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History of Italian Foreign Policy

Italian Trading Policy: A Historiographical Analysis, 1860- 1960

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Perception from abroad

- ▶ **With exception of Fascism, major constant from abroad has always been one of precariousness**
- ▶ **Italy possesses one of the world's largest economies: state enterprises (though privatised), financial institutions, small businesses**

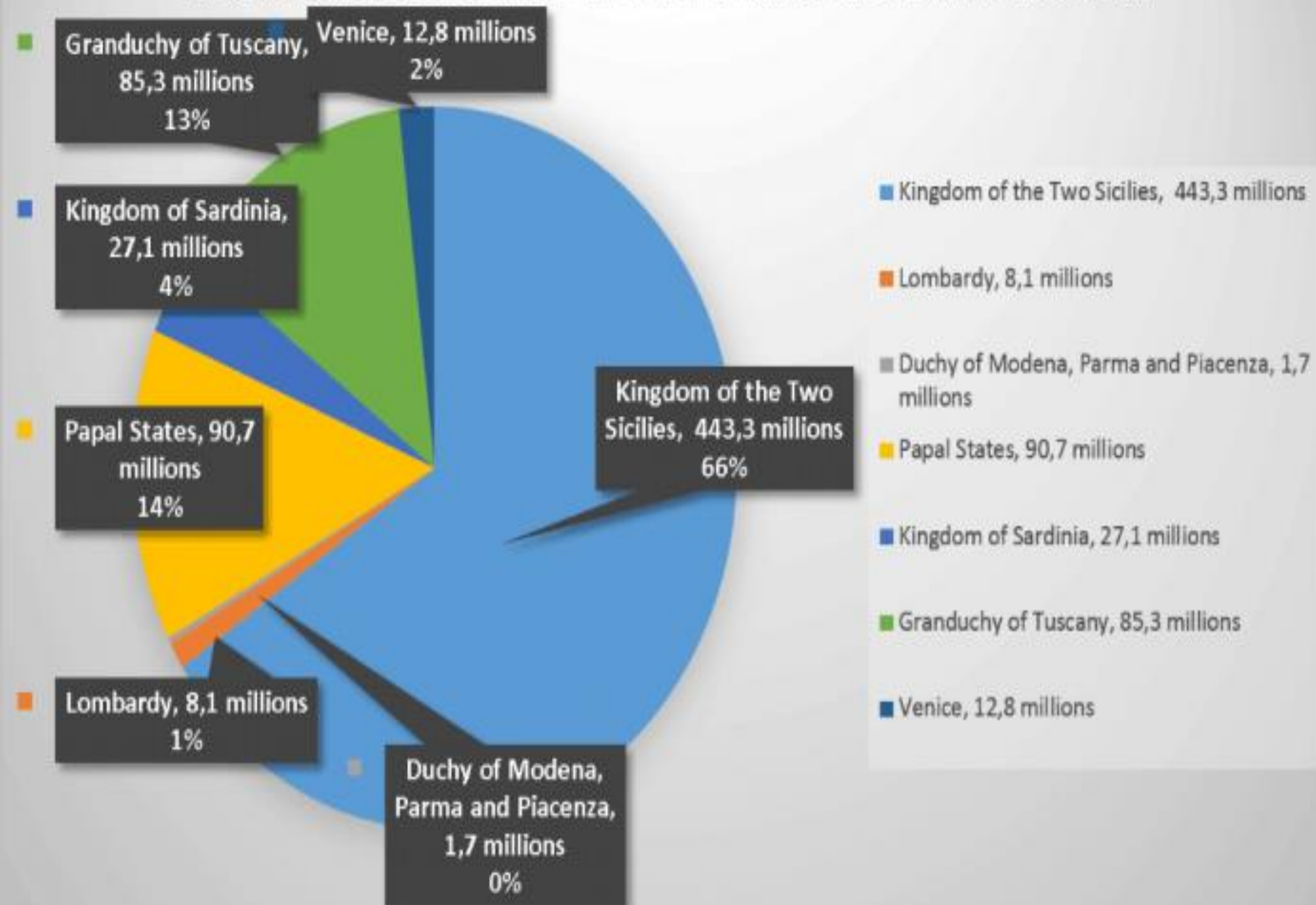
Pre-Unitarian Inheritance

- ▶ **Kingdom of Two Sicilies largest Italian State**
- ▶ **1800 Naples third most populous city in Europe**
- ▶ **First steamship in Italy 1818**
- ▶ **First Mediterranean shipping line 1823**
- ▶ **First iron bridge 1832**
- ▶ **First railway 1839**
- ▶ **First gas lighting 1840**
- ▶ **Naples relatively serious military power**

