigration in the French zone that was upheld until 1952/53 encouraged migration to the west, the expansion of already existing business areas and production facilities, the resettlement of industrial and service enterprises, as well as institutions in the Bizone. Bavaria, in particular, benefited from the transfer of company headquarters from Berlin and the Soviet occupation zone. The political insecurity of the front-line city of the Cold War – that reached its climax with the Berlin Blockade – was a major reason for the largest German electro-technical concern and the second-largest German company after Volkswagen moving the headquarters of its Siemens & Halske sector to Munich and the Siemens-Schuckert Works to Erlangen in 1949. The establishment of Siemens in Munich had a sustainable influence on the industrial structure of the city and exerted a magnetic attraction on other high-tech branches, such as the optical and precision-tool industries, to move to the metropolitan area thereby producing many synergy effects. Through the settlement of major industrial organisations – the initiators of accelerated industrial growth – the electro-technical industry and automobile construction developed into Bavaria's most important industrial branches. After the liquidation of its parent company in Chemnitz in August 1948, the Saxon Auto Union AG transferred to Ingolstadt on the Danube River. Before the new foundation of the Auto Union GmbH (since 1985, Audi AG) in September 1949, a subsidiary was moved in March 1947 to act as a central depot. Audi initially received credit assistance from the Bavarian State Bank (Bayerische Staatsbank) and later ERP and special loans¹⁷.

¹⁷ P. HEFELE, *Die Verlagerung von Industrie- und Dienstleistungsunternehmen aus der SBZ/DDR nach Westdeutschland unter besonderer Berücksichtigung Bayerns 1945-1961*, Stuttgart 1998, pp. 158 ff.; F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes*, pp. 198 ff.; *Das Rad der Zeit. Die Geschichte der AUDI AG*, München 2000³, pp. 149-152, 154.

Numerous companies in the textile and clothing branch set up operations as did others from the chemical processing and precision mechanics industries and home entertainment sector. The Knorr brake company, Agfa-Gevaert and the Osram lamp producing company were among those firms selecting Bavaria – and particularly Munich – as the preferred location for their headquarters and production facilities. Compared with the other federal states, but excluding the heavily industrialised North-Rhine Westphalia with 1,145 firms, locations in Bavaria attracted 14 to 15% of the 5,416 recorded enterprises that moved out of Berlin and the Soviet occupation zone. Bavaria was the most favoured of the federal states in the American zone for those businesses «migrating» from Saxony (428) and Thuringia (354). Munich not only became the most important destination for important industrial concerns but also for insurance companies, such as the Allianz, and publishing houses from Leipzig and Berlin. The main reasons for deciding to relocate to Bavaria were the active, cross-party efforts made by the communities and state government to attract firms, as well as the comparatively stable political and socially conservative general conditions in Bavaria. After the provisional opening of patent registration offices in Berlin and Darmstadt in the spring of 1948, the «Law on the Establishment of a Patent Office in the United Economic Area» settled on Munich as the seat of the German Patent Office in August 1949. The institution began operating in October 1949. Its establishment probably played a role in 1972 when selecting the location for the seat of the European Patent Office – the first European institution on German territory. The advantageous trends in the labour market, cheap building land, as well as renowned educational and research institutions were additional incentives for transferring the administration and production facilities of traditional enterprises, the construction of new factories, and the exodus of researchers from the eastern zone of Germany¹⁸.

2. State guarantees and ERP loans for medium-sized businesses

The influx of refugees and expellees between the end of the war and the time the Soviet zone border was closed increased Bavaria's population from seven to nine million. Many of these people came from the industrial areas of Bohemia, Moravia and Silesia. The majority of the expellees were

¹⁸ R. GÖMMEL, *Vom Wiederaufbau nach 1945 bis 1980*, pp. 264 f.; P. HEFELE, *Die Verlagerung von Industrie- und Dienstleistungsunternehmen*, pp. 97, 119, 162; F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes*, p. 198.

quartered in the countryside or, occasionally, in camps. They were looking for a new homeland and work in Bavaria but the lack of living space in the severely damaged cities made procurement of employment difficult. The exodus of refugees to Bavaria confronted the state with massive financial, economic and socio-political problems. It became necessary to create the appropriate financial means and instruments for their integration. The regional government was not in the position of gradually being able to meet the burdens resulting from the war until the establishment of the West German constituent state.

In the years immediately after the war, the Bavarian State Bank absorbed the costs for redevelopment and refugee aid. Seeing that Bavaria's budget was barely able to cope with the most essential public assignments and could not be resorted to for loan programmes, the Landtag (Bavarian Parliament) passed a draft for a surety law in 1947. With these state sureties, Bavaria provided guarantees for the banks seeing that the expellees could not provide regular collateral as any surety had been left behind in their former homelands. The expellees first needed to establish a bond of trust with their banks that local enterprises had often developed over decades. A loan, under which the state assumed a deficiency guarantee covering 90% of the risk – the banks bore the remaining 10% – was an ideal form of initial aid. In 1947, the Bavarian state government established a programme for granting so-called «refugee productive loans» (interest-subsidised loans for refugees) as an instrument for establishing an existence and finding work without having to grant «state loans». There were hardly any financial resources available in the Bavarian state budget after the currency reform of June 1948 as the state's reichsmark assets had been wiped out and tax revenue in DM was only starting to flow slowly. The legal authorisation of the 25 million reichsmarks necessary for the assumption of state sureties was converted to DM 25 million in the provisional budget law of 1948¹⁹.

After the currency reform, the Bavarian ministries were inundated with a flood of surety requests from refugee businesses so that the office in the budget section of the Bavarian Finance Ministry that had been set up to process these requests soon took on the size of a department. In addition, its duties were expanded by the loans programme using funds

¹⁹ Haushaltsgesetz 1947, in *Bayerisches Gesetz- und Verordnungsblatt (BGVBl.)*, 48, p. 90, 140 § 8; P. ERKER, *Fünfzig Jahre Wirtschaftsförderung in Bayern 1950-2000*, in *Chronik 50 Jahre LfA Förderbank Bayern*, München 2001, p. 22; O. BARBARINO, *Ein Lebenslauf im 20. Jahrhundert*, Landsberg a.L. 1997, pp. 53 f.

from the ERP assets and the federal budget. It became an increasingly pressing matter to delegate the duties to a subordinate credit institute seeing that local enterprises that had been destroyed in the war or suffered from dismantling soon started approaching the Bavarian state government seeking financial support. However, it was only when the occupying forces gradually gave up their doubts about also including local firms that had suffered during the war in the state's surety programme that this undertaking was also made available to them²⁰.

The businesses of the immigrants and refugees made it easier to integrate the new citizens and performed a «catalytic function» in the «transformation process to an industrial and service sector state» for the local workers who had become redundant in agriculture and small craft businesses²¹. Over the medium and long-term, the settlement of industrial branches that had previously hardly – and often, not at all – been represented in the Bavarian economic area and the successful integration of the expellees, with their above-average qualifications and special new knowledge, meant an economic-technological profit even though the state and communities were initially heavily burdened by the flow of refugees. This provided the Department for Regional Development (Landesentwicklung) with the opportunity of taking advantage of the experience of a large percentage of the expelled population in industry, crafts and trade, including entrepreneurs, for the further industrialisation of Bavaria that was still predominantly agriculturally structured in large sections at the time. Especially the position of medium-sized businesses was improved by the creation of new employment possibilities for craftsmen and skilled workers. New branches, such as the costume jewellery industry, settled in Neugablonz. Many new industries were founded by Sudeten Germans and Silesians and contributed to the development of the trade and industrial structures of medium and small-sized towns – particularly in the zone's boundary regions in Upper Franconia and the northern section of Lower Franconia²². In July 1950, the Vertriebenen-Bank AG (Expellees' Bank) that had been founded in Bonn by bankers who had been forced to leave their country informed the Bavarian Economics Ministry that an ERP loan amounting

²⁰ O. BARBARINO, *Ein Lebenslauf im 20. Jahrhundert*, p. 58.

²¹ P. HEFELE, *Die Verlagerung von Industrie- und Dienstleistungsunternehmen*, pp. 142, 178.

²² O. BARBARINO, *Die wirtschaftliche Eingliederung der Heimatvertriebenen in Bayern*, in «Zeitschrift für bayerische Landesgeschichte», 45, 1982, 2, pp. 393-417; R. GÖMMEL, *Vom Wiederaufbau nach 1945 bis 1980*, p. 265 f.

to DM 10.2 million had been allocated for refugee businesses in Bavaria. The Sudeten Germans of Gablonz that had brought the glass industry to Bavaria were allocated DM 2.16 million from this sum²³.

Funds from the ERP special assets were also made available to provide aid for the border areas of the zones in Schleswig-Holstein, Lower Saxony, Hesse and Bavaria. In 1953, the German Bundestag passed the so-called border area assistance programme to improve the working and living conditions in the deprived regions along a 40 kilometre-wide strip of land on the eastern border of the federal republic. One quarter of the area of Bavaria, with one fifth of the state's inhabitants, was declared a depressed area. It was intended that the underdeveloped area in eastern Bavaria, along the demarcation line to the former GDR and Czechoslovakia, become integrated into the beginning economic boom by means of the loans programme. In 1953, the region around the Bavarian Forest that was characterised by agriculture and forestry and a lack of industry had the highest unemployment rate in the entire Federal Republic. Thirty percent of the population of Passau was without work; in Deggendorf, this was more than 34%. The KfW provided the Bavarian State Bank with DM 0.83 million from the «ECA Interest and Redemption 1955» programme to subsidise the districts on the zone's borders²⁴. The LfA paid out the monies via the borrowers' banks. Of the DM 117.8 million that found their way to the Bavarian boundary regions by means of the KfW until the end of 1956, 81.7 million came from ERP funds. A distinction was made between individual and global loans, as well as those for housing construction and agriculture²⁵. In order to counteract emigration, the border area assistance in eastern Bavaria provided aid for the construction of public housing and roadwork, as well as the energy supply, transport, culture and tourism. With the Federal Republic's new orientation of its regional subsidy policies following the fall of the border to the GDR and the reunification of Germany on October 3, 1990, a large portion

²³ Möglichkeiten der Kreditbeschaffung für Flüchtlingsbetriebe (Possibilities for providing loans for refugee businesses), München 25.11.1950, Referat 28c, gez. Dr. Schierreich (Abschrift), in Bayerisches Hauptstaatsarchiv (BayHStA), Ministerium für Wirtschaft und Verkehr (MWi) 12601.

²⁴ Bay. Staatsbank, Direktorium, München 24.4.1956, an KfW, Frankfurt, Betr.: Globalkredite auf dem Sektor Gewerbliche Wirtschaft. Feststellung der davon in die Zonenrandgebiete geflossenen Mittel, in Konzernarchiv KfW group, HA-BS 20.

²⁵ KfW an Bundesministerium für wirtschaftliche Zusammenarbeit, 29.8.1957, Betr.: Berücksichtigung der Zonenrandgebiete in den über die KfW laufenden Kreditprogramm, *ibidem*.

of those regions that had previously benefited – particularly on the zone boundaries – lost their status of being eligible for support. However, the border area of Bavaria and Bohemia has since been subsidised by the European Union's European Regional Development Fund²⁶.

The Bavarian state's sureties provided relief for numerous small businesses – especially in the textile industry – as well as those that were rapidly developing into medium-size and large enterprises. More than 8,100 loans guaranteed by the state to the amount of DM 98 million were granted to businesses through 1951. The greatest problem facing companies founded by refugees was the consolidation of, what were initially, short-term loans into long-term loans to finance investments through debt rescheduling. Therefore, refinancing activities grew in importance alongside the sureties. The enormous rise in the banking activities of the participating ministries led to Bavaria establishing the Bayerische Landesanstalt für Aufbaufinanzierung with a capital stock of DM 40 million and reserves of DM 4 million for the realisation of public financial support measures in December 1950. It began operating in May 1951. In its first years, loan refinancing also took place by way of funds from the federal budget and, later, from subsidies from the ERP special assets, the «Soforthilfe» (funds for immediate aid for the refugees) and the «Lastenausgleich» (fiscal equalisation of losses of properties during and after the war) as well as means from the Federal Employment Office. Over time, the Bavarian special credit institute was successful in refinancing itself²⁷.

The Vertriebenen-Bank²⁸ – the later Lastenausgleichsbank (Bank charged with the equalisation of burdens) – and the KfW were different, in terms of assignment, organisation and the development of their function, from the LfA that, after 1952, was no longer merely a «refugee bank». In the meantime, it was using 40% of its funding for local firms, or those that had moved from the Soviet occupation zone such as Audi and Osram, and supported branches that were structurally weak, endangered or

²⁶ *Grenzlandbericht. Bericht über die wirtschaftliche, soziale und kulturelle Entwicklung des bayerischen Grenzlandes und der strukturschwachen Gebiete Bayerns im Kalenderjahr 1990*, ed. by BAYERISCHES STAATSMINISTERIUM FÜR LANDESENTWICKLUNG UND UMWELTFRAGEN, München 1992, p. 47.

²⁷ O. BARBARINO, *Ein Lebenslauf im 20. Jahrhundert*, pp. 59, 63 f.; P. ERKER, *Fünfzig Jahre Wirtschaftsförderung in Bayern 1950-2000*, pp. 22 ff.

²⁸ In 2003, the KfW and the Deutsche Ausgleichsbank, the federal institutes for subsidies, were amalgamated to form the KfW-Mittelstandsbank (KfW SME bank).

lacking capital. After the Frankfurt Farbwerke Hoechst company had intensified its investments in Bavaria, the chemical and pharmaceutical concern was Bavaria's largest surety holder and borrower at the end of the 1950s with liabilities of DM 300 million²⁹.

The first drawing-up of a complete federal budget in 1950 relieved the individual states. However, this was also West Germany's most difficult post-war year as the unemployment rate had suddenly increased with an average of 1.9 million persons without work during the year. In those states that were most affected by the flow of refugees – Bavaria, Lower Saxony and Schleswig-Holstein – a sufficiently stable budget did not become possible until full employment set in after 1960. When the «economic miracle» of the Adenauer republic got underway in the mid-1950s, Bavaria was still years away from a boom. In absolute figures, Bavaria was the most indebted of the West German federal states and only Schleswig-Holstein had a higher debt per-capita ratio than Bavaria. The economic growth that was slowly developing did not make a considerable impact until the end of the decade. As in the other federal states, high taxation revenues accumulated after 1960. By 1964, redemptions made it possible for Bavaria to sink its per-capita indebtedness on the credit market to below the average of the states³⁰. However, the Bavarian budget benefited from the financial equalisation scheme between the federal government and the Länder until the mid 1980s.

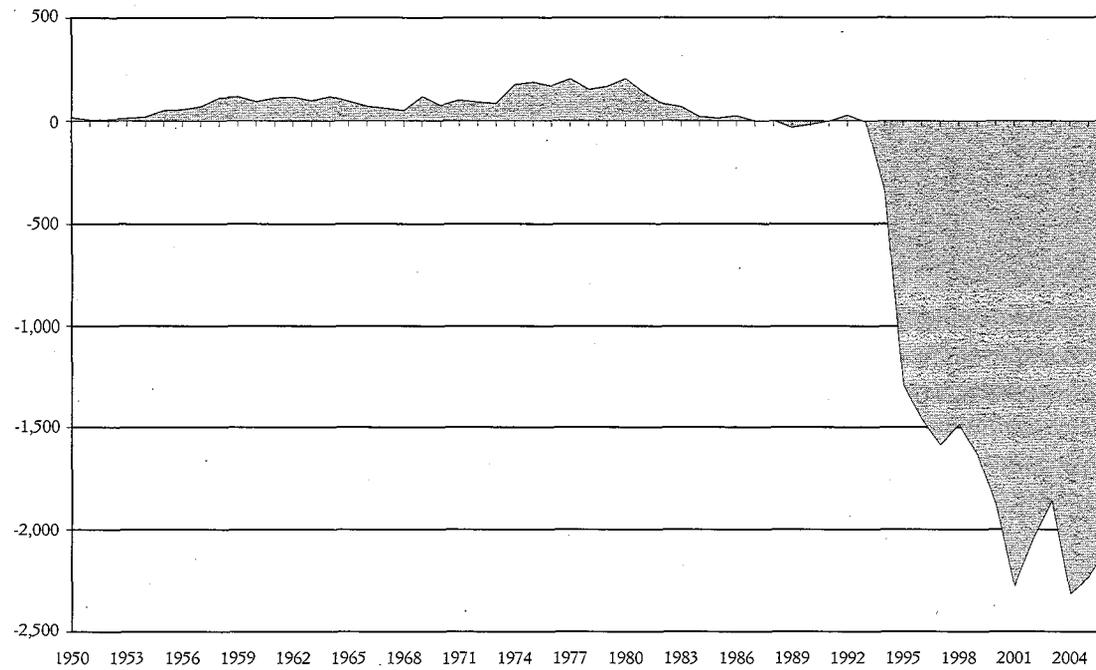
Compared with the rapidly expanding basic industries of the Ruhr area that satisfied the immediate post-war requirements, Bavaria was in an «unfavourable starting position» (Erker), because its new industrial enterprises produced consumer and capital goods³¹. Initially, emphasis was placed on the consumer goods industry. The capital goods sector caught up by the end of the 1960s and, with 810 businesses, mechanical engineering became Bavaria's second-largest industrial branch. However, in the early 1970s, Bavaria was still industrially underdeveloped compared with the

²⁹ Hoechst invested in a major combined petrochemical project in Münchsmünster on the Danube and other locations; H. BÖSSENECKER, *Bayern, Bosse und Bilanzen. Hinter den Kulissen der weiß-blauen Wirtschaft*, München - Wien - Basel 1972, pp. 51 f.; P. ERKER, *Fünfzig Jahre Wirtschaftsförderung in Bayern 1950-2000*, pp. 23, 25.

³⁰ O. BARBARINO, *Ein Lebenslauf im 20. Jahrhundert*, pp. 34 f., 39, 48.

³¹ R. GÖMMEL, *Vom Wiederaufbau nach 1945 bis 1980*, p. 265; P. ERKER, *Keine Sehnsucht nach der Ruhr. Grundzüge der Industrialisierung in Bayern 1900-1970*, in «Geschichte und Gesellschaft», 17, 1991, pp. 480-511.

Graph 2. Bavaria – Development of the financial equalization scheme 1950-2006 in million euros



Source: Bavarian State Ministry of Finance.

federal average³². In 1978, the unemployment rate in Bavaria fell below the West German average for the first time and the state exceeded the West German gross domestic product (GDP) for the first time in 1984. Developing from 85% (1950), the region closed the gap and reached 92% of the West German average in 1970. The Bavarian growth rates (on a ten-year average) have been higher than the corresponding federal values since the 1960s. Between 1961 and 1970, Bavaria showed an average yearly rate of growth in the gross value added for the chemical industry of 15.5% (10.8% nationwide), the steel, machinery and automobile sector of 7.9% (6.6% nationwide) and 8.9% (7.1% nationwide) for the electrical engineering field³³.

The second major industrialisation phase in Bavaria started in 1957. Within ten years, more than 260,000 new jobs were generated in industry without creating any unbalanced agglomerations of manufacturing. In the 1960s, Munich developed into the largest industrial city in Bavaria and the third largest in the Federal Republic. By 1980, Bavaria had become a highly industrialised state and, by the mid 1980s, one of the leading industrial and service sector regions that, today, has the highest rate of growth and lowest unemployment rate (3.9% in the second quarter of 2008) in the country.

Politically, the LfA played an increasingly important role in providing security for those companies that, today, have a key position in Munich. In 1957, the Messerschmitt aircraft factory was in danger of bankruptcy and was rescued by the LfA. This, and additional governmental financing, was decisive for the rapid rise of the Messerschmitt-Bölkow-Blohm (MBB) aeronautics concern that later became the Deutsche Aerospace AG (DASA)³⁴. In 1959/60, assistance also became necessary to save the automobile manufacturer, and later leader in the branch's technology field, BMW³⁵.

³² K. BORCHARDT, *Zur Geschichte des bayerischen Staatsministeriums für Wirtschaft und Verkehr*, Wiesbaden 1987, p. 21.

³³ F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes*, p. 213. See the tables on the nominal and real GDP growth between 1950 and 2000, *ibidem*, pp. 208, 196.

³⁴ Since 2000, it has belonged to Europe's largest aeronautics and astronautics concern European Aeronautic Defence and Space Company (EADS), a company under Dutch law, with head offices in Ottobrunn near Munich (EADS Deutschland GmbH) and Paris (EADS France S.A.S).

³⁵ F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes*, p. 209; P. ERKER, *Fünfzig Jahre Wirtschaftsförderung in Bayern 1950-2000*, pp. 25, 27.

Between 1949 and 1953, Bavaria passed eleven surety laws with various procedural regulations. When they were standardised, a start was made with those state sureties that were solely under Bavarian authority as the funds for refinancing came primarily from various, non-Bavarian financiers. The «Law for the Guaranty of State Sureties» that came into force in August 1954, amalgamated the different surety-enabling acts. An authorisation for energy sureties³⁶ was added in 1956. In 1959, the Bavarian Landtag passed an additional amendment on the assumption of state sureties that, with the dissolution of the parliamentary surety committee, made it possible for the state government to provide important guarantees without any parliamentary influence or control. The LfA administered the economic programme which ran into the millions³⁷.

When the actual reconstruction phase was over, support from ERP funds increasingly benefited medium-size enterprises, the expansion of energy supplies and the export industry. With the energy sector as an important new area for state subsidies, the energy prices began to fall and, since the mid 1980s, this has been one of the advantages of being located in the Bavarian economic area. The growth region in the south-eastern Bavarian «chemical triangle» on the Inn River between Burghausen, Trostberg and Töging – with the Wacker, Süddeutsche Kalkstickstoffwerke AG (SKW) and Hoechst companies – experienced a boom, as did the region around Ingolstadt and Neustadt on the Danube that received funding from the LfA for the new petroleum and refinery industry as well as automobile manufacturing. Two pipelines from the Italian ports of Trieste (Transalpine Ölleitung / TAL) and Genoa (Central European Line / CEL) supplied the six refineries near Burghausen and Ingolstadt that had started operating between December 1963 and October 1967. The American Marathon Oil Company had been exploiting new deposits of high quality in Libya since 1958 and constructed its third European refinery near Burghausen in 1966/67 – the first exclusively petrochemical factory in Germany. It was tailored to meet the requirements of the company's German subsidiary Deutsche Marathon Petroleum GmbH, which had been established in Munich in 1962, and mainly provided the Hoechst factory in Gendorf and that of Hoechst's 50% subsidiary Wacker-Chemie GmbH (Munich) in Burghausen with petro-

³⁶ BGVBl. 56, p. 285.

³⁷ Aktennotiz Verband Süddeutsche Mineralölwirtschaft e.V., Betr.: Transalpin, gez. Friedrich Brosch [n.d.] and Bayerischer Landtagsdienst Nr. 190, 1.7.1959, in BayHStA, *Nachlass Dr. Otto Schedl* / 195.

chemical products³⁸. Deliveries of the main product – ethylene – began in February 1968. Seeing that private companies constructed and operated the pipelines and refineries³⁹, it was hardly necessary for the state to become financially involved.

The period of founding new businesses with the assistance of state sureties ended with the refinancing programme initiated by the LfA in 1961 to benefit medium-sized enterprises. The credit institute was able to increase its equity capital quota and, for the first time, was granted a global government interest subsidy which the LfA made available as long-term loans over the borrowers' banks at reasonable interest rates. The measure, which is described as the Bavarian Loan Programme for Medium-Sized Enterprises⁴⁰, has remained Bavaria's most important subsidy instrument for financing investments in medium-sized enterprises from its inception in October 1974 to today. With its special programmes for financial help and investments, the Bavarian state government attempted to combat the effects on the labour market and structure resulting from the first post-war recession of the years 1966/67 over the LfA. The economic problems were accompanied by a structural crisis – this was particularly the case in the Upper Bavarian coal-mining areas and the iron and steel industry in the Upper Palatinate. By making more than DM 300 million available, the LfA changed its focus towards providing loans for the development of the regional economy in 1967/68⁴¹. Investment activities also increased in importance.

³⁸ Oil replaced the coal chemistry. H. BÖSSENECKER, *Bayern, Bosse und Bilanzen*, pp. 51 f.; K. BORCHARDT, *Zur Geschichte des bayerischen Staatsministeriums*, p. 26.

³⁹ International petroleum companies participated in the TAL Group to market Libyan crude oil in Austria and South and South-West Germany. Marathon was also one of the builders of the TAL so both the pipeline and refinery in Burghausen were in the same hand. A secondary TAL pipeline leads from Wasserburg to Burghausen to supply the refinery with crude oil.

⁴⁰ Bavaria created new possibilities and instruments to support medium-sized enterprises in 1972 with the «Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft» (Participation Association for Medium-Sized Industry) and, above all, with the Bavarian medium-sized enterprise support law.

⁴¹ The federal government provided central incentives: It forced the states to meet a portion of the financing themselves. The conflict over regional economic support within the framework of the so-called «Gemeinschaftsaufgabe von Bund und Ländern» – projects jointly involving the federal government and states – developed into a permanent dispute between Munich and Bonn and later with Brussels, P. ERKER, *Fünfzig Jahre Wirtschaftsförderung in Bayern 1950-2000*, pp. 27, 40 f., 43.

The KfW provided loans for individual «Regional Campaign Programmes» in Bavaria: In 1970, it approved lending to seven regions needing support – including the border zone. There was particularly strong demand for ERP loans in heavily-industrialised Upper Franconia (DM 24 million), whereas little-industrialised east Bavaria mainly took credits for the growing tourism industry (DM 19.1 million)⁴².

3. ERP grants for research and development

After the war and twelve years of Nazi dictatorship, it was necessary to revitalise public research activities, in keeping with the restrictions enforced by the Allies, in the occupied zones and states first of all. This continued in the tradition of the Weimar Republic and forms of scientific autonomy. The fact that the country was not unified led to an increase in the influence of the individual states; the former expansion of national competences was now replaced by a «federalisation in important bodies». In the post-war years, Werner Heisenberg, who had led the German uranium project during the war, developed into «one of the most influential organisers in German research». The physicist used the MPG⁴³ to anchor the priority for nuclear research in a national context. When dealing with the revitalisation of research in the zones, the Allies oriented themselves – «with greatly diverging interests, political strategies and chances for success, on individual areas» – on the Potsdam Agreement of August 1945 with democratisation, denazification, demilitarisation, decartelisation and decentralisation as its core points. One aspect of demilitarisation dealt with in the Allied Control Commissions Law no. 25 of April 1946 determined that research and development carried out at universities, institutes and industrial plants, which could be strategically important, should be subject to special supervision. The «Department for the Supervision of Scientific Research» in the Bavarian Economics Ministry stipulated that all research institutes apply for permission in advance. These restrictions initially had a negative effect on application-oriented research activities that could possibly be classified as strategically

⁴² KfW-Jahresbericht (annual report) 1970, pp. 118 f.

⁴³ The Kaiser Wilhelm Society was re-established in the British zone in 1946 under the name of Max-Planck-Gesellschaft zur Förderung der Wissenschaften (Max Planck Society for the Advancement of the Sciences) and officially founded in February 1948. It originally incorporated the institutes in the British and American zones followed, after November 1949, by those in the French zone.

important – however, not to the extent frequently assumed, as Trischler and vom Bruch underline. The Control Commission's law benefited the traditional German «concentration on basic research that could not be suspected of being used in warfare»⁴⁴.

When it became known at the beginning of 1949 that ERP funds were being used for research in a Marshall Plan state, the corresponding request by the Federal Economics Ministry initially met with little resonance from the US authorities. The Americans only wanted to fulfil the request made by Professor Carl Strehl of Marburg from the Ausschluß für das Blindenwesen (Committee for Research into Blindness). The Economics Ministry in Bonn subsequently urged the Max Planck Society (MPG) in Göttingen and the Physikalisch-Technische Anstalt (today the National Metrology Institute of Germany) in Brunswick to apply for subsidies. Only those research project proposals for support that were within the scope of the Marshall Plan – meaning that they should contribute towards making the economy independent of foreign aid – had a chance of ERP support. To a certain degree, the MPG was an exception. The American control officer recommended providing the maximum funding possible for the industrial research that most closely corresponded with the goals of the Marshall Plan. However, the lion's share was reserved for governmental research institutions. They received grants from the counterpart funds of the ERP, whereas the free market economy and private research institutions initially had to rely on loans⁴⁵.

The industry programme of the first ECA tranche already earmarked small amounts for tourism, research and trade. The ECA administration reserved the right to approve the loan applications for each individual project. The industrial projects in the western zones approved in 1949, including the emergency programmes financed from GARIOA funds, covered 22 branches of the economy with credit requirements amounting to DM 725.7 million. Priority was given to mechanical engineering, electro-technology, chemicals and mineral oils. Only DM 50,000 was made available for research. The second ECA programme (Marshall

⁴⁴ H. TRISCHLER - R. VOM BRUCH, *Forschung für den Markt. Geschichte der Fraunhofer-Gesellschaft*, München 1999, pp. 25 ff., 29.

⁴⁵ The economics ministers of the individual states received the applications and forwarded them to the Federal Economics Ministry, Begleitbrief zu Gesamtantragsliste, Der Bundesminister (BM) für Wirtschaft, Betr.: Liste der Forschungsvorhaben, die Zuteilungen aus der 2. Tranche der Marshallplan Gelder erhalten, Bonn, 17.7.1950, gez. Hinsch, in BayHStA, MWi 12601.

Plan year 1949/50: DM 1.15 billion) already planned DM 20.93 million to support research. The funds were mainly given as a non-refundable grant; the KfW gave DM 2.7 million as loans to individual researchers, as well as businesses and organisations that were carrying out research work⁴⁶. The central research bodies were subsidised with DM 8.6 million from the investment programme⁴⁷. DM 12.4 million was distributed in the ten federal states and West Berlin. Bavaria received DM 1.03 million and used DM 241,000 to subsidise the Fraunhofer Society that had been established in Munich in March 1949⁴⁸. The Laboratory of Fluid Mechanics at the Technische Hochschule München (TH) received DM 120,000; the KfW granted three loans for research⁴⁹ totalling DM 154,000. In addition, Bavaria received DM 392,000 from the Notgemeinschaft-Apparatausschuss (Committee on Scientific Instrumentation of the legal predecessor of the current DFG-organisation) for the state's university institutes⁵⁰.

Initially, the Fraunhofer Society was principally a «Bavarian Research Community for Mining». The board and senate were comprised entirely of representatives of regional research and industry. The personal contacts and interests of the most prominent scientists and industrialists of the early stages led to geological research being given priority. The field of activity of the cooperative society concentrated on attempts to exploit raw materials, such as uranium ore, in the Fichtel Mountains in Upper Franconia⁵¹. Originally, the activities were restricted to mining research,

⁴⁶ Interest-bearing bank loans were not possible as a basis for financing the research activities of individual researchers and institutions with insufficient capital. They were subsidised in the form of grants that did not fall in the area of responsibility of the KfW. KfW-Jahresberichte 1949, p. 25 f. and 1950, p. 57.

⁴⁷ MPG (DM 2.5 mill.), Notgemeinschaft-Apparatausschuss (3.8 mill.), Physikalisch-Technische Anstalt (1.6 mill.), Rationalisierungskuratorium (0.3 mill.) and Ausschuss für Blindenwesen (0.4 mill.).

⁴⁸ Named after the Bavarian researcher and inventor Joseph von Fraunhofer (1787-1826).

⁴⁹ For the Gesellschaft für Werkstoffnormung Mainleus / Oberpfalz, the Forschungsbau Dr. Cammerer Tutzing / Oberbayern and the Forschungsheim für Wärmeschutz e.V. München.

⁵⁰ Der BM für den Marshallplan, Anlage zu dem Schreiben an die Länder v. 21.8.1950, Auszug aus der von der ECA genehmigten Forschungsprojektliste – Investitionsprogramm 1949/50, 2. Tranche, in BayHStA, MWi 12601.

⁵¹ The state government wanted to change the focus of its energy policy away from coal onto the development of water power which had been pushed in the period between the wars, and nuclear energy, H. TRISCHLER - R. VOM BRUCH, *Forschung für den Markt*, p. 38.

as well as technology for the iron and steel industry and mechanical engineering, that could be exploited commercially. In order to create an independent niche to distinguish itself from other research organisations⁵², Fraunhofer strove to achieve a wider basis by promoting applied research. The attempts of the director, a geologist, to make contacts with the ERP allocation offices were successful. The FhG was included in the research project of the Marshall Plan and participated in the allocation of large-scale ERP research support funding commissioned by the Federal Economics Ministry. It assumed a privileged role in national politics as a result of its participation in the administration and distribution of funds and expanded the radius of its research activities. However, it remained focused on Bavaria. The overall budget for the second financial year amounted to DM 503,000 and included ERP research funding totalling DM 337,000 that had been allocated by the Bavarian Economics Ministry⁵³. DM 2.5 million of the almost DM 3 million awarded to individual subsidy receivers in the period between 1949 and 1954 – the year in which the first Fraunhofer Institute was founded – came from the state. Fifty per cent were ERP subsidies, and half a million were allocated from private enterprises⁵⁴. The third ECA programme (Marshall Plan year 1950/51), approved by the ECA mission in March 1951, released DM 200 million for industry including 10 million for research. Bavaria, which received DM 1.23 million, supported the Fraunhofer Society with DM 208,000 and the Max Planck Institute for Silicate Research in Würzburg with DM 85,000. The Notgemeinschaft der Deutschen Wissenschaft (the predecessor of the German Research Foundation) benefited from half a million⁵⁵.

⁵² Erhard's ministry and the Stifterverband für die Deutsche Wissenschaft – the industry's support organisation in Frankfurt – regarded the FhG, along with the Deutsche Forschungsgemeinschaft e.V. (DFG) and the MPG, as the third pillar in the Federal Republic's research environment. After first initiatives had been undertaken in the British zone in 1947, the Notgemeinschaft der Deutschen Wissenschaft e.V., established in 1949 by the universities and education ministers of the individual states, merged with Heisenberg's Deutscher Forschungsrat (German research Council), founded in 1949, to form the DFG.

⁵³ Distribution of the ERP research funding administered by the FhG to the federal states in the years from 1949 to 1953, in H. TRISCHLER - R. VOM BRUCH, *Forschung für den Markt*, pp. 56, 39 f.

⁵⁴ <http://www.fraunhofer.de/ueberuns/profil/chronicle>.

⁵⁵ Der BM für Wirtschaft an Bay. StM für Unterricht u. Kultus, betr.: ERP-Mittel für Forschungszwecke der 3. Tranche, Bezug: Ihr Schreiben v. 4.9.1951, Bonn 17.9.1951, gez. Hinsch, in BayHStA, MWi 12608; KfW-Jahresbericht 1951, pp. 30 ff.

Limiting the Marshall Plan to West Europe intensified the competition between the systems of the east and the west that finally led to the creation of two German states and their integration into the western and eastern alliance respectively. With the outbreak of the Korea War in June 1950, rearmament took priority over reconstruction and the Americans incorporated their recovery aid within the Mutual Security Program. This new programme coordinated economic and military foreign aid. Following the dissolution of the ECA at the end of 1951, the new Mutual Security Agency administered the European Recovery Programme until its term finished at the end of 1952.

With the exception of a few allied security provisos, the Federal Republic achieved full national sovereignty with the repeal of the Statute of Occupation in 1955: the General Treaty (Deutschlandvertrag) provided the Allies with special rights to station troops in West Germany, among other aspects. The federal government committed itself to wide-ranging arms limitations, including the renunciation of the production of nuclear weapons, upon its entry into NATO and the Western European Union. With the military integration of the second republic into the west, the introduction of compulsory military service in 1956, and the formation of the German armed forces (Bundeswehr), the need for militarily-relevant research increased. When the Defence Ministry was created in 1956, it rejected the establishment of its own research departments – in order to create a clear distinction to the Third Reich – and attempted to find support from a network of university scientists. Above all, it took advantage of the Fraunhofer Society which subsequently developed a second foothold in defence research in addition to its contract research. The Federal Minister of Defence, Franz Josef Strauß, pursued a «policy of state intervention in technology and industry», contrary to Erhard's social market economy approach, with aviation at its core. However, his demands for committed governmental support for civil aviation construction were thwarted by the resistance of the Economics Minister. This led to the CSU politician, who was responsible for military aviation, providing even more massive support for the aviation industry through ministerial commissions for research and development as well as participating in the basic funding of extra-university research. In return, Bavaria's *godfather* expected «innovations that are relevant to the industry and developed in accordance with political goals»⁵⁶. Compared with the rest of the Federal Republic,

⁵⁶ H. TRISCHLER, *Nationales Innovationssystem und regionale Innovationspolitik*, pp. 129, 147.

Bavaria carried out a substantial amount of the large-scale aeronautics research. In addition to aviation and space technology, Strauß focused on the politically risky area of nuclear research. The Federal Ministry for Nuclear Affairs⁵⁷, which was founded in October 1955 and led by Strauß for one year, remained under CSU leadership until the end of 1962. On the national level, Bavaria attempted to occupy additional ministries relevant to technology including transport and the post. After Strauß took office as Bavarian First Minister in 1978, the State Chancellery exerted great influence on economic politics – especially in technological areas⁵⁸.

The federal budget allocated DM 80.87 million for the activities of the Defence Ministry in the fields of research (around 15.79 million), development (60.85 million) and testing (4.23 million) in 1956. A three-year research programme for arming and equipping the Bundeswehr, calculated at DM 133.2 million, was drawn up. The main emphasis was placed on high-frequency technology and aeronautical science. The budget estimated approximately DM 606 million for providing the troops with material. Aeronautic technology was the most important area of development⁵⁹. When it came to equipping the new German military forces, Strauß pushed for this being carried out with the most modern weapons available – including nuclear armaments.

With the launching of the first satellite «Sputnik I» in 1957, the Soviet Union triggered a race in the development of rocket technology and the conquest of space. It was only the funding provided by the Federal Defence Ministry for the five military-related institutes⁶⁰ established in the

⁵⁷ This ministry, which was important for Bavaria with its limited energy sources, was renamed the Federal Ministry for Nuclear Energy and Water Resources in 1957, and Federal Ministry for Scientific Research in 1962. It was given its title of Federal Ministry for Education and Science in 1969. In 1994, it merged with the Federal Ministry for Research and Technology, established in 1972, under the name of Federal Ministry for Education, Science, Research and Technology and has borne the name of Federal Ministry for Education and Research since 1998.

⁵⁸ K. BORCHARDT, *Zur Geschichte des bayerischen Staatsministeriums*, pp. 25, 20.

⁵⁹ Entwurf eines fünften Nachtrags zum Bundeshaushaltsplan für das Rechnungsjahr 1956. Einzelplan 14 für den Geschäftsbereich des BM für Verteidigung, in BayHStA, MWi 12646.

⁶⁰ Initially, the Ernst Mach Institute for High-Speed Dynamics (EMI) in Freiburg and the Institute for the Chemistry of Propellants and Explosives (ICT) in Pfinztal, both founded in 1959, worked exclusively on commissions from the Defence Ministry. Additional Fraunhofer Institutes were established in the following areas: Electro-materials (IEW) in Freiburg (after 1970: Fraunhofer Institute for Applied Solid State Physics / IAFP, after

years between 1957 and 1963 that made it possible for the Fraunhofer Society, which was not included in federal basic funding until 20 years after its foundation, to keep its head above water. From the late 1950s to the end of the 1960s, defence research made up more than fifty per cent of its overall budget. West Germany's defence ministers not only supported research centres but also provided massive financing for new industrial research institutions. In this way, Ludwig Bölkow's medium-sized aircraft construction company had the industrial and technological politics of the CSU minister to thank for its «meteoric ascent» and it developed into Germany's largest aeronautics and armaments concern. When the Stuttgart airport terminated its contract with the enterprise in spring 1957, the Bavarian state government offered Bölkow several locations. The property of the former aeronautics research institute in Munich, that was administered by the Federal Finance Ministry, and the neighbouring airfield at Neubiberg offered possibilities for test flights⁶¹.

Bavaria had to really splash out to finance the construction of the first nuclear research reactor in the Federal Republic and the establishment of an internationally leading research centre near Munich. However, research and technology did not strain the Bavarian budget to the same extent as in the competing state of Baden-Württemberg and, even more, North Rhine-Westphalia. Within the Federal Republic, Bavaria carried out a much smaller portion of major nuclear research⁶². Following his return from internment at Farm Hall in England in spring 1946, the Munich University offered the nuclear scientist Heisenberg a chair and the American military government also strongly supported his appointment. However, Heisenberg, who had grown up in the Bavarian capital, initially collected a group of renowned nuclear physicists around him at his Max Planck Institute in Göttingen – the former Kaiser Wilhelm Institute for Physics in Berlin-Dahlem – that had been re-established in 1946. In spite of the tragedy of Hiroshima and Nagasaki, the Nobel Prize

1978 IAF), Aero-biology (Iae) in Graftschaft / Schmallenberg (after 1974 Fraunhofer Institute for Toxicology and Experimental Medicine), Radio-Meteorology and Maritime Meteorology (IRM) in Hamburg (after 1975, Research Group for Radio-Meteorology). See: <http://www.fraunhofer.de/ueberuns/profil/chronicle>.

⁶¹ In 1961, the federal government established and financed the Industrieanlagen-Betriebsgesellschaft mbH (IABG) in Ottobrunn for the entire aeronautics industry and Defence Ministry as the central analysis and test establishment and also made it available to Bölkow. This resulted in a considerable increase in research capacity for Bavaria, H. TRISCHLER, *Nationales Innovationssystem und regionale Innovationspolitik*, pp. 146 f.