Naples-Sicily society

- ▶ **Traditional society and regression after 1800**
- ▶ **Biggest cities with largest population in Italy even after unification**
- ▶ **Lack of industrial class**
- ▶ **Contrast between capital court and urban masses living by their wits**
- ▶ **City lived on agrarian production from inland**
- ▶ **As Naples's population grew, administration provided grain shipping from Apulia – ports partially in ruin**
- ▶ **Spread of diseases**

ECONOMIC SITUATION BEFORE 1861 UNIFICATION



Naples-Sicily's Economy

- ▶ Industry much less important than agriculture
- ▶ Production of cannons, rails, locomotives.
- ▶ The first steamboat with screw propulsion known in the Mediterranean Sea is the "Giglio delle Onde", with mail delivery and passenger transport purposes after 1847
- ▶ In Calabria cast iron (ghisa) was produced
- ▶ In Sicily sulphur was mined for gunpowder. Sicilian mines able to satisfy most of the sulphur world demand
- ▶ Silk cloth production was focused near Caserta
- ▶ Food processing was widespread; much pasta was exported.
- ▶ The Kingdom possessed the largest merchant fleet in the Mediterranean. Urban road conditions were to the best European standards. By 1839, the main streets of Naples were gas-lit. However, road conditions in the interior and hinterland areas of the kingdom made internal trade difficult
- ▶ First railway line. However, until the Italian unification, the railway development was highly limited. In the year 1859, the kingdom had only 99 kilometers of rails, compared to the 800 kilometers of Piedmont. This was because the kingdom could count on a very large and efficient merchant navy. Also, southern landscape was mainly mountainous making the process of building railways quite difficult.

Railways 1861



Railways 1880



Foreign Investments

- ▶ **Beneficiaries were above all King and court, apart from foreign investors**
- ▶ **Marsala industry and sulphur mines – Britain**
- ▶ **Naples's industry – France**
- ▶ **State and foreign bankers as only permitted vehicles of economic activity**
- ▶ **Contacts with abroad as cause of economic backwardness: same mechanism as colonialism in Africa**
- ▶ **English railways entrepreneurs, French bankers, Swiss and Belgian financiers had decided that united Italy would be better market for their exports**
- ▶ **Prompt building of railways was outcome of foreign investments and Northern Italian labourers**

Post-Unitarian Free Trade

- ▶ **Gap between theory and practice**
- ▶ **Free trade ideology adopted by main politicians**
- ▶ **Tariffs lowered with France, Switzerland, Austria**
- ▶ **Bilateral agreements as common practice till WW1**
- ▶ **Deflation and balanced budget as a response to economic crisis, to the detriment of industrialisation**

Trading partners

- ▶ **USA as a world economic power**
- ▶ **Imports from Britain – large balance of payments deficit – Coal, despite initial development of hydroelectric energy**
- ▶ **Lack of coal as reason of Italian pre-war diplomacy**
- ▶ **German dumping in Italy steeled Italian resentment and helped forge industrial-military complex anxious eventually to break out of Triple Alliance, also determining more aggressive imperial policies**
- ▶ **Dumping: In international trade, the export by a country or company of a product at a price lower in the foreign market than the price charged in the domestic market**

FIAT

- ▶ **Foundation July 1899**
- ▶ **At first many among others, risking bankruptcy in 1907**
- ▶ **Swiss capital and American factory techniques**
- ▶ **Avoid too an open political exposure: we businessmen are supporters of the present government by definition**
- ▶ **1914: contracts with Russian Army, British and German navy**

Agriculture

- ▶ **Risorgimento's ideology: to modernise agriculture**
- ▶ **Early XX century: Agriculture in PO Valley characterised by capitalist practises – flat terrain easy accessible by farm machinery – and much land in the hands of anonymous companies**
- ▶ **Small private estates in Piedmont**
- ▶ **Sharecropping arrangements in Tuscany**
- ▶ **Sharecropping is a system of agriculture in which a landowner allows a tenant to use the land in return for a share of the crop**
- ▶ **Big estates with absentee landowners in Sicily and Calabria**
- ▶ **State always to run economy**
- ▶ **Commercial pressure groups (Confindustria 1910) urged establishment of authoritarian system**