⁶² *Ibidem*, p. 148.

laureate of 1932 considered – absolutely discredited – nuclear energy to be the key for West Germany's industrial recovery and pushed for the start of nuclear research. Nuclear energy developed surprisingly quickly into a perspective for economic growth. The change in the political perception – not, however, in the eyes of the public – was in full swing in West Germany at the end of 1953 when the US President Dwight D. Eisenhower introduced his programme for the peaceful use of nuclear energy – such as the production of electricity – «Atoms for Peace» at the General Assembly of the United Nations. The nuclear energy debate rapidly gained momentum in 1952 when it could be seen that an end to allied bans was approaching. In the same year, the DFG introduced a Committee for Nuclear Physics – headed by Heisenberg – that called for the establishment of a governmentally financed centre for reactor research. In November 1952, when Heisenberg introduced his «atomic pile» reactor project operated on the basis of natural uranium, this scientific star made it clear to the Federal Economics Minister Erhard that, as project leader, the only possible location he could consider was Munich. At the same time, Bavaria improved the chances for the establishment of a research reactor through the establishment of nuclear physics studies at the Munich Institute of Technology (TH). Following the appointment of Heinz Maier-Leibnitz in 1952, the TH – since 1970, Technical University (TU) – had developed into a centre for education and research in nuclear physics in a very brief period. The physicist had been taken to the USA by the American military government in 1945 where he collaborated in that country's boom in nuclear research. In spite of the energy-supply problem having been solved, the politics and the business sectors still feared the possibility of a shortage of energy in 1952/53. However, until the 1960s, the majority of the population and those in the economy did not associate the term «nuclear energy» with progress or the development of a new source of energy, but with a threat and war. Although «the model of an industrialisation supported by science and technology» hardly met with consensus in Bavaria, which was still strongly characterised by agriculture, the expectations on the industrial effects of a research centre became ever stronger. In October 1953, the Council of Ministers – on the initiative of Bavaria's Economics Minister Hanns Seidel – passed a bill for the establishment of the first reactor research station in the Federal Republic⁶³.

⁶³ *Ibidem*, pp. 148 ff., 152 f.

Although Chancellor Adenauer, who had made the internationally sensitive question of the Federal Republic's entry into nuclear energy a top-priority matter, and the responsible Economics Minister firmly supported Karlsruhe as the location for the nuclear reactor, in June 1955 the Bavarian Council of Ministers – governed by the social democrats at that time – decided to make available the six million marks Heisenberg had calculated as being necessary for the new construction of the Max Planck Institute (MPI) for Physics, and an additional three million for a research reactor. Together with the Upper Bavarian government, Heisenberg had decided on a suitable site for his institute between Unterföhring to the north of Munich and the university that was located ten kilometres away. In October, the Max Planck Society decided to transfer the institute to Munich-Freimann where it began operating in 1958 and subsequently divided into four subsidiary institutes⁶⁴, with independent research profiles and a high level of international renown, in the 1960s. At the International Nuclear Conference in Geneva in 1955, Maier-Leibnitz and Bavaria's Education Minister informed themselves about the conditions for obtaining a research reactor that was offered by the USA within the framework of «Atoms for Peace». At the third meeting of the Bavarian Nuclear Commission, held in June 1965, the «atom minister» Strauß promised financial support for the Munich project. Maier-Leibnitz was granted full authority to hold negotiations on the purchase of a reactor in the USA and to conclude a contract for Bavaria. Together with Strauß, the physicist signed a purchase contract with the American AMF Atomics Inc. company on June 21. The major portion of the costs – 1.9 million in terms of marks – was borne by the USA government as part of its «Atoms for Peace» programme. Bavaria's taxpayers had to come up with more than ten million marks for the construction and equipment of the research reactor, which started operating at the end of October 1957, and the laboratory at the Munich Institute of Technology⁶⁵.

The calculating Bavarian Education Minister's research vision fulfilled itself over the long run when the second leading personality from the Max Planck Society – after the scientific magnet Heisenberg – Adolf Butenandt came

⁶⁴ Extraterrestrial Physics (MPE), Astrophysics (MPA), Quantum Optics (MPQ), Plasma-physics (IPP).

⁶⁵ The condition for the delivery of fuel rods by the US government was the replacement of the allied ban Law no. 22 by a federal law. As the introduction of the law found no majority on July 2, 1957, the Bavarian Landtag passed a provision nuclear law «in a kind of legislative railroading», H. TRISCHLER, *Nationales Innovationssystem und regionale Innovationspolitik*, pp. 153-156.

to Munich from Tübingen. With the Nobel Prize laureate (1939), who was regarded as being the most likely candidate to succeed Otto Hahn as president of the MPG, the research organisation was drawn more and more to Munich. Bavaria's Education Ministry hoped that Butenandt would attract additional institutes to the south-east of the Federal Republic as he had a concept for a model for the future with a local concentration of Max Planck Institutes near a major university. The attraction of the Bavarian capital was due, to a large degree, to the size and reputation of its universities as well as its rapidly growing importance as a location for extra-university research. Berlin and Munich were the only German cities with both a university and an institute of technology. In the years between the wars, Germany's scientists had been concentrated in Berlin and Munich and the relationships between the research institutions in both cities were traditionally very close. Almost all institute heads, especially those of the establishments that had moved to the Bavarian capital after the war, had had their scientific education in Munich and had formed social networks. In addition, in the 1950s, the government, universities, and businesses in Bavaria were prepared to shoulder extreme financial burdens in their efforts to lure renowned experts as scientific and research attractions – a further example was Konrad Lorenz, the director of the Max Planck Institute for Ethology. When Butenandt accepted the position as chair of physiological chemistry at the Faculty of Medicine of the Munich University in autumn 1953, the Bavarian state government provided an extraordinary budget of DM 5.8 million for two institute buildings and an additional 2.5 million for the two following years. That was almost half the amount that Bavaria made available for the reconstruction of the Ludwig Maximilian University in 1953. During Butenandt's presidency (1960 to 1972) the MPG presidential office was transferred to Munich in 1961 followed, in 1968, by the general administration. The Bavarian First Minister Seidel (1957-1960) is given most of the credit for the transfer. Influential Bavarian industrialists, including the President of the Bavarian Central Bank Max Grasmann who was also involved in the financial support of the Fraunhofer Society, as well as the MPG senator and president of the Bavarian Union of Industry Otto Seeling, strongly urged the transfer of the centre of gravity of the MPG⁶⁶.

In spite of its limited financial means, the Bavarian state government spared no expense when it came to research politics. Extra-university

⁶⁶ *Ibidem*, pp. 187 ff., 190 f.; F.-Ch. ZEITLER, *Der Beitrag des bayerischen Finanzdienstleistungsgewerbes*, p. 197 ff.; St. DEUTINGER, *Vom Agrarland zum High-Tech-Staat*, pp. 112-148, 228-233.

research institutions were established in the metropolitan area of Munich with the help of ERP subsidies, support from industry and the rising state revenues resulting from the growing nationwide economic power. By making targeted investments in those research areas considered promising for the future – and in scientific celebrities – Bavaria's capital made its mark as a centre of extra-university research. The Bavarian government's chief priority was to strengthen Munich's growing reputation as an internationally important scientific location in the area of biochemistry that was considered to be especially dynamic at the time. Butenandt's MPI, which was founded in 1972, formed the core of the biochemistry centre in the south of the city and developed into one of the leading biology and gene technology pools in the world. However, local scientists had already aimed at the establishment of centres of excellence in the field of basic research in the 1950s and 1960s⁶⁷.

The active economic and subsidy policy of the Bavarian government, using ERP means, focussed on the industrial and energy sectors, and defence technology as well as aeronautics and astronautics. The politically-driven process to catch up and become Germany's most strongly growing economic region, as well as a very important scientific and research location, was closely connected to the continuous measures undertaken to expand and improve the energy supply (nuclear energy, petroleum).

⁶⁷ H. TRISCHLER, *Nationales Innovationssystem und regionale Innovationspolitik*, pp. 189-193.

Mediocredito Trentino-Alto Adige and its Role in Promoting Entrepreneurship in Trentino and South Tyrol (1954-1972)

by *Cinzia Lorandini*

I. CREDIT AND DEVELOPMENT: A BRIEF INTRODUCTION

The relationship between credit and development is often discussed in economics and economic history, and very different positions have been taken up on the matter. In his early theoretical reflections, Joseph A. Schumpeter assigned a central role to credit as an instrument to create for the entrepreneur the purchasing power necessary to introduce new productive combinations¹. The debate has been stimulated more recently by the analyses of Raymond W. Goldsmith, who has emphasised the existence of a generic positive correlation between financial structures and development, without, however, asserting a strict causal relationship between them². The literature has also been enriched by a series of historical-economic studies on national cases which have explored the relationship between financial systems and processes of industrialisation. These studies have put forward different interpretations of the role performed by financial markets and intermediaries in development trajectories. The proponents of the substantial adjustment by financial structures to the growth of the real economy are opposed by those who assert the propulsive role of the financial system, and particularly of banks. Outstanding among the latter is Alexander Gerschenkron, who has advocated German-style mixed banks as substitutes for entrepreneurship in late development countries. Yet others, among them Rondo Cameron, have adopted a less

Translated by Adrian Belton

¹ J. SCHUMPETER, *Teoria dello sviluppo economico*, Firenze 1971, pp. 105-125.

² R. GOLDSMITH, *Financial Structure and Development*, New Haven CT - London 1969. See also the pioneering works by R.I. MCKINNON, *Money and Capital in Economic Development*, Washington DC 1973 and E.S. SHAW, *Financial Deepening in Economic Development*, New York 1973. For a more recent study, which draws on Goldsmith's analyses, see A. DEMIRGÜÇ-KUNT - R. LEVINE (eds), *Financial Structure and Economic Growth. A Cross-country Comparison of Banks, Markets, and Development*, Cambridge MA 2001.

forthright position where financial systems may perform a positive, neutral or negative function in economic growth³. The theme of the relationship between credit and development therefore seems bound to remain a fertile field of investigation in which it is difficult to achieve definitive results, given the complexity of the variables, not solely economic, which influence the processes of growth and development and prevent any single interpretation of the intensity and direction of the relationship between the financial and productive systems.

It is all the more difficult to determine the contribution made to the growth of a regional economy by a single credit intermediary such as the one examined here: the Istituto per l'Esercizio del Credito a Medio e Lungo Termine nella Regione Trentino-Alto Adige (in short 'Mediocredito Trentino-Alto Adige'), a public institute established by law in 1953 to issue medium/long-term loans to small and medium-sized firms in the region. Nonetheless, analysis of the management of Mediocredito Trentino-Alto Adige may afford interesting insights into how the furnishing of new financial resources to productive activities, and the different criteria adopted for their allocation, may have boosted or modified the growth and development trajectories of a region at that time marginal in the Italian economy – especially Trentino⁴ – and which would undergo its «economic miracle» a decade later than the rest of central-northern Italy⁵.

II. MEDIOCREDITO TRENINO-ALTO ADIGE AND ITS SPECIFIC FEATURES

Besides Mediocredito Trentino-Alto Adige, ten other credit institutions of a similar nature began operations in the regions of the Centre and North

³ R. CAMERON, *Banking in the Early Stages of Industrialization. A Study in Comparative Economic History*, New York 1967 and R. CAMERON (ed.), *Banking and Economic Development. Some Lessons of History*, London - Toronto 1972; A. GERSCHENKRON, *Economic Backwardness in Historical Perspective*, Cambridge 1962.

⁴ Some years before the creation of Mediocredito Trentino-Alto Adige, the director of the Trento branch of the Bank of Italy described the province of Trento as a «grey zone of economic-social hardship» set «in the midst of the richest and most economically developed areas of Northern Italy»: Archive of the Trento branch of Bankitalia, *Relazione sull'andamento economico della Provincia di Trento nell'anno 1948*, p. 9.

⁵ A. BONOLDI, *Tra ritardo e sviluppo: aspetti dell'economia del Trentino-Alto Adige nel secondo dopoguerra*, in A. BONOLDI - A. LEONARDI (eds), *La rinascita economica dell'Europa. Il piano Marshall e l'area alpina*, Milano 2006, pp. 199-201. On the regional economy in the second half of the nineteenth century see A. LEONARDI, *L'economia di una regione alpina*, Trento 1996, pp. 317-338.

during the 1950s⁶. According to the provisions of the 1936 banking law, they belonged among the institutes of special credit which, in that they advanced medium-term credit, were not allowed to collect savings from the public and therefore had to finance themselves by issuing bonds⁷. The attention of these Mediocredito institutes would have to focus on the credit needs of smaller firms, whose long-term financing had hitherto been neglected by the financial system, given their exclusion from the stock exchange and the scant consideration given to them by the other special credit institutes, which were more inclined to finance large firms. The financial requirements of the small and medium-sized firms would at last be served by dedicated institutes which, because their operations were restricted by law to single regions, would be able to develop better knowledge and understanding of the needs of local firms. Regulated by Law 445 of 1950, the creation of these Mediocredito institutes only received concrete impetus after enactment of a second legal provision, Law 949 of 1952, which, by instituting Mediocredito Centrale endowed with a government fund, addressed the crucial problem suffered by the regional institutes of acquiring financial resources. By resorting to Mediocredito Centrale, they could obtain resources at below-market rates through rediscounts, loans, or bond issues⁸.

Within the normative framework regulating the regional Mediocredito institutes, Mediocredito Trentino-Alto Adige had a number of distinctive features which were reflected in its management, and which were closely bound up, on the one hand, with the institutional context in which the institute operated and, on the other, with the specific characteristics of the regional credit system. This heightens the interest of a case which, besides enabling comparison with the operations of similar institutes, has

⁶ The first of them to be created was the Mediocredito institute of Piedmont in 1952. This was followed by the Mediocredito institutes of Lombardy, Trentino-Alto Adige, Umbria and Lazio, and then by those of Marche, Emilia-Romagna, Venetia, Tuscany, Liguria and Friuli.

⁷ On the role of the industrial credit institutes, see the article by Andrea Leonardi in this volume. See also P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo del credito mobiliare negli anni del governatorato Menichella*, in F. COTULA (ed.), *Stabilità e sviluppo negli anni Cinquanta* (Collana storica della Banca d'Italia, 3: Politica bancaria e struttura del sistema finanziario), Roma - Bari 1999, pp. 309-589; G. PILUSO, *Gli istituti di credito speciale*, in *Storia d'Italia. Annali*, 15, Torino 1999 and M. DE CECCO - G. FERRI, *Le banche d'affari in Italia*, Bologna 1996.

⁸ On the activities of Mediocredito Centrale see P. PELUFFO, *Storia del Mediocredito Centrale*, in collaboration with V. GIACCHÉ, Roma - Bari 1997.

some distinctive features. Moreover, for a certain period, Mediocredito Trentino-Alto Adige recorded the largest amount of loan issues in the Mediocredito institutes system, despite the fact that it operated in a marginal economy.

Unlike the other credit institutes, which generally arose with large-scale holdings by banks, and sometimes insurance companies, Mediocredito Trentino-Alto Adige had an extremely small number of participants. There were only five stakeholders, of which three alone belonged to the banking system: the Cassa di Risparmio di Trento e Rovereto and the Cassa di Risparmio della Provincia di Bolzano, each with around thirty branches in their province, and the Banca di Trento e Bolzano, the only credit institution with a network of branches covering the entire region. The other two stakeholders were the Italian state and the regional government of Trentino-Alto Adige, which, moreover, were the dominant partners. Thanks to this high level of public participation, Mediocredito Trentino-Alto Adige possessed an endowment fund much larger than those of the other Mediocredito institutes: it amounted to 1,600 million lire, of which 50% was furnished by the Treasury and 28% by the regional government⁹. Although the Treasury frequently contributed to the endowment funds of Mediocredito institutes, the financial presence of the regional government in Mediocredito Trentino-Alto Adige was decidedly a novelty¹⁰, and it was due to the particular legislative and administrative powers devolved to the Region by the 1948 Special Statute of Autonomy in fulfilment of the De Gasperi-Gruber Agreement on the protection of German-speaking minorities¹¹. Also to be pointed out is that the presence of Treasury representatives on the boards of the Mediocredito banks did not entail any interference in managerial decisions. And this further accentuated, in the case of Mediocredito Trentino-Alto Adige, the regional government's decision-making power.

⁹ AMTAA (Mediocredito Trentino-Alto Adige Archives), *Statuto*, art. 4. There was a similar ratio between contributions to the endowment fund of the institute's agricultural credit section (*ibidem*, art. 35).

¹⁰ The regional government also funded the Friuli Mediocredito institute, but began to do so only some time after its institution: G.N. MAZZOCCO, *I mediocrediti regionali. Caratteristiche operative*, Milano 1980, pp. 23, 39.

¹¹ The regional government had primary legislative powers in matters concerning agriculture, crafts and tourism, and secondary ones concerning commerce and industry. It could also legislate on land credit institutes, savings banks and rural banks, as well as regional credit institutions.

The scant involvement of banks was due to the particular structuring of the regional credit system, in which the institutes which participated in the creation of Mediocredito (making their outlying organisations available to it) were the only local banks of significant size. Extraneous to Mediocredito Trentino-Alto Adige were the cooperative credit banks, i.e. the three people's banks operating with only a few branches in the province of Bolzano (Bolzano, Merano, Bressanone), and the more than two hundred rural banks and Raiffeisenkassen, single-branch agencies serving the smaller towns in the valleys and which collected large amounts of savings in the two provinces¹².

Besides the small number and distinctive nature of its stakeholders, a further feature that distinguished Mediocredito Trentino-Alto Adige was its involvement in the primary sector. Attached to the Institute, in fact, was an agricultural credit section (Sezione Autonoma per il Credito Agrario di Miglioramento, SACAM); a structure which, although it performed a secondary role within Mediocredito – its endowment fund was four times less than that of the Institute – was not matched in the other regional institutes. The creation of SACAM, which supplemented the operations of other credit institutes furnishing medium/long-term financing to agriculture, highlights the importance given to the primary sector by regional economic policies¹³. For a large part of the 1950s, in fact, interventions by the local public authorities gave priority to the agricultural sector, assigning an entirely marginal role to industry. Participation by the regional government in Mediocredito therefore anticipated, in certain respects, the change which came about at the end of the decade when it was realized that also the development of industry should be supported. The regional administration saw Mediocredito Trentino-Alto Adige as a suitable instrument with which to support small and medium-sized firms financially, and especially to foster new-job creation, thereby tackling the problem of rural underemployment, unemployment, and the consequent emigration that afflicted Trentino in particular.

The main actions undertaken by the regional government to support industry began in 1957, whereafter Mediocredito Trentino-Alto Adige took second place only to Mediocredito Lombardo in the volume of

¹² On the ubiquitous presence of cooperative credit in Trentino-Alto Adige, despite the severe repercussions of the pre-war crisis, see A. LEONARDI, *Una stagione nera per il credito cooperativo: casse rurali e Raiffeisenkassen tra 1919 e 1945*, Bologna 2005.

¹³ F. BERTOLDI - I. BORTOLOTTI, *La spesa della Regione nell'economia del Trentino-Alto Adige*, in «Economia Trentina», 17, 1968, 1, pp. 29-62.

its lending. The credit facilities introduced by the regional government evidently gave a particular boost to the Institute's activities, enabling it to reduce the burden on borrowers, and allowing it, thanks also to the magnitude of its endowment fund, to operate on a broader scale than the other institutes. It is no coincidence that the other regional Mediocredito institutes – except for Mediocredito Lombardo, which was a case apart¹⁴ – saw their business volumes expand after enactment of Law 623 of 1959 (the so-called «Colombo Law»). This legislation not only relaxed the rules on the permissible amount and duration of loans to firms but also further increased the endowment funds of certain Mediocredito banks. Above all, it introduced state-financed relief for interest on loans to small and medium-sized firms, thus inaugurating a «high incentive» regime which further reduced the interest rate in comparison to the one, already moderate, permitted by Mediocredito Centrale refinancing¹⁵. This also had a positive impact on loans by Mediocredito Trentino-Alto Adige, which was simultaneously able to take advantage of regional facility provisions.

III. THE SOURCES OF FINANCING

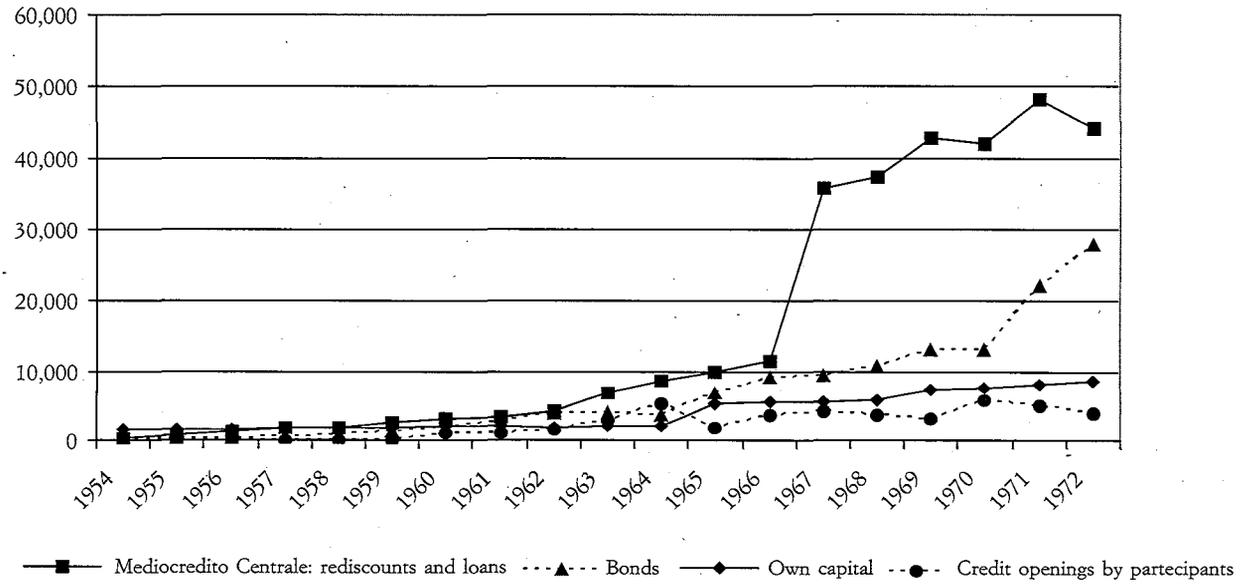
The distinctive nature of the management of Mediocredito Trentino-Alto Adige clearly emerges from analysis of both its sources of financing and its lending. The capacity to mobilize resources and the uses made of them, moreover, are two aspects which warrant particular attention when evaluating Mediocredito's incisiveness in promoting local entrepreneurship.

Given that, as said, Mediocredito was not permitted to collect savings among the public, it could resort to four possible sources of financing: its own capital, credit openings by the participants, means furnished by Mediocredito Centrale, and bond issues. Preliminary inspection shows that the Institute's own resources, consisting in its endowment fund and accumulated reserves, assumed particular importance in the first years of activity (Graphs 1-2). Their amount becomes evident if compared with

¹⁴ On Mediocredito Lombardo see G. TAGI - F. SCHIVALOCCHI, *L'Istituto di credito per il finanziamento a medio termine alle medie e piccole imprese della Lombardia (Mediocredito regionale lombardo)*, in *La Cassa di risparmio delle province lombarde nel cinquantennio 1923-1972*, vol. 2, Milano 1973, pp. 1433-1469 and especially S. ZANINELLI - P. CAFARO - A. LOCATELLI (eds), *La banca delle imprese. Storia del Mediocredito lombardo*, 2 vols, Roma - Bari 2003-2007, and A. LOCATELLI, *Il credito per l'imprenditorialità diffusa. L'esperienza del Mediocredito Regionale Lombardo (1953-1991)*, Milano 2006.

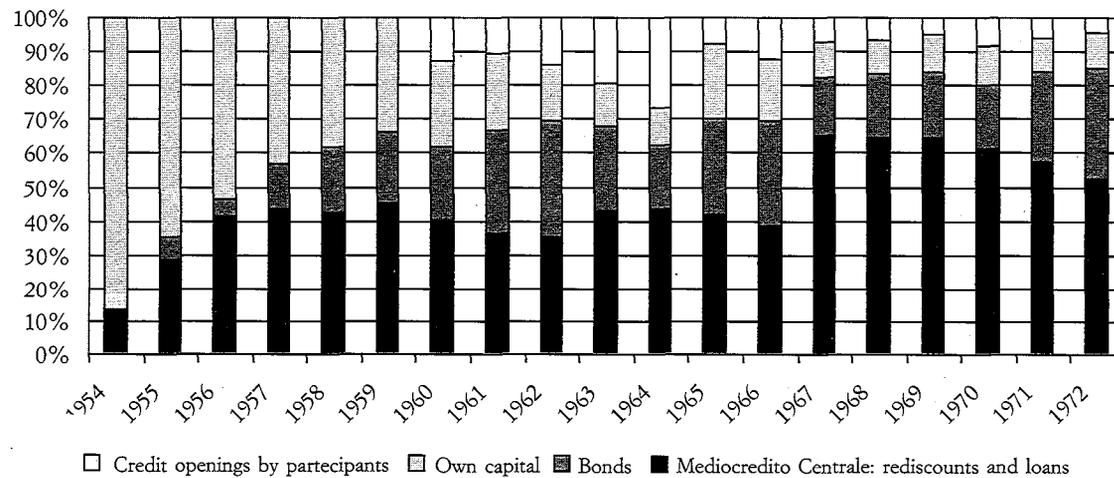
¹⁵ M. DE CECCO - G. FERRI, *Le banche d'affari in Italia*, Bologna 1996, pp. 162-164.

Graph 1. *Institute: sources of financing (millions of lire, 1954-1972)*



Source: AMTAA, *Bilanci*, 1954-1972.

Graph 2. *Institute: sources of financing (%)*, 1954-1972)



Source: AMTAA, *Bilanci*, 1954-1972.

the much more limited capital of the other Mediocredito banks: suffice it to point out that, in 1955, Mediocredito Trentino-Alto Adige accounted for more than one-third of the paid-up capital and reserves held by the regional Mediocredito institutes as a whole. The small number of participating banks was reflected in the Institute's scant recourse to credit openings by its participants, which instead represented, at least until the end of the 1960s, the principal source of financing for institutes like those of Lombardy and Venetia¹⁶. Already at the end of the 1950s, however, Mediocredito Trentino-Alto Adige was relying on Mediocredito Centrale as its main source of funding. Between 1956 and 1966, around 40% of its resources came from Mediocredito Centrale, and the percentage exceeded 60% in 1967, when the emergency caused by the floods of the previous year induced the Institute, like the other regional Mediocredito institutes, to intensify its recourse to Mediocredito Centrale¹⁷. The second most important source of financing was, from the 1960s onwards, the issue of bonds, which except for a first subscription by Mediocredito Centrale, had among its main subscribers the participating banks and the rural banks in the region, with a substantial intervention, in 1965, by Mediocredito Lombardo as well¹⁸. Some government provisions favoured absorption of the bonds by the market, but they were not enough to give the Mediocredito banks autonomy in their acquisition of resources – as shown by the case of Mediocredito Trentino-Alto Adige, which never collected more than 35% of its funds through bond issues¹⁹.

The case of SACAM was different. Because it was unable to access financing from Mediocredito Centrale, it initially had to rely on its own

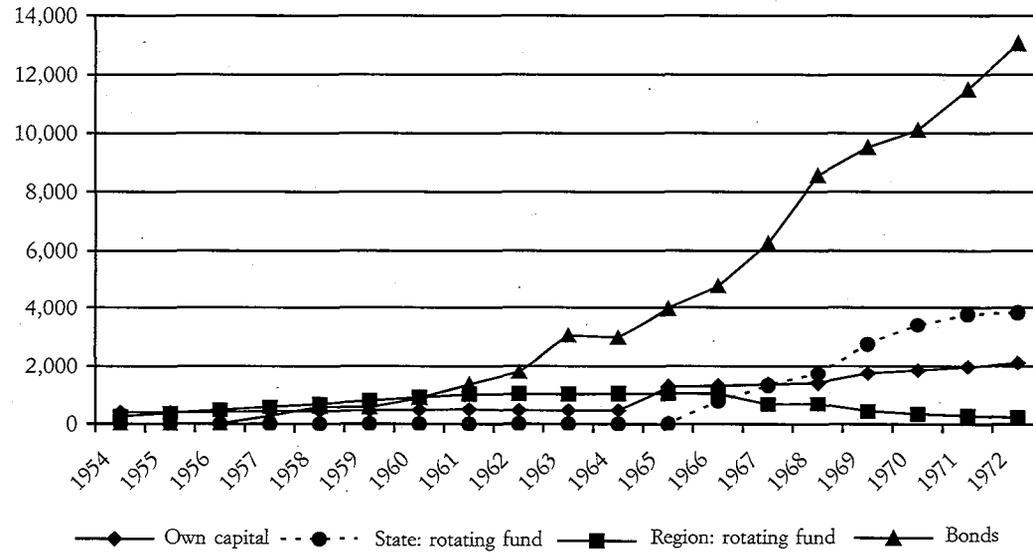
¹⁶ G.N. MAZZOCCO, *I mediocrediti regionali. Caratteristiche operative*, Milano 1980, p. 38, note 47.

¹⁷ The form taken by recourse to Mediocredito Centrale changed, however. Hitherto it had been based on rediscount, which, given its function to supplement the resources of the Institutes, was effected for an amount and a duration less than those of the credit surrendered. From 1967 onwards, Mediocredito Centrale primarily intervened by granting loans, of longer duration than the rediscounts, but disbursed at a full rate rather than a facilitated one.

¹⁸ P. CAFARO, *Il Mediocredito Lombardo di Giordano Dell'Amore (1954-1980)*, in S. ZANNELLI - P. CAFARO - A. LOCATELLI (eds), *La banca delle imprese. Storia del Mediocredito lombardo*, vol. 1: *Uno sviluppo possibile*, Roma - Bari 2007, pp. 3-174, in particular p. 6.

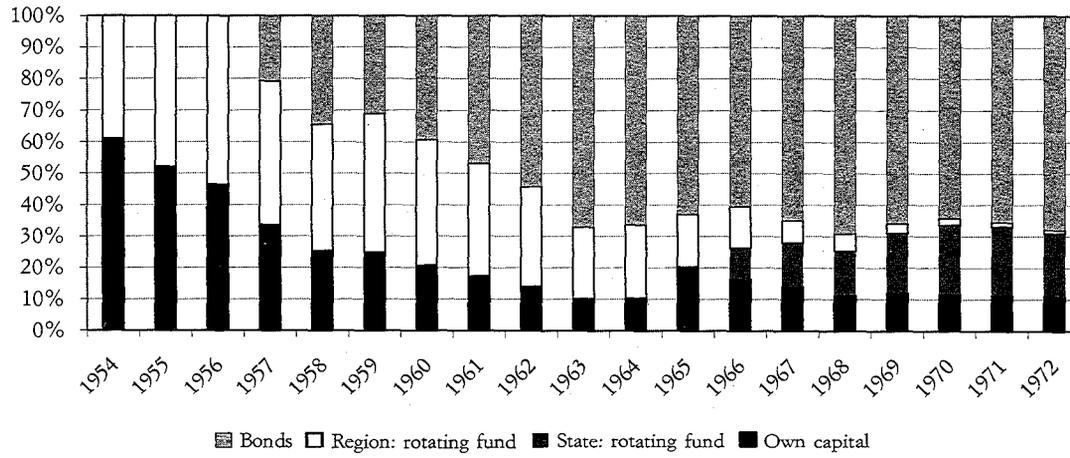
¹⁹ In 1964 the bonds issued by the Mediocredito banks were equated to mortgage bonds. They were admitted by law to the stock market and included among the securities on which the central bank was allowed to grant advances. Credit institutes, insurance companies and non profit-making bodies were also authorised to invest in the bonds issued by the Mediocredito institutes: *ibidem*, p. 111.

Graph 3. SACAM: sources of financing (millions of lire 1954-1972)



Source: AMTAA, *Bilanci*, 1954-1972.

Graph 4. SACAM: sources of financing (% , 1954-1972)



Source: AMTAA, *Bilanci*, 1954-1972.

capital and on a rotating fund made available by the Region. In the 1960s, SACAM's main source of financing was the issue of bonds, which thanks to large subscriptions by the rural banks accounted for more than 60% of the resources collected, whilst the rotating fund made available by the state in 1966 performed a merely supplementary function (Graphs 3-4).

Bearing in mind the differing capacities to acquire funds of the Institute and SACAM, one may say that Mediocredito Trentino-Alto Adige mobilised a significant amount of resources for the local productive system by importing financial means from outside, mainly via Mediocredito Centrale, and by channelling the resources collected via bond subscriptions by local credit institutions to medium/long-term loans. This served to adjust the low loans/deposits ratio of the regional credit system, which placed it at the bottom of the national classification table²⁰. Because of the limited possibilities for industrial lending at local level – especially in the small peripheral towns – a large part of the funds administered by the savings banks and rural banks, which held around 70% of all deposits, in fact ended up in securities or interbank accounts, thereby contributing to the exit of funds from the region. Intervention by Mediocredito made it possible to recover, at least partly, such funds to meet the needs for medium/long-term financing of the local productive system.

IV. THE LENDING ACTIVITIES

1. *An overview*

The industrial sector received the majority of the resources disbursed by Mediocredito. Analysis of lending by the Institute and SACAM shows, in fact, that 80% of the loans granted between 1954 and 1972 were to industry, 14% to agriculture, and 6% to commerce and tourism. The Institute's interventions were obviously structured by the legal provisions regulating the activities of the Mediocredito institutes, so that, aside from SACAM, loans were initially restricted to industry, and were then extended to commerce in 1960 and to the tourism-hotel industry in 1966. These were two branches for which, for different reasons, overall restructuring in the region was deemed necessary.

In commerce, burdened by the excessive fragmentation of outlets and in need of rationalisation and the introduction of more modern sales

²⁰ M. ZANE, *Il mercato del credito del Trentino-Alto Adige*, Trento 1968, pp. 211-228.

techniques, progress was rather slow, because during the 1960s, also owing to the weakness of the region's industrial system, the sector would continue to absorb large part of the labour expelled from the countryside. Moreover, interventions in general by the Mediocredito banks in the retail sector, which were regulated by Law 1016 of 1960, were considered to be largely inadequate, because the loans could not be used to purchase or install new structures, but only to renovate and improve existing commercial equipment.

In the tourism sector, infrastructures and accommodation facilities were adjusted to the demands of the new phenomenon of multi-seasonal mass tourism²¹, even if the role of Mediocredito appears, in this context, to have been even more circumscribed than in the commercial sector. This is partly explained by the support furnished to tourism-hotel firms by the land credit institute (Istituto di Credito Fondiario) operating in the region, but an evaluation of the overall contribution of Mediocredito must also take account of the conspicuous financing granted for the construction of ski lifts, which were included in the transport industry. This notwithstanding, commerce and tourism in the strict sense received a decidedly modest amount of resources, which assumed significant proportions only in 1967, in the aftermath of the floods, when 24% of financing was allocated to the two sectors.

The Institute therefore gave priority to the financing of industry, a particularly weak sector of the regional economy which consisted mainly of small and medium-sized firms, often artisanal, and moreover reluctant to take out loans. The few substantial initiatives undertaken in the pre-war period had resulted from a combination of political choices and economic interests. They concerned metallurgical, engineering, and chemicals plants established by national-level companies in the region in order to exploit its low-cost hydroelectric resources. The investments were concentrated mainly in the industrial zone of Bolzano, promoted in the second half of the 1930s by the fascist regime in pursuit of its doctrine of autarky, but also in order to reverse the ratio between the two language groups in Alto Adige/Südtirol, where the German group predominated. Moreover, the province of Bolzano's industrial system comprised a large number of small and medium-sized firms scattered among the smaller towns, so that the size structure of South Tyrolean industry generally matched that of

²¹ A. LEONARDI, *La graduale affermazione del turismo di massa pluristagionale*, in A. LEONARDI - P. POMBENI (eds), *L'età contemporanea. Il Novecento (Storia del Trentino, VI)*, Bologna 2005, pp. 567 ff.

Italian industry as a whole²². Much weaker, instead, was the industrial system of Trentino, where, except for a few manufacturing complexes owned by extra-regional companies – for example, the Michelin and Italcementi plants in Trento, Pirelli in Rovereto, and Ina-Montecatini at Mori – not only was large-scale industry practically non-existent, but also medium-sized firms were under-represented²³. Mediocredito therefore had to intervene in a particularly underdeveloped industrial system, where almost all firms were of small or medium size and therefore fell within its sphere of competence.

2. *Lending by the Institute: dynamics and composition*

The increasing amount of financing granted between September 1954, when lending activity effectively began, and December 1972 highlights the progressive enlargement of the Institute's operations. But the presence of downturns and phases of especial expansion reveals, at the same time, that the dynamics of financing were conditioned by the credit facilities promoted at state and regional level, and by particular conjunctural episodes. This demonstrated, on the one hand, the Institute's dependence on public facilitated provisions, and on the other, its scant capacity to function as an instrument of anti-cyclical policy (graph 5).

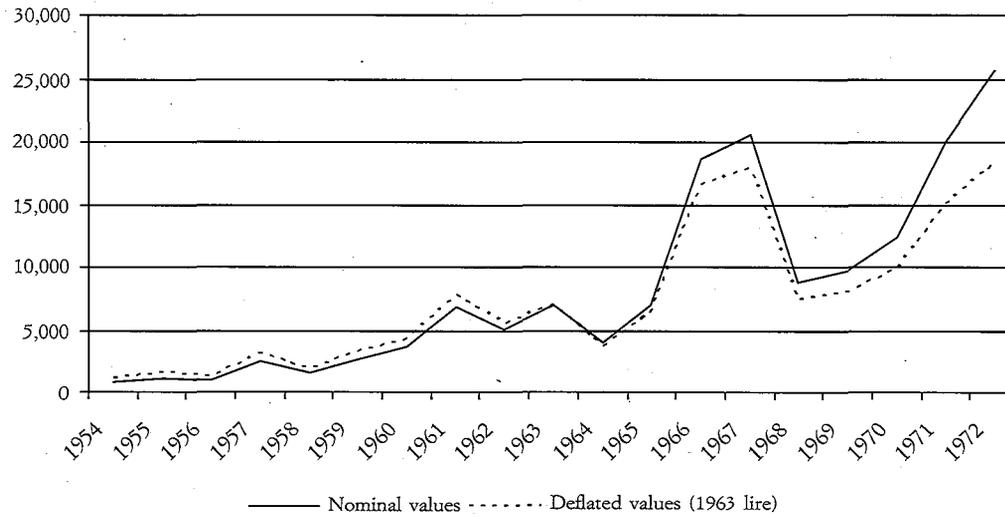
The decisive role of public incentives in the Institute's first years of operations is shown by the eloquent figure that around one half of the loans granted until 1957 were admitted to the public relief on interest anticipated by Law 910 of 1950 containing provisions for the industrialisation of the province of Trento, and by regional Law 16 of 1957²⁴. It was the exhaustion of the funds drawable under the two laws, together with the decrease in investments due to the negative economic conjuncture, that led in 1958 to a first deceleration in disbursements.

²² Archive of the Bolzano branch of Bankitalia, *Note sull'andamento economico nella Provincia di Bolzano. Anno 1958*, pp. 37-38; *Anno 1959*, p. 28.

²³ On the evolution of Trentino industry in the second half of the 1900s see A. BONOLDI, *Ritardo strutturale, crescita, declino. Realtà e problemi dell'industria e della politica industriale trentina del Novecento*, in A. LEONARDI - P. POMBENI (eds), *L'età contemporanea*, pp. 455-486. For a detailed description of the region's industry in the 1950s, see the survey coordinated by Umberto Toschi: *L'economia industriale della regione Trentino-Alto Adige, Trento 1956-1958*.

²⁴ AMTAA, *Bilancio 1957. Relazione del Consiglio di amministrazione*.

Graph 5. *Institute: loans deliberated (millions of lire, 1954-1972)*



Between 1959 and 1963, lending instead increased. It was stimulated by a marked improvement in the national economy – these were the peak years of the Italian ‘economic miracle’ – and by a series of facilitating provisions enacted by the state and the regional government, which between 1960 and 1962 prioritised the financing of new plant installations, rather than the modernisation and extension of existing structures (Graph 6). The activity of Mediocredito Trentino-Alto Adige was favoured mainly by Law 623 of 1959, which, until the 1970s, after repeated prorogation and refinancing, remained the most important of the special laws on which the Institute operated. Investments by small and medium-sized firms in Trentino and South Tyrol also benefited from the extension to the region, in 1957, of the tax relief granted by the «Law for the Mountains» to businesses operating in small towns²⁵.