WW1

- ▶ **Fiat workforce grew from 4,000 to 40,000**
- ▶ **Ansaldo's capital rose from 30 million to 500 million**
- ▶ **State employees grew from 280,000 in 1907 to 500,000 in 1919**
- ▶ **State industry or state-funded industry: steel, mechanic, naval constructions. Industries aiding war effort**
- ▶ **State funds to banks, automobiles, electric and chemical industries**

Fascist First decade

- ▶ **Orthodox international trading policy**
- ▶ **Realistic trading partner of Russia**
- ▶ **Italy accepted that leading power of world capitalism was USA**
- ▶ **Ties with financiers in US, loans from JP Morgan**

Fascist Economy's First Phase (1922-1925)

- ▶ **Progress in world economic expansion**
- ▶ **Liberal policy, reducing taxation and favouring exports through currency devaluation and high inflation**
- ▶ **New fiscal system: progressive income taxation**
- ▶ **Foreign investments**
- ▶ **Privatisations**
- ▶ **Lower military budget**
- ▶ **No trade union rights**
- ▶ **Lower salaries**
- ▶ **Balanced budget in 1924**
- ▶ **Higher industrial and agricultural output**

Second phase (1926-1929)

- ▶ **High grain imports**
- ▶ **Currency stability (quota 90): devaluation harmed heavy industry, necessitating low cost raw materials**
- ▶ **Exports slowed down**
- ▶ **Costs of deflation had repercussion almost only on salaries**
- ▶ **1925: "battaglia del grano", aiming at food self-sufficiency**
- ▶ **Protectionism towards grain imports and incentives to farmers augmenting production**

Fascist Economy

- ▶ Higher taxes
- ▶ Lower salaries
- ▶ State subsidies to banks and industries
- ▶ Public works
- ▶ “Battaglia del grano”



The Great Depression

- 1930 first problems dealing with agriculture: lower prices = lower profits
- Lower loans and savings = lower demand
- Lower American investments
- ▶ 1931 problems dealing with industries: lower loans and demand
- ▶ Company Shares devalued by one third
- ▶ State intervention: State capitalism in banking and industry *IMI/IRI*

IMI and IRI

IMI

- ▶ Financial system in jeopardy
- ▶ Istituto di liquidazione purchased share packages owned by banks and set up IMI (Istituto Mobiliare Italiano) in 1931, which replaced banks in giving loans

IRI

- ▶ 1933 IRI (Istituto per la Ricostruzione Industriale). The State purchased the most important industrial systems, thus keeping them out of bank control
- ▶ Higher public expenditure
- ▶ Devaluation to compensate budget deficit
- ▶ Inflation compensated through lower salaries, with obvious repercussions on domestic market

Colonialism and autarky

- ▶ **1935 Abyssinian War as a way towards economic revival**
- ▶ **Rearmament, emigration and investments in colonies**
- ▶ **1936 autarky as a way to be independent from international markets**
- ▶ **Unemployment partially reabsorbed**

Towards the War

- ▶ **Dualism big industry / small enterprise**
- ▶ **State intervention favoured oligopolistic associations**
- ▶ **Lower technology favoured small business and artisans**