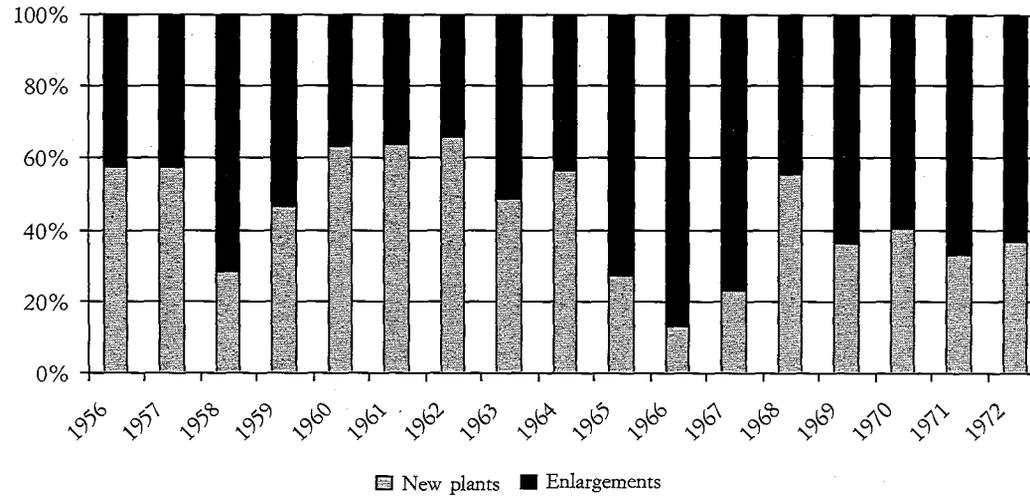
Further stimulus to the expansion of loans came from the regional government, which, as said, at the end of the 1950s launched its first initiatives to support industry. In 1959, with the purpose of encouraging investments in industry and tourism by local entrepreneurs, and to attract risk capital from other regions, authorisation was given for the emission of bearer shares. This provision indirectly stimulated Mediocredito’s activity by incentivising businesses to resort to the Institute to cover the parts of their budgets which exceeded share issues. From the next year onwards, grants were made available for municipalities to purchase and equip industrial areas. Various municipal administrations in Trentino, that of Rovereto in particular, were able to give firms considerable assistance in the construction and development of industrial establishments, and also made large areas of land available for the purpose²⁶. A more direct boost to Mediocredito’s credit activity came from regional Law 10 of 1963, which introduced an annual contribution to the loans contracted by small and medium-sized firms.

In 1964, an abrupt fall in lending by the Institute coincided with the belated advent in the region of the nation-wide economic crisis. This,

²⁵ Law 991 of 1952 or «Law for the Mountains» granted a ten-year exemption on all direct income tax to artisanal and small firms with fewer than 500 workers located in communes with fewer than 10,000 inhabitants, a threshold then raised to 20,000. The relief was also extended to new hotel enterprises and cable-car operators: Archive of the Trento branch of Bankitalia, *Relazione sulla situazione economica in Provincia di Trento. Anno 1960*, pp. 82-83; Archive of the Bolzano branch of Bankitalia, *Note sull’andamento economico nella Provincia di Bolzano. Anno 1962*, pp. 27-28.

²⁶ Archive of the Trento branch of Bankitalia, *Relazione sulla situazione economica in Provincia di Trento. Anno 1960*, p. 93.

Graph 6. Allocation of loans: new plants and enlargements (1956-1972)



Source: AMTAA, *Bilanci*, 1954-1972.

however, affected Mediocredito Trentino-Alto Adige to a lesser extent than the other Mediocredito institutes²⁷. Its lending resumed in 1965, followed by a sudden upsurge due to large-scale intervention for firms damaged by the floods of the autumn of 1966²⁸. In 1966-67, some 61% of the loans made by the Institute were granted under Law 1142 of 1966, which provided the exceptionally favourable rate of 3% for loans to industrial, commercial and tourism-hotel firms damaged by flooding. The government measure, backed by regional Law 18 of 1967, enabled Mediocredito to penetrate the regional credit market further by advancing loans to numerous flood-damaged small firms, many of which would probably not have been financed in normal circumstances because they lacked suitable guarantees, but were in this case funded in consideration of the subsidiary guarantee furnished by the state. Likewise significant is the fact that the loans were not exclusively used for damage repair, because the opportunity was taken to modernise plant and equipment²⁹.

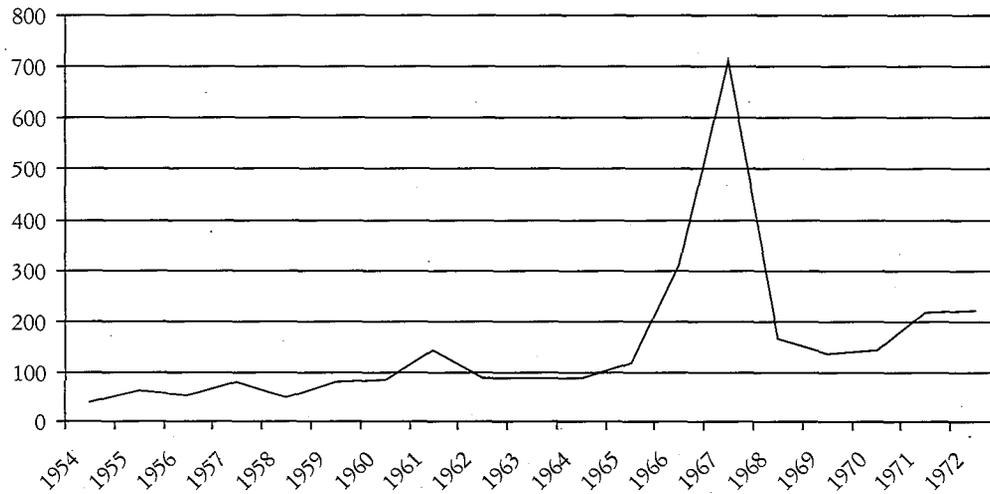
In effect, the marked expansion of loans in the two-year period was due solely to the multiplication of the undertakings financed, compared with a sharp decrease in the average amount granted (Graphs 7-8). It should also be pointed out that, beginning in 1965, a large proportion of the resources had been used to improve and extend plants already in operation, with a particular incidence in 1966-67, and with the sole exception of 1968 (Graph 6). Support for the construction of new factories therefore gave way to the restructuring and consolidating of existing ones. In 1968, despite a downturn in lending – the natural consequence of the exceptional expansion of the previous two years – loans still amounted to more than they did in 1965. After a deceleration in lending in concomitance with the negative economic conjuncture of the late 1960s, a new upsurge was recorded in 1971-72, although it was partly offset by inflation.

²⁷ The decrease in demand for financing amounted to 62% in Lombardy, 59.9% in Tuscany, 53% in Lazio, 49.8% in Friuli, and 39.7% in Trentino-Alto Adige: P. CAFARO, *Il Mediocredito Lombardo*, pp. 104-105.

²⁸ Of little impact, by contrast, was Law 614 of 1966, which introduced credit facilities for small and medium-sized firms in depressed areas and the mountain territories of central and northern Italy. The law only came into effect two years after its enactment, and the funds were rapidly exhausted: P. CAFARO, *Il Mediocredito Lombardo*, pp. 99-100.

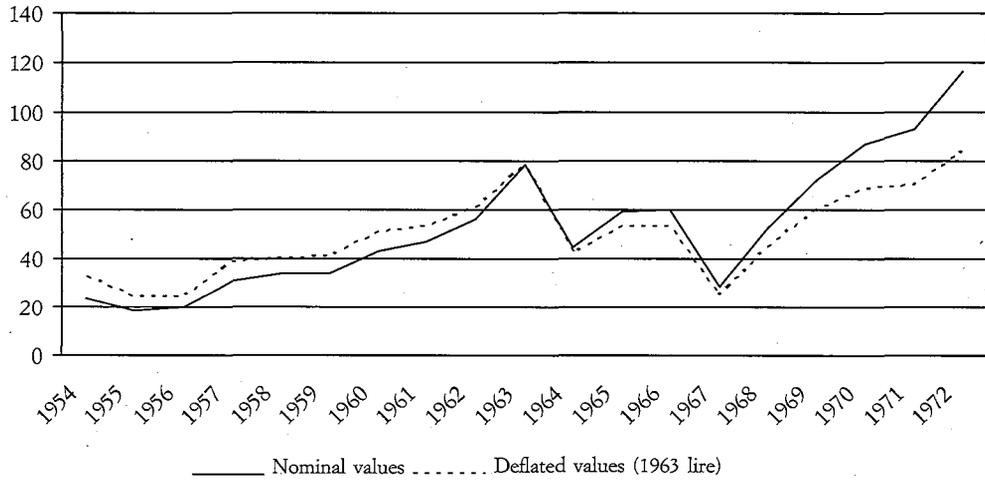
²⁹ Around one-third of the facilitated credit obtained by flood-damaged Trentino firms in 1967 was invested «in technological improvements and innovations and in company expansions complementary to the flood damages»: Archive of the Trento branch of Bankitalia, *Relazione sull'andamento economico della Provincia di Trento. Anno 1967*, p. 21.

Graph 7. Number of loan applications granted (1954-1972)



Source: AMTAA, *Bilanci*, 1954-1972.

Graph 8. Average amount of the loans granted (millions of lire, 1954-1972)



Source: calculations on data from AMTAA, *Bilanci*, 1954-1972.

Some interesting findings also emerge from examination of the sectoral distribution of lending to industry. For example, around 70% of the loans granted between 1954 and 1972 were in favour of six branches of industry: primarily engineering, followed by food, and then at a distance by transport, chemicals, paper and printing, and wood (Table 1). The relative importance of these branches also varied considerably over time (Graph 9). The food industry predominated in the early years. Until 1959, it received more than one-quarter of financing for industry, with a maximum of 40% in 1956, when Mediocredito issued loans to cooperatives and second-level consortia engaged in the storage and processing of agricultural produce so that they could modernise their facilities and rationalise their production processes. In the 1960s, it was engineering firms which received the largest amount of financing, with a 40% maximum in 1962-63, which reflected the increasing importance of engineering in Trentino's economy, especially in terms of employment. The incidence of transport also increased, due to the construction of ski-lifts to develop the tourism sector, and so did that of chemicals. Large part of the financing for the paper industry was concentrated in 1960, when it absorbed more than 40% of loans supporting the expansion of various paper mills and new initiatives undertaken in Riva del Garda and Rovereto by extra-regional industrial groups. The wood industry, although it was a key sector of the regional economy, particularly in the province of Bolzano, received a quota of financing almost equivalent to the paper industry, because the sector's difficulties induced Mediocredito to act with particular caution.

Table 1. *Sectoral distribution of loans to industrial firms (1945-1972)*

Industrial sector	%
Engineering	19.5
Food	15.7
Transport	9.6
Chemicals and rubber	9.5
Paper and printing	8.2
Wood	8.0
Non-metallic mineral products	7.1
Textiles and apparel	6.4
Electricity, gas, water	3.9
Construction and public works	3.8
Mining	2.3
Sundry	6.0

Source: calculations on data from AMTAA, 1954-1972.

3. Loans by the SACAM: dynamics and composition

Until 1961, interventions by SACAM were limited by its shortage of funds (Graph 9). Besides the impossibility of resorting to Mediocredito Centrale for funding, SACAM was excluded from state grants to smallholdings because it operated in a special statute region with primary competence on agriculture. SACAM's activities were mostly supported by facilitated finance furnished by the regional government, and particularly under regional Law 19 of 1953 on the financing of irrigation systems³⁰. A large part of SACAM's loans was also issued to the operators of *masi chiusi*, as expressly stipulated by the Statute and promoted by a special law enacted in 1956 by the province of Bolzano (Circle graph 1). The *maso chiuso*, an institution widespread in South Tyrol, was a farmstead which could only be inherited by a single heir, a system which prevented the division of agricultural property that was instead typical of Trentino. The aim of the Mediocredito's financing in this case was to deal with the problem of the liquidation, by the owner of the *maso*, of the co-heirs' shares.

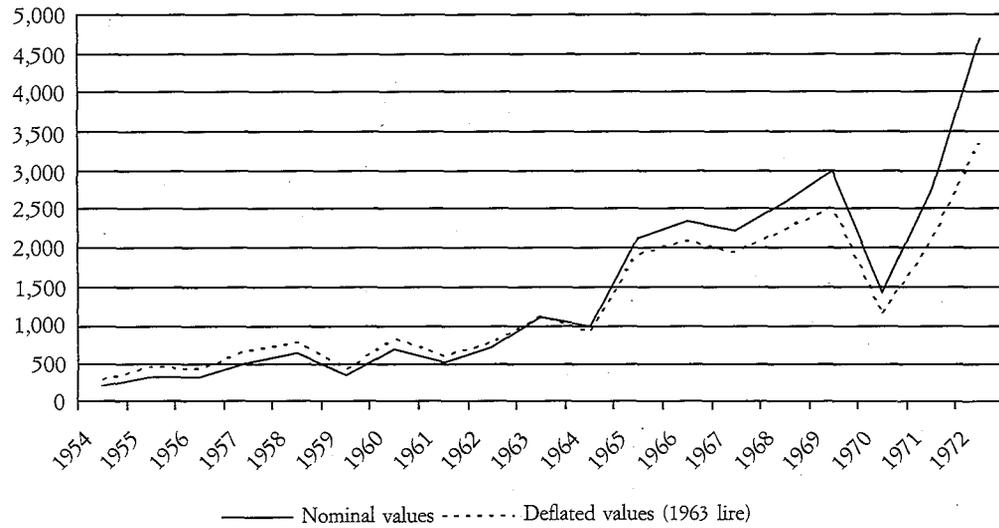
SACAM only took off in the 1960s, when it was able to draw on a series of state benefits covering more than 70% of loans. Fundamental in this regard was the contribution of the two five-year agricultural development plans, the so-called «Piani Verdi» (Law 454 of 1961, and Law 910 of 1966), which flanked Law 590 of 1965 for the formation of peasant smallholdings. The majority of the financing not covered by the state benefits instead continued to be issued to the proprietors of the *masi chiusi*.

4. The territorial distribution of lending

The benefits extended to the *masi chiusi*, which concerned solely operators in Alto Adige, gave rise to a different territorial distribution of lending by the Institute and SACAM in the provinces of Trento and Bolzano. The Institute's financing was predominantly directed to the province of Trento, which received 70% of loans until 1961 and 63% until 1973. The difference did not depend on the rate of granting of loan applications – which, in fact, was slightly higher for Alto Adige – but instead reflected the amount of applications made in the two provinces. In the

³⁰ On regional schemes for the agricultural sector, and particularly on the dynamics of Trentino agriculture in the second half of the 1900s, see C. LORANDINI, *L'agricoltura trentina dalla coltivazione promiscua alla specializzazione produttiva*, in A. LEONARDI - P. POMBENI (eds), *L'età contemporanea*, pp. 496 ff.

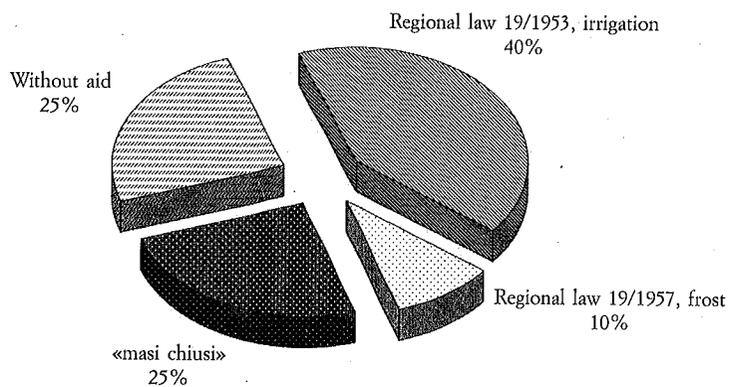
Graph 9. SACAM: loans granted (millions of lire, 1954-1972)



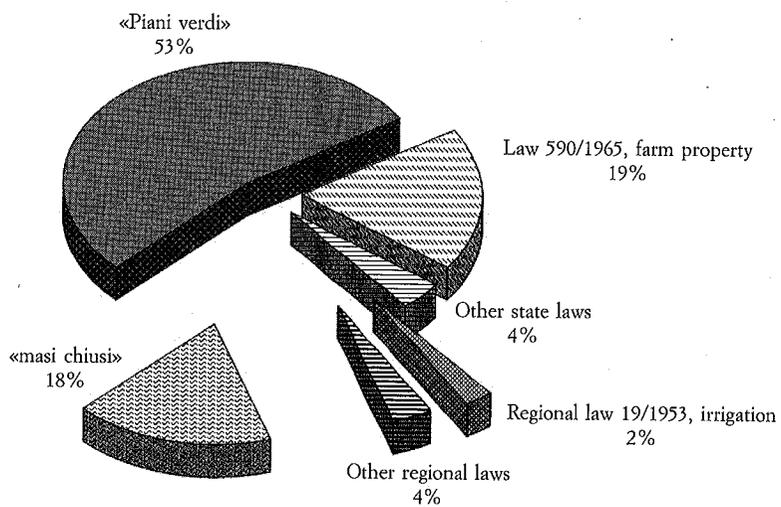
Source: AMTAA, *Bilanci*, 1954-1972.

Circle graph 1. SACAM: allocation of loans

1954-1961



1962-1972



Source: AMTAA, *Bilanci*, 1954-1972.

case of SACAM, by contrast, in the period 1957-1971, eight financial years saw a net prevalence of the province of Bolzano, and six a substantial equivalence between the two provinces.

The issue, which arose from the first years of Mediocredito's activity, did not escape the attention of the director of the Trento branch of the Bank of Italy, who explained it as being mainly due to the difficult political situation in the region. The breakdown, in 1959, of collaboration between the Italian- and German-speaking groups in the regional council had created numerous doubts within the Italian group concerning whether new industrial initiatives should be undertaken in South Tyrol. It was also stressed that the German group had expressed a preference for the local banks, particularly the German ones, rather than the regional credit institutes, whilst continuing to use Mediocredito for subsidies to the *masi chiusi*³¹. The territorial distribution of lending substantially corresponded to the policies of the party representing the German ethnic group: the Südtiroler Volkspartei. On the one hand, it expressed a strong aversion to new industrial initiatives that would attract Italian labour, thereby altering the ratio between the two ethnic groups. On the other hand, the priority interest was to halt the exodus from the valleys of agricultural labour attracted to the zone of Bolzano or the neighbouring German-speaking countries by better-paying jobs in industry³². The different use made in the two provinces of the opportunities offered by Mediocredito thus demonstrates that the availability of low-cost capital was not enough to stimulate new industrial initiatives: which confirms the dictum that «you can lead a horse to water but you cannot make it drink».

V. THE ROLE OF MEDIOCREDITO TRENTINO-ALTO ADIGE: SOME CONSIDERATIONS

Any attempt to evaluate the role of Mediocredito in promoting local business must necessarily take account of its ability to select creditworthy investment projects by means of loan risk rating. The percentage of applications granted gives a first idea of the degree of selection: around

³¹ Archive of the Trento branch of Bankitalia, *Relazione sulla situazione economica in Provincia di Trento. Anno 1960*, pp. 96-97.

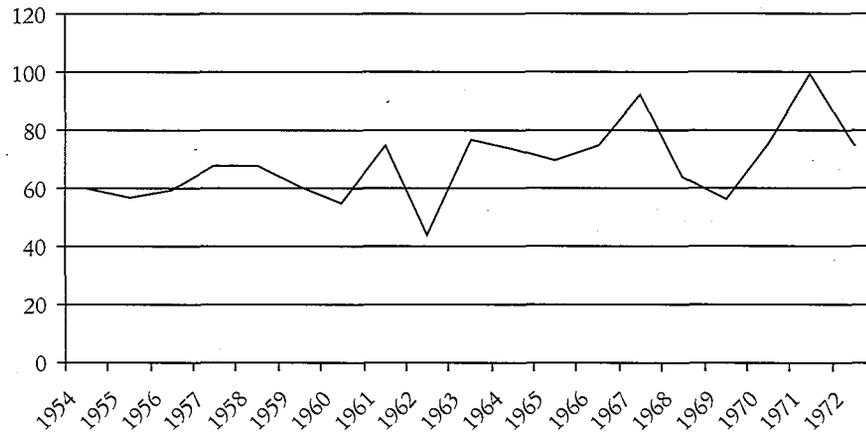
³² The initiatives for industry undertaken by the regional administration at the end of the 1950s were opposed by the provincial administration of Bolzano, which used its own powers on environmental protection to oppose the installation of new industrial plants: Archive of the Bolzano branch of Bankitalia, *Note sull'andamento economico della Provincia di Bolzano. Anno 1959*, pp. 4-5; *Anno 1960*, p. 3.

60% of applications were granted in the first years of Mediocredito's activity, and around 70% in the 1960s, although there were significant variations from one year to the next due to the timing of the application, liquidity difficulties, or particular legislative measures. In 1962, for example, a sudden decline in the percentage of acceptances was caused both by the concentration of applications in the second semester of the year and by liquidity problems which induced the Institute to postpone decisions on several financing operations. It seems, however, that the increasing dependence on the facilitated credit legislation attenuated the rigidity of the rating criteria. Suffice it to point out that, in 1967, the percentage of acceptances exceeded 90%, also thanks to the subsidiary guarantee furnished by the state on loans to flood-damaged firms, which enabled the Institute to apply less rigorous selection parameters. But on what bases was the concession of financing decided?

Evaluation of a loan applicant's creditworthiness generally involved analysis of the firm's characteristics, the purposes to which the loan would be put, and the guarantees provided. The validity of the investment project was assessed in light of its consequences for employment and its effects on productivity, especially in regard to the competitive pressures produced by the advent of the European Common Market. Production costs were analysed in light of the greater earning capacity that the investment would bring. There followed an overall evaluation of the firm's economic and financial wherewithal in order to establish its capacity to meet the repayment instalments. The data from the firm's most recent balance sheets were requested for this purpose. When reclassified according to prudential criteria, these data made it possible to verify whether the firm had sufficient profitability to fulfil its commitments, adequate assets, and a balanced ratio between its own and borrowed capital. The rating report concluded with evaluation of the guarantees, of a real or personal nature, that could be activated in case of breach of contract. To facilitate enforcement in the case of insolvency, the financing was granted upon issue of promissory notes, if necessary guaranteed by a third party, and accompanied by a first mortgage on immovable assets and/or by a lien on the firm's machinery. Especially in the case of single-owner firms and partnerships, investigation was made of the moral qualities, abilities, and the real assets of the proprietors or possible guarantors, collecting such information through credit agencies or professionals³³.

³³ AMTAA, *Pratiche istruttorie*.

Graph 10. *Loan applications granted by the Institute (%)*, 1954-1972)



Source: calculations on data from AMTAA, *Bilanci*, 1954-1972.

Firms were therefore subjected to detailed evaluation, but the analysis, as was generally the case of Mediocredito institutes, did not go beyond the rating procedure preliminary to the concession of credit. It was not followed by constant monitoring, consultation and assistance to the firm. To use the distinction drawn by de Cecco and Ferri, this was «healthy» credit resulting from valid management more than credit «for development», which would have required a different relationship with firms, and at the same time a greater willingness of the latter to subject themselves to the Institute's scrutiny³⁴.

It has also been stressed that, with the stratifying of various facilitated provisions, the disbursement of credit by the regional Mediocredito institutes had increasingly assumed the features of a bureaucratic-administrative procedure. In the 1960s, especially, the ever closer relationship with facilitated credit ended up by conditioning the ways in which the institutes managed credit and evaluated loan applications. In the case of Mediocredito Trentino-Alto Adige, the constraints deriving from facilitated credit were made even more stringent by the overlap between state and regional interventions. As we have seen, it operated within the framework of a series of incentives promoted by the local government which went beyond simple credit facilities, and which in certain periods expanded the region's industrial system. The results, however, often proved unsustainable in the long term, because the public priority of employment sometimes led to underestimation of technical-economic factors. Various initiatives launched by companies from outside the region, whose only purpose was to take advantage of the incentives available and to acquire cheap resources, were then liquidated or only maintained in being by public intervention because of their socio-political importance. The structural changes which took place in the regional economy between the 1950s and 1970s eventually assumed the features of a 'modernisation without industrialisation', where the recompacting of agriculture acted primarily to the advantage of the tertiary sector³⁵. And this was despite the contribution made by Mediocredito to the expansion of industrial credit.

In the context of the strong expansion of special credit in the 1960s, Mediocredito Trentino-Alto Adige substantially expanded its role in the regional credit system. The undisputed protagonist of special credit to

³⁴ M. DE CECCO - G. FERRI, *Le banche d'affari in Italia*, Bologna 1996, pp. 172-173.

³⁵ A. BONOLDI, *Tra ritardo e sviluppo: aspetti dell'economia del Trentino-Alto Adige nel secondo dopoguerra*, in A. BONOLDI - A. LEONARDI (eds), *La rinascita economica dell'Europa. Il piano Marshall e l'area alpina*, Milano 2006, p. 201.

industry, it also saw its incidence grow in total lending to firms in the region, which rose from 4.1% to 12.1% between 1960 and 1967³⁶. Also SACAM acquired increasing importance: the long-term agricultural credit operations undertaken by SACAM amounted to 16% at the end of 1960, and then reached 30% in 1967³⁷. More than one decade after the birth of Mediocredito, however, whilst long-term agricultural credit was particularly widespread in the region, the amount of special credit to industry was still markedly below the national average³⁸.

Towards the end of the 1960s, the Institute's position *vis-à-vis* the other regional Mediocredito institutes began to falter. Whilst at the end of the 1950s Mediocredito Trentino-Alto Adige had occupied second place in regard to its amount of loans³⁹, in 1967-68 it was still in second position for its financing portfolio, but for the amount of loans granted in the year it was overtaken first by the Mediocredito institutes of Venetia, Emilia and Tuscany, and then by those of Piedmont and Marche⁴⁰. In 1973 it declined further: to sixth place for its financing portfolio, and to eighth place for lending made during the year⁴¹. Its increasing weight in the local banking system was off-set by lesser dynamism in comparison to other Mediocredito institutes, and particularly those operating in the so-called «Third Italy», i.e. the regions of the North-East and Centre, which began to undergo particularly sustained growth with the rise of the industrial districts from the second half of the 1960s onwards.

Although Mediocredito demonstrated a significant capacity to mobilise resources for small and medium-sized firms, also by «networking» with the other credit institutes in the region, equally positive judgement cannot be passed on its effects, at least in the long-period, in promoting new entrepreneurial initiatives, whose selection was heavily conditioned by the regional government's policies, as well as by the criteria used to grant state

³⁶ M. ZANE, *Il mercato del credito del Trentino-Alto Adige*, Trento 1968, pp. 424-425, 492, 597.

³⁷ Calculations on data from M. ZANE, *Il mercato del credito del Trentino-Alto Adige*, pp. 447, 602.

³⁸ *Ibidem*, p. 635.

³⁹ See the data reported by P.F. ASSO - G. RAITANO, *Trasformazione e sviluppo del credito mobiliare negli anni del governatorato Menicbella*, in F. COTULA (ed.), *Stabilità e sviluppo negli anni Cinquanta*, 3. *Politica bancaria e struttura del sistema finanziario*, Roma - Bari 1999, pp. 570-571.

⁴⁰ See P. CAFARO, *Il Mediocredito Lombardo*, p. 107, Table 23.

⁴¹ *Ibidem*, p. 153.

benefits. The Institute's increasing weakness with respect to Mediocredito banks operating in other regions conveys an image of it being «pulled» by the demand for credit by firms, rather than being able to generate it. Hence, whilst the results in terms of mobilisation of additional financial resources for the local productive system were certainly positive, apparently unsatisfactory was the formation of the second component necessary for a banking institute effectively to promote economic development, namely the ability to allocate the resources collected to the most efficient uses; an ability conditioned by non-economic criteria imposed on the institute which was conceived as an instrument to transmit state and regional economic policy directions.

Recovery and Growth in Poland after World War II

by *Aleksander Surdej*

I. INTRODUCTION

The post-war economic development of Poland was largely determined by the Second World War and its consequences (the territorial change and the establishment of the communist system with the centrally planned economy at its economic core). But the post-war economic development of Poland was also influenced by its starting point: a relatively underdeveloped country with an economic structure dominated by rather extensive agriculture and a high level of hidden unemployment in rural areas. Thus, it could be argued that the relative economic backwardness created conditions which partially explained the economic policy measures initially undertaken by the Communist authorities and also their initial successes.

In this paper I will describe and examine the interplay of these two factors: initial economic conditions and the Communist economic system with central planning and state ownership as its foundation and try to tentatively answer the question to what extent they influenced the economic development of Poland in the postwar period until the late 1970s.

II. THE LEGACY OF WORLD WAR II

1. *A note about the pre-war period*

At the moment of the Nazi invasion on September 1, 1939, Poland was a young state which had gained independence in 1918 after 123 years of the country's partition (from 1795 till 1918) between the three empires (Prussia, Russia and Austria). If one remembers that Poland's frontiers were not fixed and secured until the victory over Communist Russia in August 1920, it becomes evident that Poland had less than 20 years to integrate its territory legally and administratively and to pursue the path of economic development. A vast programme for the industrialisation of central and eastern Poland known as the programme to create the Central

Economic District (COP - Centralny Okres Przemyslowy) began only in 1936 and comprised government investments in hydroelectric production (like Roznow on the Dunajec river), an aircraft factory (Mielec) or military production plants (Stalowa Wola and Nowa Deba). This large programme of industrialisation was intended both to strengthen Poland's military capacities and to reduce social problems caused by hidden unemployment (then estimated at 0.5-0.7 million persons) in overpopulated rural areas¹. The costs of COP were estimated at 60 % of investment spending of pre-war Poland (approx. 2.4 billion PLN) and at its pre-war peak COP factories employed almost 100,000 workers.

This background information is important as it highlights the crucial role of state-led industrialisation efforts for pre-war economic development in Poland². In fact, the investments in COP factories were continued by the communist authorities which intensified investment efforts in order to accelerate the industrialisation of Poland.

2. *Economic consequences of World War II*

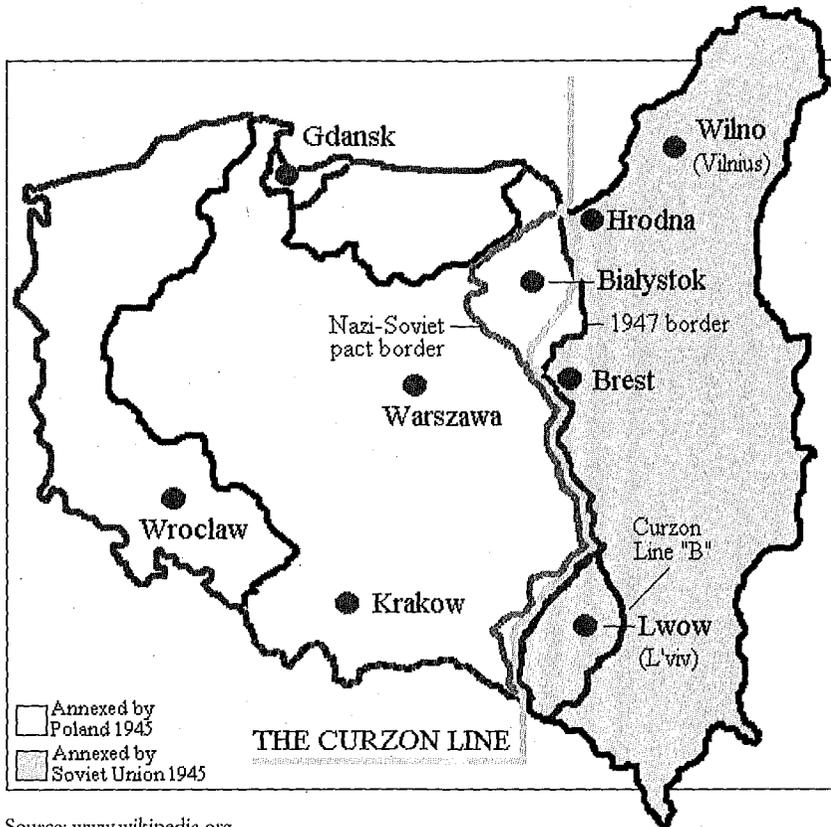
As a result of the political agreements between the victorious powers (the US, the Soviet Union and Great Britain) signed in Yalta and Potsdam in 1945 the territory of Poland decreased by 20% in comparison to the pre-war situation and the whole country was moved westwards. Poland lost its eastern areas (east of the Curzon line) and was granted former German lands with cities such as Wroclaw (earlier Breslau).

During the war Poland suffered significant population losses as its population decreased by 23% with regard to the pre-war level. Due to Nazi and Soviet extermination policies the victims came mostly from the educated strata of the population and Poland lost a half of its intelligentsia – a huge loss in terms of social and educational capital. The damages to the physical capital were estimated at 38% of the prewar value, the industrial production fell by 54%, 30% of houses and other buildings were destroyed or required significant repairs. The overall agricultural production decreased by 35%, but animal production was reduced by

¹ M.M. DROZDOWSKI, *Sprawy i Ludzie II Rzeczypospolitej* [Problems and People of the Republic of Poland], Kraków 1979.

² It should be noted that the state-run industrialisation resulted not only from the economic doctrine of the times, but also from the lack of large private industrial groups, including industrial family firms.

Map 1. Poland's old and new borders, 1945



Source: www.wikipedia.org

almost 80%. The existing estimates show that the GNP in 1945 fell to 38% of the 1938 level (see Table 1).

If war losses were heavy, the overall economic consequences of the westward territorial shift could be evaluated positively. Poland got areas characterised by a higher degree of industrialisation (see Table 2) and it was estimated that industrial employment in factories with more than 20 workers increased by 31%. Other data show that in 1936 in formerly German territories, transferred to Poland as a result of the war, the production of electricity amounted to 93% of the electricity production in Poland and 50% of Poland's pre-war steel production. As the indus-

Table 1. *Estimation of gross national product in 1938 and 1946 (in billion PLN in 1938 prices)*

GNP	1938		1946	
	in bl PLN	in %	in bl PLN	in %
Total	17.7	100.0	8.5	100.0
Agriculture, forestry and fishing	6.9	39.0	2.5	30.0
Industry	5.7	32.0	3.4	39.4
Services	5.1	29.0	2.6	31.0

Source: *Plan Odbudowy Gospodarczej. Liczby Podstawowe*, Warszawa 1947, p. 155.

Table 2. *Estimation of the value of assets in territories lost and gained in 1945 (value in billion PLN in 1939 prices)*

Item	Territories		
	Gained		Lost
	1939	1945	1939
Industry (a)	12.9	7.9	2.7
Agriculture	12.3	7.8	12.8
Forrest	1.6	1.4	3.8
Buildings (b)	16.3	12.2	6.6
Military buildings	0.8	0.5	0.9
Land infrastructure	2.6	1.9	0.6
Transportation	11.3	5.0	2.9
Sea Ports	0.4	0.2	-
Communication	0.2	0.1	0.1
Spas (baths)	0.3	0.2	0.1
Education	0.2	0.1	0.3
Culture and arts	0.1	0.1	0.3
Total	59.0	37.4	31.1

Note: (a) - with buildings; (b) - without military.

Source: H. JEDRUSZCZAK, *Miasto i przemysł w okresie odbudowy*, in *Polska Ludowa 1944-1950. Przemiany społeczne*, Wrocław 1974, p. 286.

trial production for military purposes in this territory grew during the war period, it is justified to say that the territorial change improved the industrial basis of the Polish economy.

If the economic structure is an indicator of the level of economic development it could be said that at the outbreak of the war Poland was

predominantly an agricultural country, and at the end of the war and due to territorial changes, the economic structure of Poland became more industrial.

III. ECONOMIC SYSTEM IN THE INITIAL PERIOD OF COMMUNIST RULE (1945-1948)

An early draft of the economic programme of the Communist Party can be found in the *Manifesto of the Polish Committee of National Liberation* (PKWN) from July 22, 1944. The Manifesto promised to restore the industrial property confiscated by the Nazis to its original owners, but was ambiguous about the future property of large enterprises and banks. The programme of the PKWN expressed support for private ownership and for cooperatives and no explicit reference was made to possible nationalisation of the industry. The manifesto, however, declared the plans for the comprehensive reform of agriculture including the expropriation of farm owners possessing more than 50 hectares of land. The land managed by the State Fund of Land (*Panstwowy Fundusz Ziemi*) was to be distributed to agricultural workers and small plot owners in parcels not exceeding 5 hectares. The agricultural reforms in the remaining pre-war Polish territory consisted of parcelling large areas. In this way the ministry divided 2.4 million hectares of land creating 347,000 new farms and enlarging 254,000 existing ones. Newly created farms had on average 5.4 hectares, whereas enlarged farms received an average of 1.9 hectares. Agricultural reforms looked differently in Western (acquired) territories. There the state parcelled 3.7 million hectares of land creating 467,000 farms with an average area equal to 7.9 hectares.

Table 3. *Size distribution of farms – the change between 1938 and 1949 (in %)*

Area groups (in hectares)	1938	1949	Change (in %)
less than 2 ha	30.6	28.8	-6
2-5	33.8	32.5	-4
5-10	23.9	27.1	+13
10-20	9.5	10.4	+10
20-50	2.1	1.2	-43

Source: M. MIESZCZANKOWSKI, *Struktura agrarna Polski międzywojennej*, Warszawa 1960, p. 329 and GUS Warszawa 1950, p. 329.

One is justified in saying that the agricultural reform was not implemented in order to increase the efficiency of farming. Efficiency would

have dictated the enlargement of existing farms as the main reform goal, but after reforms many farms remained too small to produce efficiently. The short-term goal of the reform was to build social support for the Communist Party (it was assumed that people who received land became more sympathetic to the Communist Party), but the long term goal was to prepare for the collectivisation of farms as peasant working farms, which were too small to generate enough income, were more willing to give up farming.

The agricultural reforms of the late 1940s created the size distribution of farms which persisted over years. The subsequent governments were not willing to pursue forceful collectivisation of farming (except for the Stalinist period which lasted from 1948 to 1956 in Poland) and the share of land in state owned farms increased only from 11% in 1949 to approximately 20% by the end of the 1970s.

Despite the above-mentioned policy ambiguity, the Communist authorities proceeded with the nationalisation of factories employing 100 and more workers – the law from January 3, 1946, created the legal basis for the nationalisation – and before the end of 1948 the state nationalised 5870 firms. If we remember that industrial assets left by owners in former German territories were automatically taken by state boards (ruling of March 2, 1945), it is not surprising to discover that already in 1946 the state-owned sector employed 85.9% of industrial workers and by the end of 1948 this share increased by just 1%.

Thus, from the beginning of the postwar period the state was in firm command of the Polish industry as the dominant owner with little space left for private firms. Yet, in the years 1946-1948 the commercial activities (both the retail and wholesale trade) were predominantly in the hands of private firms which accounted for 80% of wholesale turnover and 89% of retailing.

The economic reforms implemented in the years 1944-1946 changed the ownership structure of the Polish economy and in 1947 the state-owned sector accounted for 56.1% of the country's GDP.

IV. THE RISE OF CENTRAL PLANNING

The idea of economic planning emerged in the context of the much needed post-war reconstruction of Poland. Thus, the communist authorities created a 3-year plan for the country's reconstruction for the years

1946-1948, but the plan chiefly focused on energy production (including the growth of hard coal mining) and steel production. The plan assumed an increase of hard coal production by 160% and steel production by 43% in comparison to the 1937 level. In addition, the plan aimed at the creation of new industries such as light metals, synthetic fuels, and the production of ships, tractors and electric engines. The task of planning was institutionally ascribed to the newly created Central Planning Office (CUP – Centralny Urząd Planowania) headed by an economist and prewar socialist militant Czesław Bobrowski. It seems that initially central planners did not aim exclusively at the political goal of accelerated industrialisation, but gave proper space to the consumer needs of the population paying attention to food, textile and shoe production.

In July 1947 the parliament passed a new law called the Three Year Plan of Economic Reconstruction for the years 1947-1949. This law explicitly stated that the economic reconstruction was to be achieved by increasing the share of industry and in this way absorbing workforce from overpopulated rural areas. The law marked a radical shift in investment plans towards «the production of means of production» and away from the production of consumer goods (see table 4). As a result of the implementation of the plan, production in selected branches of heavy industry doubled in comparison to the prewar level, whereas the production of consumer goods remained at the prewar level.

Table 4. *Structure of investment expenditures in 1947-1949 (in %)*

Type of investment expenditure	1947	1948	1949
Total	100.0	100.0	100.0
Industry, coal mining	35.4	36.2	40.7
Agriculture, fishing	15.9	12.9	10.3
Transportation and communication	27.5	24.9	17.8
Commerce	2.2	4.7	5.6
Social and cultural infrastructure	6.4	7.7	7.3
Housing	8.5	9.2	7.7
Administrative infrastructure	3.0	3.0	7.6
Communal economy	1.1	1.4	3.0

Source: K. SECOMSKI, *Planowanie i inwestycje*, part 2, Warszawa 1955, p. 80.

In the period from 1947-1949 the government started 12 projects for the construction of large new factories such as the factory for heavy trucks in Starachowice, the chemical plant in Oswiecim, or the metal produc-

ing factory in Krasnik. According to CUP's data 88% of investment expenditures were destined for the production of means of productions. Industrial production grew by 35.5% in 1947, by 42.7% in 1948, and by 21.9% in 1949 with regard to preceding years. This priority reflected a principle of a pyramid like approach to economic development where the fundamentals had to be heavy industry and only with time the government was to move to the production of consumer goods.

Table 5. *Sectoral structure of the Polish economy measured as a share in the GDP (in %)*

Sector/branch of Industry	1946	1947	1948	1949
Totale	100.0	100.0	100.0	100.0
Industry	32.1	35.8	42.2	42.4
Agriculture	31.3	30.2	30.7	29.9
Construction	3.5	3.6	4.1	5.6
Transportation	13.1	11.7	11.6	11.1
Trade	19.4	18.0	10.7	10.0
Other	0.6	0.7	0.7	1.0

Source: J. KALINSKI, *Gospodarka Polski w latach 1944-1989*, Warszawa 1995, p. 46.