Late Fascist economy

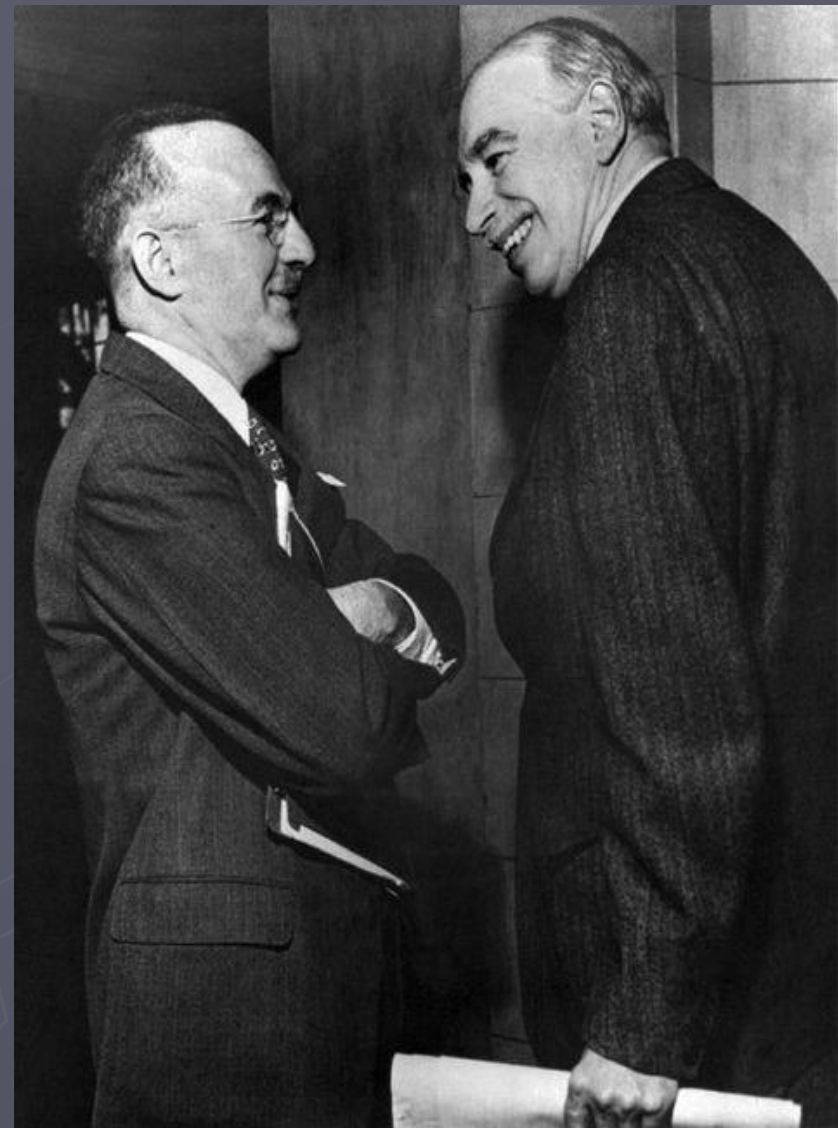
- ▶ **Germany as leading trading partner**
- ▶ **Stock market rose noticeable at news of Italian non-belligerency**
- ▶ **Once clear that war would last long, wealthy of all kinds rapidly detached from Fascism**
- ▶ **1943-44 industrial and commercial Italy hastened to renew relations with US**

Post-war economy

- ▶ **Business community anxious to follow American practices: anti-communism, deflation, free trade**
- ▶ **In search of conservative party**
- ▶ **Christian Democracy's diversity: free trade vs Third Way:**
 - A) Post-war economy very poor**
 - 1) -71% industrial production**
 - 2) -37% agricultural production**
 - 3) 20% unemployment**
 - 4) -50% real wages**
 - 5) Open path to emigration and negotiations for foreign loans**

1944 Bretton Woods Agreements

1. Stable exchange rate and Dollar as reference currency
2. USA has gold and grants convertibility of currency
3. International Monetary Fund to control economic and monetary policy of countries
4. World Bank to give loans to sustain development
5. World Trade Organization to regulate international markets according to open door policy



H.D.White (Usa) at Bretton Woods with Lord Keynes (GB)

Italy at the end of WW2

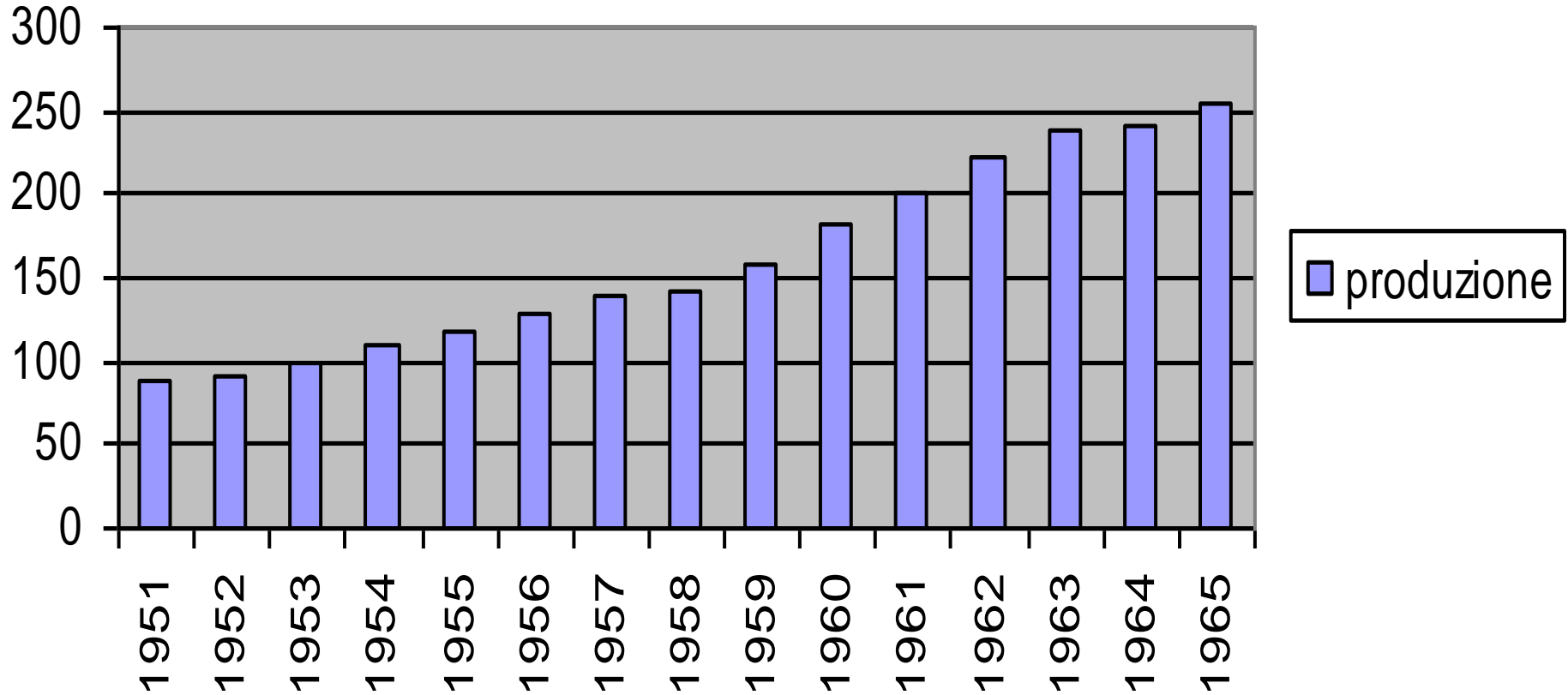
- ▶ **Industrial Reconstruction**
 - 1. IRI as support and integration of private enterprises oriented to exports**
 - 2. Containment of wages and emigration from South to Industrial Triangle**

From Reconstruction to the Boom

- ▶ **1950s Exports, Marshal Plan investments, low workforce costs favour output growth**
- ▶ **Higher demand and employment rate**
- ▶ **High state intervention in infrastructures**

(1959-1962) Economic BOOM

indice della produzione industrie manifatturiere



Economic boom

- ▶ Italy industrialised as never before
- ▶ For some time this growth occurred in laissez-faire way: unions weak, political opponents object of police repression
- ▶ First generation of former peasant-workers preserved culture of gratitude
- ▶ Left wing easy rhetoric of crisis of capitalism
- ▶ 1957 real wages still blocked at 1948 level
- ▶ North-South gap worsened
- ▶ Only after hot Autumns ordinary Italians began to improve wages and life-style

ENI

- ▶ **ENI, funded by E. Mattei in 1954, assembled enterprises set up in 1930s to produce energy**
- ▶ **Mattei recognized the need to secure foreign supplies**
- ▶ **Mattei expanded abroad and turned his attention to international oil markets**
- ▶ **To break the oligopoly of the Seven Sisters, Mattei initiated agreements with the poorest countries of the Middle East and the Soviet Union**
- ▶ **He also publicly supported independence movements against colonial powers, which allowed ENI to take advantage of postcolonial bitterness in places like Algeria**
- ▶ **To Iran and Egypt he additionally offered that the risk involved in prospecting was entirely ENI's: if there was no oil, the countries would not have to pay**