V. THE PERIOD OF ACCELERATED (FORCED) INDUSTRIALISATION: 1950-1955

The tendencies observed in the years 1946-1949 were reinforced by the political decisions to speed up industrialisation and to spend more resources on investments in industry in the Six Year Plan for the years 1950-1955. In the draft version of the plan its main author Hilary Minc assumed that industrial production in July 1950 would increase by 58% in comparison to the 1949 level. This direction of investment spending was justified «theoretically» by the so-called «law of socialist industrialisation» which stated that the production of the means of production should proceed faster than the production of the means of consumption, it was defended by pointing at the earlier and successful experience of the Soviet Union and an attempt to emulate its economic structure and in geopolitical terms it was justified by the need to build up the military capacities of the Soviet bloc in the period of the Korean War (1950-1953). When remembering this period Julian Tokarski – then Minister of Military Industry, wrote that «the production of airplanes, tanks and other kinds of military equipment was developed at the cost

of the production of other needed goods and at the cost of limiting the rise of workers' real wages»³.

Despite the detailed and administratively enforced central planning there were cracks, difficulties, and disproportions in the organisation of industrial production. There were shortages of certain products (like the deficit of steel needed for the production of engines and machines) which were necessary for other kinds of production. In short, it was possible to speak about interbranch misproportions and failure in the coordination of production of various suppliers.

The industrialisation efforts were also directed at reducing the disparities in regional development. But, the decisions regarding localisation of industries were also taken instrumentally for purely political purposes like the decision to build a steel work in Nowa Huta near Krakow, where there was neither hard coal nor iron ore. The government was not able to reduce the industrial weight of Silesia in the Polish economy, although its investment decisions helped the regions whose industrial development had initiated in the prewar period (chiefly COP areas).

The growth of industrial production was not linked to the intensification of Poland's participation in international trade. As shown in Table 6, Polish exports remained dominated by fuels (chiefly hard coal), raw materials, and semi-processed goods. This fact can however be explained by the high geopolitical tensions and the decision of the Soviet Union to increase the collective autarchy of communist countries.

Table 6. *The structure of the Polish foreign trade in 1946 and 1955 (in %)*

Item	Imports		Exports	
	1949	1955	1949	1955
Machines, equipment and transportation means	24.4	30.9	2.4	13.1
Fuels, raw materials	62.6	51.7	64.5	64.4
Food and agricultural products	10.3	13.0	20.6	15.3
Durable consumption goods	2.7	4.4	12.5	7.2

Source: *Kompendium statystyczne handlu zagranicznego w latach 1929-1960*, Warszawa 1961, p. 76-109.

A constant feature of the planned economy were the shortages of consumer goods. Such shortages of consumer goods were noticed not only

³ J. TOKARSKI, *W służbie Polsce Ludowej. Wspomnienia* [In the Service of People's Poland. Memories], Warszawa 1978, p. 272.

by citizens, but also by decision makers and some of them called for the reorientation of production. Yet, the doctrine to imitate the Soviet industrialisation and the political priorities of the period of international tensions took upper hand.

VI. ATTEMPTS AT STRUCTURAL REFORMS: 1956-1958

The political impulse for the change came with the death of Joseph Stalin in 1953 and the sudden death of his Polish follower Boleslaw Bierut in 1956. Thus, Polish Communist Party leaders started to overtly criticise Stalinist industrialisation only in 1956, which in the words of Edward Ochab consisted of «The expansion of the defence industry, which absorbed huge, multi-billion resources, most modern machinery and the best staff». The need for the reorientation of economic policy became politically urgent under the pressure of street protests in Poznan in June 1956, which were forcibly suppressed causing 57 deaths. The Poznan social protests were in large part caused by popular dissatisfaction with the standard of living and the lack of consumer goods.

Table 7. *Structure of investment expenditures in 1956-58 (in % in current prices)*

Type of investment expenditure	1956	1957	1958
Total	100.0	100.0	100.0
Industry	43.9	42.2	41.5
Construction	2.7	3.0	2.6
Agriculture	13.2	12.0	11.9
Transportation and communication	9.1	9.5	9.1
Trade	2.7	2.7	3.2
Communal economy	3.7	3.7	4.1
Housing	15.9	19.0	20.0
Other	8.8	7.5	7.6

Source: K. SECOMSKI, *Planowanie i inwestycje*, part 2, Warszawa 1955, p. 80.

In a period of relative political liberalisation (the so-called: «political thaw») economists publicly discussed the need to rebalance economic growth by paying more attention to market needs, private consumption, and the level of real wages. Yet, already in 1957 the Communist Party leader Wladyslaw Gomulka announced the end of privileged investments in the production of consumer goods. This statement resembled the

famous speech by Nikita Khrushchev in which the Soviet leader called for the acceleration of efforts to «reach and exceed» capitalist countries with regard to economic development. Apart from the global context the return to accelerated industrialisation was justified by the need to create jobs for the legions of young people born in the years of the post-war baby boom as the demographic forecasts spoke about the increase of the working age population by 1 million in the years 1961-1965.

The political changes led to the reformulation of agricultural policies, which proclaimed the freedom of the development of private farming. In fact, the government dissolved many collective farms created in the Stalinist period and restituted other farms to previous owners. As a result, peasants started to sell and buy land and an increase of the share of larger farms (with land between 10 and 20 hectares) can be observed in those years. In a similar vein, the party leaders recognised the need to create more space for private commerce. They changed the system of licensing private trade establishments – the reaction was rapid and between 1955 and 1957 the number of retail points increased by 79%. Yet, the more favourable climate for private businesses did not last long and early in 1958 party leaders returned to the rhetoric and practice of fighting «speculation», i.e. with private trade and its apparently detrimental role and capitalist mentality.

In the years 1956-1958 real wages increased by 25% and people could feel the improvements in the standard of living. Consumer goods availability also increased thanks to loans extended to Poland by the governments of the USA, Canada, France, and the Federal Republic of Germany, which were partly used to improve the supply of consumer goods.

In general, it can be said that the economic reforms implemented in the years 1956-1958 were a superficial correction of the course of economic development set in the late 1940s.

VII. SIMPLE CONTINUATION OF EARLIER INVESTMENT STRATEGY: 1959-1970

In 1959, the leader of the Communist Party decided that the country should continue the strategy of accelerated industrial development. The planners once again focused investments on the development of the sector of raw material extraction and on heavy industry. In the years 1959-1970 the investment rate amounted on average to 26% and in 1968 it reached its post-war peak of 29%.

The government concentrated investment spending on large scale projects in coal extraction: new hard coal mines in the Rybnik area, open extraction of brown coal in Konin, a power plant in Patnow and Laziska, copper mines in Lubin and Polkowice, chemical factories in Gdansk, Police, and Pulawy, an oil refinery in Plock, a tyre factory in Olsztyn, sulphur extraction and processing in Tarnobrzeg – just to name the most important.

A high rate of investment caused similar phenomena as observed earlier: poor availability of consumer goods, market shortages, and growing dissatisfaction of the population. Wladyslaw Gomulka – the Communist Party leader feared what he perceived to be consumer aspirations of the society, and projected his «conservative» ideas and anti-consumption mentality to the increasingly complex problems of economic development.

But besides the problem of selection of the communist elite and their understanding of the economic problems, planning errors became more frequent as it became increasingly difficult to set correct proportions even in the narrow area of coordinating the production of industrial goods. The investments were prolonged in time often delaying the completion of industrial projects for years and the production of materials which served as input for the production of other goods was often inadequate.

The outcome of the industrialisation process might have looked imposing in quantitative terms. But, already in the 1960s it became evident that the newly constructed industrial factories were less energy efficient than their Western counterparts (the centrally planned economies used technologies that were much more energy intensive than market economies)⁴ and that they were not able to offer tradable goods of sufficient quality to compete on the international market. These problems came to plague the Polish economy in the next decade (see later).

If the industrial development in terms of expanding the capacity for the production of industrial goods was relatively positive, at least in quantitative terms, the situation in agriculture was stagnant. Between 1959 and 1970 agricultural production grew at an average yearly rate of 2%. Despite overall growth Poland suffered from grain shortages. If the pre-war level of industrial production had been achieved in 1949, the pre-war level of grain production was reached only in 1956, and surprisingly it again fell to below the pre-war level in 1962 and 1964.

⁴ This is a conclusion of the analysis developed by J.R. MORONEY - C.A.K. LOVELL, *The Relative Efficiencies of Market and Planned Economies*, in «Southern Economic Journal», 63, 1997.

The slow growth of production was predominantly caused by structural factors such as the small average size of farms, administrative and political barriers to their growth or low income per farm, although some years (especially 1959 and 1962) were characterised by exceptionally dry weather. Agricultural policies were also again subordinated to the idea of increasing the weight of collective farming at the expense of private farms, but the government did so by discouraging farming (obligatory supply of production – *dostawy obowiazkowe*, low administrative prices and – as a result – low income) amidst the young who now wanted to stay on farms rather than by direct administrative measures. Thus, in the 1960s the share of private farms in the total of agricultural land decreased from 87% to 83%, and the share of state-owned farms (PGR) increased from 12% to 15%. But, the increase of larger, but poorly managed state-owned, farms did not contribute to the faster increase of productivity in the agricultural sector.

The 1960s were characterised by a rapid increase of foreign trade (it should be noted that the departure point was low) which resulted in the increase of the volume of foreign trade by 300%. Yet, and not surprisingly – if one takes into account the reality of the Cold War – Poland increased trade integration with other Comecon countries which were seeking a kind of group economic autarchy. The Comecon share in Polish imports amounted to 67% and 64% in exports. Over almost the whole decade of the 1960s Poland's trade balance showed surpluses with other Comecon countries, but also a constant deficit in trade relations with Western countries⁵. The intra-Comecon trade specialisation was more and more politically and administratively shaped. As a result of such political agreements (but *de facto* imposition by the Kremlin) Poland was forced to increase capacity to produce ships (in the 1960s shipyards sold more than 60% of their production to the Soviet Union), chemical industry, textiles and hard coal mining. In exchange, Poland imported iron ore, crude oil, and gas from the Soviet Union.

In the whole decade of the 1960s the Polish economy on average grew rapidly, but there were also first signs of a kind of cyclical fluctuation as the yearly growth rate oscillated between 2% and 9%. Furthermore, the statistical data showed a slight decrease in the subsequent 5-year growth averages as they fell from 6.6% in the period 1956-1960, to 6.2% in the period 1961-1965 to 6.0% in the period 1966-1970.

⁵ «Hard currency» countries such as the Comecon countries used so-called «transferred rubles» to account for the value of mutual trade.

The focus on industrialisation and slower economic growth led to the lower rise of real wages and real incomes. The rate of real wage growth was low and stayed within the range 1-2% yearly. Even lower, if not falling was the real income of peasants. The stagnant living standards led people to protest in December 1970 and the violent reaction of communist authorities ended with 44 dead protesters. These events led to the change of the leadership in the Communist Party and the replacement of Wladyslaw Gomulka with a younger communist leader: Edward Gierek.

VIII. MODERNISATION WITH BORROWED MONEY

The new leadership of the Communist Party faced a twofold problem: the growing dissatisfaction of the population with the standard of living and the falling dynamism of economic growth as the focus on accelerated industrialisation brought about extensive, low productivity growth.

The leader boldly proclaimed that he would strive to develop the country «dynamically and harmoniously», that is with due attention paid to real wages and people's needs. The government wanted to achieve both these ends thanks to the so-called «active credit policy». It announced plans to purchase licenses for the production of modern equipment and goods in leading industrial countries.

In a public speech in December 1971, Edward Gierek laid out the plan to increase the country's GDP by 38-39% in the period 1971-1975, increasing the industrial production by 48-50% and agricultural production by 18-21%. These goals once again required a strong emphasis on industrial investments. In fact, the plan for 1971-1975 foresaw an increase in industrial investment outlays by 53%. But, contrary to previous periods the government declared a rapid (98%) increase in investments in the production of consumer goods.

These bold plans were to be financed domestically – in 1974 the accumulation rate amounted to 38% – and externally thanks to the availability of external loans offered by Western governments in a climate of international detente. The manoeuvre planned by the government consisted of the idea to use «hard currency» loans to purchase machines, equipment and licenses and to pay them back thanks to the increase of exports. In 1971-1973 alone the government purchased 154 licenses destined mainly for heavy industry or the construction sector, but only 3 licenses for the production of consumer goods.

The government also planned large scale investments in the system of road transportation in order to develop domestic motorisation. Fast roads and highways were to serve car users supplied with accessibly priced cars produced in Bielsko Biala thanks to the license purchased from the Italian Fiat. The construction of a new port – the Northern Port in Gdansk – and the expansion of the sea fleet were to serve the development of sea transportation.

Initial successes led the government to increase the planned indicators of the GDP growth by 2% and to think about the possibility of reducing the development gap with most advanced economies. Economic growth was to be fast and durable at the same time with no problems or barriers perceived or expected. These naive views, as commented later by Stanislaw Albinowski⁶, were based on the faith in the power of foreign credits. Loan based imports generated a deficit in the trade balance which increased from 662 million Zlotys to 7.490 million Zlotys in 1975 and the cumulated foreign debt amounted to 8.4 billion USD in 1975 and to 26 billion USD in 1980.

Table 8. *Geographic structure of exports and imports in 1970 and 1975*

Country	Imports		Exports	
	1970	1975	1970	1975
Total	100.0	100.0	100.0	100.0
Socialist countries	68.6	45.8	63.9	59.9
Developed capitalist countries (excluding EC)	8.9	21.6	11.3	13.1
European Community	16.7	27.6	17.1	18.4
Developing economies	-	4.9	7.7	8.6

Source: *Rocznik statystyczny*, GUS, Warszawa 1981, p. 414.

As the above table shows, the acceleration of the early 1970s was import intensive and the demand for imports was not matched by the increase of exporting capacities which put a question mark on the ability to pay back the loans. Thanks to Willy Brandt's Ostpolitik the Federal Republic of Germany became the second source of Polish imports coming close to the Soviet Union. A rapid increase of trade was also registered with France and Great Britain. This was more or less the essence of Gierek's economic opening to the West.

⁶ St. ALBINOWSKI, *U zrodle zalamania gospodarczego* [At the Source of Economic Break-down], in «Gospodarka planowa», 1981, 7-8, p. 354.

The spectacular levels of economic indicators achieved in the first half of the 1970s were compromised by permanently low levels of productivity and high energy intensity. Thus, in the mid-1970s the Polish economy needed 2,163 kg of fuels to produce 1,000 USD of economic income, whereas France needed 857 kg and the Federal Republic of Germany 918 kg. Low economic efficiency became the factor plaguing the economic development of the country.

Despite political declarations that the Polish economy would grow by 40-42% in the period 1976-1980, already in mid-1970 there were signs of tension which to attentive observers⁷ foretold an imminent crisis. Besides planning errors, the sources of the crisis could be found in a disorganisation of investment processes: in 1975 the degree of investment incompleteness was estimated at 62%⁸. The observed problems with the implementation of investment plans and the growing weight of debt servicing led the government to reduce consumption imports. This move worsened the already poor market supply and in June 1976 the country was shaken by workers protests contesting low real wages and price increases. Not very realistically the government hoped for improvements in economic outcomes, including a steep increase in exports. Communist authorities intensified propaganda measures presenting failures as successes and tried to convince the population that an improvement in the living standards was soon to come. Thus, for instance, the First Secretary of the Polish United Workers Party (PZPR) Edward Gierek said in January 1978: «In the last two years there has been a constant improvement in the living and working conditions of the Polish people, the economic potential of the country significantly increased and with it Poland has enhanced its international position»⁹. The government did not recognise its errors, but rather pointed to the international environment when looking for the causes of its problems. It continued along the usual path announcing large investment projects like the development of hard coal mining near Lublin in Eastern Poland, which, as then planned, would produce 25 million tons of hard coals after 15 years, that is, around the mid-1990s or it prepared the beginning of a very costly project of making the Vistula river into a convenient road for merchandise transportation. Thus, it seems

⁷ W. KUCZYŃSKI, *Po wielkim skoku* [After a great jump], Warszawa 1981.

⁸ Even today – 30 years from the period of ambitious leap forward there are unaccomplished sites of investments started in mid-1970s – an eminent example being an initiated construction of a nuclear plant in Żarnowiec, near Gdansk.

⁹ The speech at the 2nd National Conference of the PZPR in January 1978.

that Communist Party leaders around Edward Gierek were affected by a kind of group thinking phenomenon and did not see the failure of their policies. In 1980, they had to face the accumulation of several processes (like the disorganisation of investment process or the commencement of large scale debt payments) and their effects in the forms of massive social protests, the creation of the independent trade union «Solidarnosc», and the mounting social pressure on deep systemic changes. From August 1980 until martial law imposed by the General Jaruzelski on December 13, 1981, Poland experienced a period of permanent social and political turmoil¹⁰. The period of the 1980s reflected the system's agony, which ended with the 1989-1990 system changes.

The specificity of the economic crisis, which started at the end of the 1970s in Poland can be ascribed, using the words of Stefan Marciniak, to the fact that «... the investments of the 1970s were in majority inadequate to material and demographic characteristics of the country and inadequate to the needs of technological progress and to the structure of the consumption needs of the population»¹¹. But, at a more general level it became clear and widely recognised that the slowing dynamism of the planned economy, signs of which were seen from the 1960s on, have to be ascribed to the system's internal deficiencies. At the end of this paper I will shortly point to two of them: the problem of the use of material incentives in managerial practices and the problem of developing small new enterprises.

IX. FAILED INCENTIVE REFORMS

Initially, the economic system based upon the state ownership of the means of production and centralised economic decision-making seemed to suit the needs of the Polish economy, which faced the double challenge of post-war reconstruction and industrialisation. Yet, already in the mid-1950s there were signs that the economic system created problems of micro-economic inefficiencies. The managers, instead of searching for ways to improve efficiency, learned to play the game of meeting the planned targets by requesting larger inputs and trying to minimise the outputs they had to produce, which generated the mechanism of shortage creation so

¹⁰ Sometimes called «the festival of freedom».

¹¹ St. MARCINIAK, *Struktura gospodarcza Polski. Optymalne kierunki zmian* [The economic structure of Poland. Optimal direction of changes], Warszawa 1986, p. 101.

clearly described and explained by Janos Kornai¹². Management reforms, which started in 1956, were seeking ways to increase democratic participation in management and planning at the company level instead. Thus, Communist reformers introduced the workers councils in mid-1950s to give workers a say in the day to day management of factories (the state dependent trade unions were *de facto* reduced to the role of administrators of social benefits for workers), but this reform was rescinded at the beginning of the 1960s as it was deemed too politically radical. A similar road was followed in early 1980s when economists such as Marek Dabrowski, Leszek Balcerowicz, or Jerzy Hausner¹³ called for the so-called «socialisation of economic planning» by expanding the role of workers bodies in building production plans. But the fundamental problems lay not in worker participation and planning socialisation but rather in the economic system's rigidity and incapacity to co-evolve with the growing complexity of the economy and more demanding consumers. This problem is of such importance that it cannot be reduced to the problem of creating the right financial incentives for managers (this was an option discussed in Poland in the late 1960s, but it was rejected for reasons of Communist egalitarianism).

X. POLICIES TOWARDS PRIVATE ENTERPRISE

The economic thinking of Communist leaders in Poland was by no means pragmatic. Thus, for ideological reasons they fought against so-called «private initiative» in economic life, even if they saw clear consumer benefits whenever (like in the years 1956-58) they did relax the control of private enterprise for tactical reasons. In the table below one can see a schematic periodisation of the approaches to private enterprise and it is easily seen that even small industrial or private trade companies were limited with regard to activities and growth (in terms of sales and employment). The governments focused on large-scale investments and large scale enterprises. In such a situation the cost of errors was also high and, when large enterprises became domestic or local monopolies, there was no benchmark to evaluate their relative efficiency. Thus, with time structural inefficiencies (an obsolete economic structure and monopolistic

¹² J. KORNAI, *The Economics of Shortage*, 2 vols., Amsterdam - New York - Oxford 1980.

¹³ All three men were prominent economics policy makers in the 1990s when they called for radical market-oriented economic reforms.

market structures) worked together to slow down economic dynamism and to build up economic tension. The need for economic reforms became a constant motto of policy makers, but as became clear in the 1980s, the key to economic reforms was political.

Table 9. *Policies towards private entrepreneurship in Poland in 1919-1999*

Years	Main characteristics of the period	Dominant sector
Before 1939	Development of private businesses	private
1939-1945	Adaptation growth of micro-commercial activities needed by the population during the Second World War	x
1945-1946	Reactivation of factories by owners	private
1946	Nationalization of industry and small crafts	state owned
1947-1955	Aggressive elimination of private businesses in industry and agriculture	state owned
1956-1970	Administrative (fiscal and other) fights against private businesses	state owned
1971-1980	Opening space and silent approval for private business	state owned
1981-1988	Slow, but constant growth of private businesses	state owned
1989-	Rapid, spontaneous growth of private businesses	private

Source: K. KRAJEWSKI, *Kreowanie miejsc pracy w małych i średnich przedsiębiorstwach*, in «Wynagrodzenia», 1999, 19, monthly supplement 9.

XI. CONCLUSIONS: HIGH COST INDUSTRIALISATION

With the benefit of hindsight it is possible to say that the post-war reconstruction of the Polish economy was decisively marked by the economic system created as a consequence of the Soviet domination in Central and Eastern Europe. Although state ownership and planning did play a positive role in the economic reconstruction of post-war Western Europe, the almost exclusive state ownership and comprehensive top-down central planning established in Poland and in other socialist countries made the difference. In socialist countries the instruments of state policies were not subordinated to markets or used in small scale economic experimentations. The state replaced markets and its failure was spectacular.

As the data from Table 10 show the success of socialist industrialisation over a 30-year period was not very spectacular in terms of the rate of economic growth (only few Western countries showed a slower pace of growth), and certainly the visible hand of the Communist state which directed the process of socialist industrialisation committed errors which led to what can be called mis-development (or distorted economic develop-

Table 10. *Growth of real gross domestic product per capita, 1913-2000*
(average annual compound growth rate)

Country	1913-1950	1950-1973	1973-2000
Austria	0.2	4.9	2.2
France	1.1	4.0	1.7
Germany	0.3	5.0	1.6
Italy	0.8	5.0	2.1
Netherlands	1.1	3.4	1.9
United Kingdom	0.8	2.5	1.9
Greece	0.5	6.2	1.7
Ireland	0.7	3.1	4.3
Spain	0.8	3.3	2.4
Hungary	0.5	3.6	0.9
USSR	1.8	3.4	0.7
Poland	NA	3.4	0.3

Source: Shortened version of the table from B. EICHENGREEN, *The European Economy since 1945*, Princeton NJ 2007, p. 17.

ment) – the growing structural differences between the socialist economy of Poland and its Western neighbours.

Concluding Remarks

by *Alberto Cova*

Unless one merely wishes to enumerate issues, the drafting of concluding comments on the proceedings of this illuminating conference is no easy task; this mainly because of the variety of its contents, which stems in turn from the need to tailor the focus of the conference to different national specificities. I shall try, then, «to read» the contributions to this conference with the aim of drawing understanding and suggestions that may constitute bases for further research, and that, at the same time, may strengthen the often expressed belief that coordinated work on complex themes and issues benefits from the possibility of comparing different approaches and results.

As can be noted, the title of the conference anticipated the rich and multifaceted perspective to be adopted, and the adjective «marginal» marked the scope of all contributions. Thus, it is crucial to focus on the concept of marginality, firstly since papers were selected on the basis of this theme, and then also because studying the elements that have allowed marginal areas to escape their original condition sheds light on the paths taken and the tools devised for this goal, while framing possible hypotheses for application to the current economic situation.

Even for this reason, the conference has thus proved significantly relevant and meaningful in its attempt and results, richly developing in the wake of the teachings of one of the main experts in contemporary historiography, Henry Marrou, who affirmed that «true historians are not inquisitive men escaping into the past, but rather men deeply committed to the crucial issues of the present who look into the personalities of the past for an active present, for something that may help them tackle current problems at best»¹.

Contributions like those of Mathis, Rieder, Surdej, Ritrovato, and Bonoldi, on Austrian rebirth, Bavaria and internal articulations, Poland, Southern

¹ H.I. MARROU, *Da una teoria della civiltà alla teologia della storia*, in P.A. CAROZZI (ed.), *Saggi sulla decadenza*, Milano 2002, pp. 133-157.

Italy, and non-equal mountain areas respectively, have all referred to the concept of marginality. However, as explained by Mathis and Surdej, marginality is a relative concept in the sense that it must be related both to previous experiences and to the general context within which marginal areas are situated.

In this respect, all contributions seem to have (implicitly or expressly) meant marginality as a condition characterised by the absence of meaningful processes of structural change, and, above all, by (low) levels of total or per capita income. More specifically, while Bonoldi sees marginality as proceeding from spatial inequality of development, and perhaps also from the lack of «signals of progress», Ferdinando Collantes justifies marginality of rural Spain (at least in the first phase of the Francoist regime) as due to insuperable dependence of rural communities, firstly on the physical features of their territory, and secondly on agriculture's low productivity.

Some of the papers discussing the role played by the credit system in the process of national rebirth and development at the end of World War II have also dealt with one of the biggest financial crises of all times, discerning among its causes structures and behaviours believed to have been the main reason of several corporate failures, as well as of several corporate rescues effected by public finance. In this respect, contexts ranged from Francoist Spain to Tito's Yugoslavia, from new Republican Italy to Gomulka's Poland, from Bavaria to Austria and Hungary; in brief, from the free countries to those subjected to the Communist regime.

In effect, the comparison between the experiences of more or less regulated market economies – with a more or less direct participation of the state in the management of the economy –, and the economies of the countries of real Socialism has represented one of the most enlightening parts of the conference, as it provided the possibility of getting to know the work of colleagues from the ex-Communist countries – in the certainty that their studies had been conducted in full liberty, using all the available sources (with the sole limitations imposed by preserved archival material), and whose results could be freely disseminated. This aspect has been vigorously emphasised by Giorgio Fodor, and, indeed, I believe that one of the advantages of these countries' restored freedom has been the possibility of proposing free interpretations of their economic history, interpretations subject only to the binding force of discussion and criticism, therefore released from the bonds of coercive consistency with ideological and political objectives that are extraneous to scientific research.

Even though I am not certain, I believe that before the fall of Communism, and even more so on the occasion of a conference held in a capitalist country, no historian of economics from Eastern Europe could have actually stated that «market economies have grown twice more quickly than the planned economies during 25 years» as sustained by Tarjan and Csillik in a methodologically problematic essay² and that «the industrialisation efforts were also directed to reduce the disparities in regional development. But the localisation decisions were also taken instrumentally for purely political purposes like the decision to build a steel work in Nowa Huta near Krakow where there was no hard coal nor iron ore».

More specifically, the essay by Vera Zamagni has significantly highlighted the role of existing regulations – seen as elements of crucial importance that have to be considered in order to explain the different dynamics and the different levels of wealth produced in a given time and space, as indicated by authoritative scholars in the theory and history of economic development, from North to Helpmann. In documenting the relevant differences of post-war regulations of the countries belonging to the two blocs, Zamagni has indeed written without hesitation that «differences are all to be related to the different institutional contexts»; in fact, even Tarjan and Csillik – as they discuss the trend of Italy's and Hungary's economies – implicitly point to the crucial role of institutions and regulations in determining the characteristics of the process of development, its intensity, place and time contexts.

On the role of the institutions I found Bicanic's study on Yugoslavia particularly illuminating. The essay by the Croatian scholar discusses the uncommon experience of a «self-governed economy» different both from market and state-controlled economies. As Bicanic points out, the unsatisfactory trend of Yugoslavia's post-war economy, imputable to the adjustment of its economic organisation to the model dictated by the

² The essay is problematic as first of all it implicitly expresses a vision of economic history that is not widely shared. Secondly, the methodological issue is prominent in the section in which the dynamics of Italy's and Hungary's long-run GDPs are analysed in statistical curves. I must admit that I am not aware of the level of reliability of Hungarian statistics, yet I do know that data on Italy are definitely reliable; thus, I am rather sceptical about the presented data's approximation to reality, at least of that pertaining to the period until the end of the nineteenth century – despite the fact that these data were authoritatively accepted by Angus Maddison –; as a result, I believe that the use of these data in representative equations of the relations between dimensions in a given curve, could lead to a highly doubtful (comparative) interpretation of the temporal tendency of the discussed phenomenon.

Soviet Union, entailed, also due to Tito's self-government ambitions, the pursuit of an adequate balance between Moscow and Washington: considering that post-1948 Yugoslavia had to suffer USSR retaliations as a consequence of Tito's «betrayal», from an economic point of view, the government of Belgrade was somewhat forced to turn to Western countries in the attempt to ensure minimal international trade which was essential for the survival of the nation.

To be precise, however, Bicanic's analysis shows that the self-managed economy model, which he presented in the phases of definition and adjustment (from 1950 to 1956), and experimentation (from 1957 to 1960), influenced only the organisation and management of companies (of all sizes), which were run by thousands of Boards of Directors (6,319 to be exact) and a multitude of elected members (114,313). Yet, the definition of the overall economic policy, the rules and the reference framework with which companies had to comply, firmly remained in the hands of the political leadership, the only authority entitled to determine the future course of Yugoslavian economy. In practice this meant not only that the government kept the power to select the investment sectors, issue financing orders, and define international trade policies, but also, and most importantly, that Boards of Directors had no control over the key issue of wage levels.

Bicanic's study proves that this experience was successful. Nevertheless, it would have been even more meaningful for us to enlarge the scope of his research to include some issues that he expressly avoided discussing; among those, research should have attempted to clarify to which extent the reform of the system «was a reaction to an external shock (the Soviet Union and its allies' embargo)» or rather «a result of internal generated change», an issue that remains instead «controversial and outside the paper». I am no expert in this respect; yet, it is not too hard to imagine that such a self-governing experience must have been sustained by the Western countries too, inclined as they were to promote experiences that could be perceived as hostile to the Soviet Union, and to favour the strengthening of Yugoslavian international trade ties with the free West – as can be recalled, an increase in trade was boosted by the phase of great economic development (which was to last till the end of the 1960s) of economies (like the Western countries) oriented towards growing market integration.

Several questions about the features of this specific form of self-governed economy remain unanswered, and may require further investigation. For

instance, it would be interesting to identify the theoretical framework underlying the «Yugoslavian model», who was behind it, and whether there were similar experiences in other parts of the world that could be used as reference events. In this respect, we know that before the war and in the post-war years cooperative companies played a remarkable role, especially in German areas; this may hold true also in the case of Yugoslavia where, however, the corporate model confused the power of the political authority, in charge of key choices and decisions in economic policy, with the system of self-managed companies which, notwithstanding pressures and limitations, still retained some margins of liberty. In effect, the in-depth investigation of such a model and of its historical realisation might open the way for the assessment of its validity, in the awareness that several countries are still looking for a proper solution to their problems.

Other papers have highlighted the relevance and influence of state regulations and of the «models» of economic development which have driven the recovery, often the rebirth, of several countries. With hindsight, from these contributions one can draw the not surprising conclusion that the main explanatory elements of the differences in the rhythm of such recoveries and the features of such evolutions were the model of organisation and management of the whole productive and trade system and its related factors. In other words, the reality saw the interaction of distinct economic models: on the one hand, market economies (which, however, included systems on which the government exerted its more or less powerful regulating effect) as well as economies in which both public and private economic segments intermingled along the well-known «mixed economy» pattern, and state-governed economies – with the state as their direct economic operator – in which private property was substantially absent, like those of the so-called «real Socialism» countries, on the other.

Among the former, Bonoldi's paper investigates the specific implementation of a regulative pattern in which the ties between central authority and local communities are characterised by significant autonomy (a vaguely federal model). In particular, Bonoldi examines the case of two mountain areas, and delineates the vast range of opportunities granted to local governments in determining, within proper margins of liberty, their own paths of development by applying proper economic and social policies. These case-studies prove that the understanding of all constitutive elements of the process (even of not-strictly economic aspects) is vital to meeting predetermined goals.

For its part, Surdej's paper on Poland has documented the radical and negative impact of the country's fall into the Soviet orbit. In effect, in 1946 the intervention of the new political leadership on Poland's economy, rooted as it was in massive agricultural production, led to the nationalisation of industrial companies and, above all, to the abrogation of private land property. As a result, Poland's production plunged, and its national system, deprived of an entire social stratum, was fatally overturned.

Differently, Ritrovato implicitly sketches the limits of state-intervention in the realisation of economic development programmes. In his discussion of the «Mezzogiorno» issue, despite refusing to embrace the solution of encouraging emigration to resolve the hardships and privations stemming from the economic backwardness of many regions and islands in the South of Italy (as proposed by Vera Lutz), Ritrovato concludes that the voluntary migration to the North actually mitigated and improved the conditions of local communities. Moreover, in considering the possible solutions to underdevelopment in the South, Ritrovato also points out that the initial conviction that the creation of infrastructures by the Southern Italy Development Fund to prompt productive activities and new settlements was later surpassed by the acknowledgment of the need to finance start-up companies directly. This led to the definition of a model which recognises that the processes of development are triggered and accomplished only in the presence of a multiplicity of, not always and not only economic, factors.

Mathis's essay on Austria has been equally clear in underlining the significant changes and territorial distinctions imputable to different regulations. While it is true that at the Anschluss Austria was already experiencing a highly diversified situation, it is also true that existing gaps increased in post-war years, due to the fact that Austria had long been under the control of two radically different authorities: the Western model, as implemented by free market-economy countries on the one hand, and the Eastern model, the expression of Soviet-modelled, fully state-controlled and planned economy, on the other. Consequently, Eastern Austria had to comply with economic and trade policies focused on the Eastern European countries – despite their inability to meet the needs of a State which had regained its independency and was aiming at quick and intense economic rebirth –, while Western Austria was drawn into the orbit of Western civilisation; this deeply split situation began to be amended only in the 1960s when Austria eventually recovered full sovereignty over its territory.

The attempted classification of the conference papers into those dealing with market economies – the so-called democratic countries – and those focusing on Soviet, state-planned economies – real Socialism countries – views the case of Spain as an exception. In this respect, the study by Collantes on 1939-1975 rural Spain has proved that comparisons (not mere juxtapositions) of different national realities (Italy in particular) are highly problematic, not only on account of radical differences in political and institutional systems, but also because the 'war' – in which all countries discussed at the conference were involved – is a factor that, due to its exceptional complexity, objectively hinders the comparison of at least part of the span of time under review.

In detail, in the Spanish post-war period, the last years of the 1940s were a turning point for more open international trade policies, which in turn had been prepared by the process of structural transformation of Spanish agriculture that was so intense and spontaneous to, almost, make the effects of the agricultural policies of Franco's nationalist government worthless. Furthermore, one of the main aspects differentiating the Spanish and the Italian experiences was the dissimilar land property pattern. Collantes maintains that in Spain a sort of «agrarian counter-reform» led to the accumulation of land into the hands of large landowners, whereas in Italy history developed in the opposite direction: due to different reasons, among these the spreading of industrialisation, the effects of the Agrarian Reform (1950) and the support given to small properties, those who benefited from the process of change were actually the tenant farmers who also took advantage of the emerging technologies, in order to manage properties consisting of relatively large fields and little manual labour.

As anticipated, some of the contributions presented at the conference and collected in this volume received special attention also due to the latest events: I am referring here to the set of papers by Leonardi, Lorandini, Cafaro and Goglio on the relations between local banks and economic development, and to the polemics raised by the current financial crisis – a crisis virtually caused by the not wholly virtuous conduct (at least towards the interest of the community) of banks and credit institutions. In this context, public intervention to the rescue of banks has come into the spotlight again, as expected by those having some knowledge of contemporary economic history; in addition to that, the often criticised goal of 'stability' has currently regained prestige and consideration over the criterion of 'efficiency' previously adopted by watchdog authorities in rather strict terms in order to regulate the credit system, its operations and structure.

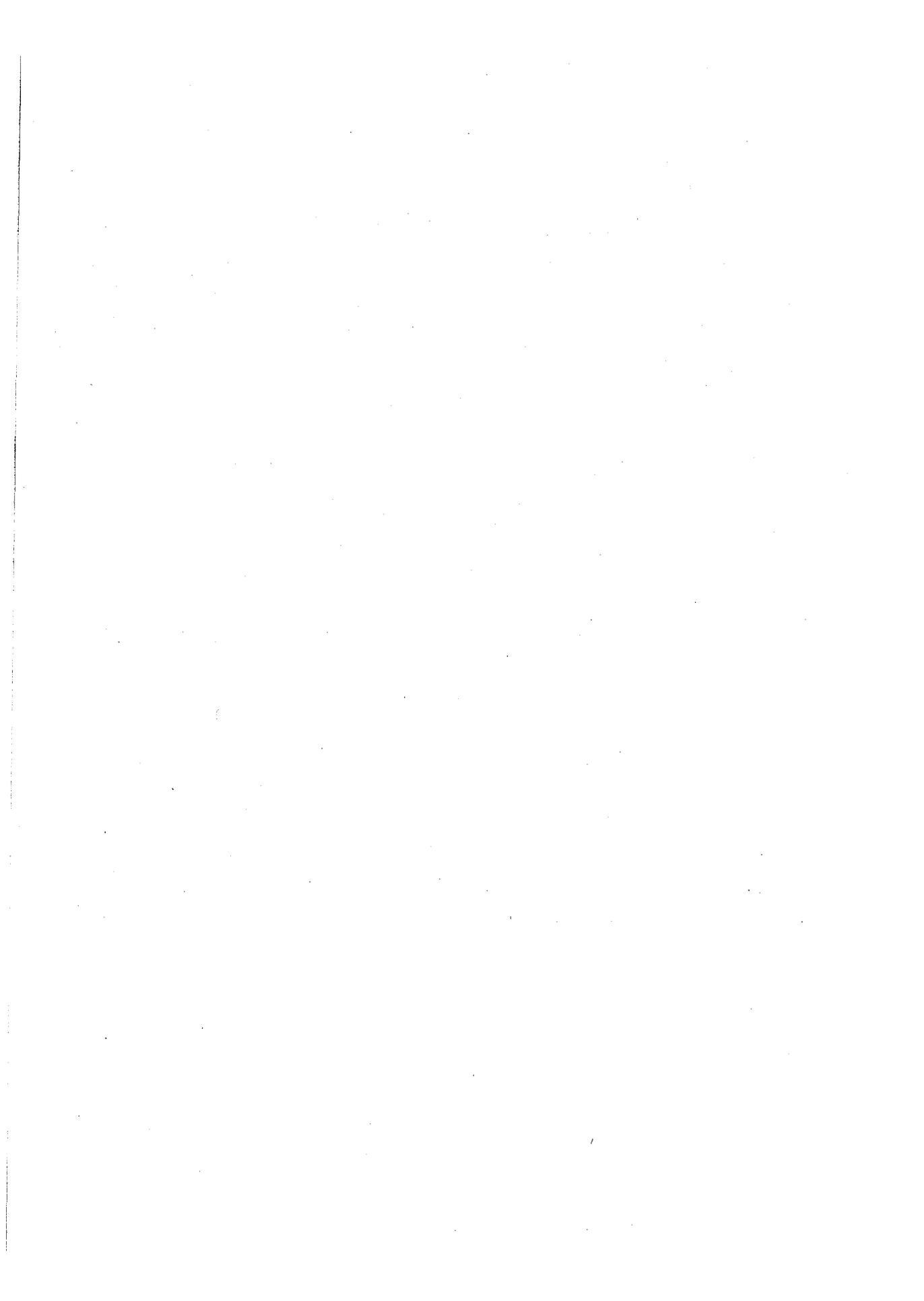
In this respect, the above-mentioned set of papers has demonstrated the crucial role played by local banks in prompting the development (not only in economic terms) of local communities. As Leonardi points out, the limited horizon in which these banks operate, which strongly determines their policies, and the fact that they do not figure among (continental and world) top credit institutions have been effectively counterbalanced by their capability of sustaining the corporate system and allowing enterprises to succeed on the global market. In effect, significant innovations have often emerged from the universe of local, small and middle-sized banks: think, for instance, of Centrobanca (among Popular Banks); of the network of national and regional Mediocredito banks, several local banks, and Casse di Risparmio that were its main constituents; of ICCREA (among Agricultural Banks). In all these cases, these credit institutions have succeeded in enhancing the role of the popular savings system, and in transferring its resources to the production and trade system, triggering national development, which is the main motive and goal of the credit system.

As Bonoldi suggests, the Italian case proves that the global and per capita GDP increase has also favoured the populations of several mountain areas, that is those areas which have always been indicated as irreparably subject to depopulation processes; that such an increase has actually been promoted by the possibility of including these mountain areas in developed areas; and that the exploitation of natural, agricultural and tourist resources was enhanced by the local banks themselves, which have always ensured their financial support.

Differently, Silvio Goglio has been critical of the relationship between local banks and territorial development; to be honest, his remarks would be taken into serious consideration. In particular, he has highlighted that the positive aspects in banks/development relations have depended on the different capability of local communities of adapting the financial potential of the credit system to the needs of their economy, with the aim of increasing wealth and income while sustaining all local initiatives – even non-economical ones and cultural events in particular –, which in turn determine these communities' level of civilisation. Reflection on these observations can lead to steering future research on less traditional topics, in the awareness, however, that, as Goglio has pointed out, «the widespread presence of small and middle-sized banks is likely to have played a maieutic role not dissimilar from the role played by venture capital with respect to developed (district or not) territories, distinguishing them from less developed regions».

Several other considerations could be made, but they would be beyond the scope of this part of the volume, which collects in written form the topics discussed at the two-day conference in Trento. Let me conclude by confirming the positiveness of this experience which was rich both in research contents and innovative methods adopted. All the contributions have been enlightening in different ways, and have proved, once again, that the careful selection of themes and objectives facilitates not only the investigation of issues of great complexity, but also the effective examination of diverse experiences (or at least apparently so) like those of the twentieth century.

From the perspective of economic history, much has still to be done: on the road of systematic cooperation, we are confronted with an embarrassingly wide choice of issues that are still to be investigated.



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