Introduction

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Introduction to "Industrial Plicy in Italy 1945-90: phases, links, perspectives"

During the last few decades, Italy's economic development has been tumultuous and, in many ways, contradictory. Its main features have been the growth and the coming of age of an industrial system which is firmly ranked among the first five or six most industrialized countries in the world, and which, despite the risk and the difficulties involved, has always been the cornerstone of the nation's economy. In short, it was during these years that Italy became a strong and modern industrial economy.

It will therefore be interesting to reexamine some of the key aspects of this development, not only to gain insight into the "great race" and the successes of this period, but also to note the errors, limitations, problems, and defeats. This will enable us to better define the "strategic position" of Italian industry and industrial policy, or the possibilities and the risks in store at the beginning of the 1990s, a time of radical change. Within a international context of economic and financial integration, increased competitivity abroad and industrial specialization present both opportunity and risk, in the form of new prospects arising from changes in East-West relations, and in the form of growing contrast between the northern and southern hemispheres.

The creation of the single market in western Europe and the integration with East European countries both provide positive examples. However, an example of the dangers involved is the recent crisis in the Middle East which, though certainly fueled by the *hegemonic aspirations of one regime, may nonetheless (or at least, in part) be a signal of a widening discrepancy between North and South.*

In any modern industrial economy, it is always difficult to evaluate the role and the impact of economic policy, or more specifically, industrial policy, as a guide and a stimulus to industrial development. Indeed, its primary role must be to influence the decisionmaking and strategy of firms, and to make full use of the capacity which exists within every industrial system. Although economic and industrial policies can promote or stymie decision-making processes, they are incapable of "inventing" the firm or industrial development on their own. As a consequence, the interaction between industrial policy, economic policies and development is difficult to define.

Theoretical debate in favour of macroeconomics or micro-economics, economic policy or industrial policy, interventionism or laissez-faire, controlling aggregate demand or supply-side policies, by-sector or by-factor objectives, and guaranteeing or differentiating the rules of the game has ebbed and flowed, but has certainly not subsided.

Empirical evidence from the leading industrialized countries reveals a vast array of experiences evolving over time within each nation: among these are the "compactness" of German and Japanese industry, the more sweeping changes of the English system, French "dirigisme", American neo-free-enterprise, and the "atypical" Italian situation, which is the subject of this monograph and of the papers which follow.

This collection is divided into three parts.

The first section outlines the theoretical frame of reference and the empirical experiences of the Italian economy during the last few decades. The volume begins with a paper by Pippo Ranci, «Macro-economic Policies and Industrial Policies», *which introduces the industrial policy "issue", its role, its sphere of activity, and the various combinations created in macroeconomic and micro-economic scenarios. A critical view of the framework, the turning points, the major issues, the philosophy and the approaches in connection in the study by Romano Prodi and Daniele De Giovanni,* «Forty-five Years of Industrial Policy in Italy: Protagonists, Objectives, and Instruments».

The second section examines three fundamental "links" between Italian economy, industry and industrial policy. Firstly, the public and private sectors are analyzed in depth in the paper written by Fulvio Coltorti, «Phases of Italian Industrial Development and the Relationship between the Public and Private Sectors» *and in a specific study Paolo Leon,* «Public Enterprises and Industrial Policies».

Secondly, large- and small-sized firms are dealt with in papers written by Gian Maria Gros-Pietro, «The Restructuring of Large-Sized Industrial Groups», *and by Patrizio Bianchi,* «Industrial Policies for Small and Medium Firms and the New Direction of European Community Policies».

Thirdly, the regional development gap becomes the subject of study in «The Tortuous Road of Industry through the Mezzogiorno», *by Mariano D'Antonio, and in* «Industrial Policies and Territorial Development in Northern and Central Regions of Italy», *by Maurizio Tenenbaum.*

A common denominator can be found among all of the contributions in the first two sections: each work stresses the need for industrial policy to focus primarily on two synergic and interrelated objectives, innovation and competitivity. Major developments in this process were achieved during the 1980s, with the tumultuous beginnings of technological and organizational innovation in a context of growing integration and of international challenge. Moreover, innovation and the competitive struggle moved out of the realm of individual firms to encompass the entire economic and industrial system. The innovation and competitivity of companies became a part of the innovation and competitive survival of the system and of the country as a whole.

The third section analyzes this message in the paper by Bruno Lamborghini and Cesare Sacchi, «Industrial Policy and Technological Innovation». *As in the other studies, the experiences of recent decades are re-evaluated not only to "understand" what actually occurred but also to evaluate the Italian industrial system so as to meet the challenges presented within the international economic system and the Italian economy leading up to the year 2000.*

Of course, an introduction is no substitute for the detailed study of each individual paper, and can hardly include all of their nuances and results in a few lines. Nonetheless, an attempt to identify and to link the basic messages of each work may have its merits.

After having examined the role, the flexibility and the essence of industrial policy, Pippo Ranci summarizes the various schools of thought adhered to by economists and provides a useful classification for the theoretical aspects of this issue. However, in the light of empirical experiences, these theoretical approaches began to meld with one another, thereby losing their individual characters and the ideological rigidity that had fuelled debate over the decades. Although mixtures and combinations were created, they were all characterized by a healthy basic tendency to distinguish the autonomous role of the firm and of industry from the role of public intervention, which should involve more general macroeconomic policies and more specific industrial policies. "Everyone should do his own job" is the basic message here. The confused roles and unclear objectives within the private and public sectors should be abandoned in favour of the synergies between clear, forward-looking industrial strategies which Italian economic and industrial policies must provide in order to win the competitive race against other systems.

The major phases of Italy's industrial development and of industrial policy are closely examined in the paper by Romano Providi and Daniele De Giovanni. The introduction presents several basic conclusions:

1) the Italian industrial system has gradually moved toward European integration and during the last decade has made major progress toward the single market. However, industrial policy has not kept with this progress, and stubbornly retains its unrealistic local and national perspective;

2) despite several changes, Italian industrial policy has always been characterized by the objective of maintaining the status quo. This can scarcely be considered a far-reaching plan for industrial policy, nor can it provide firms with a strategic direction;

3) private- and public-sector dualism was actually institutionalized by the creation of two separate ministries, Industry and

State Participations. State-owned firms are particularly resistant to change, and impede mergers, restructuring and concentrations. These operations are the minimum requirement for strategic international competition;

4) the problems of unemployment and the Mezzogiorno have formed a giant knot which is becoming increasingly tangled, despite the imminence of European integration; as a consequence, regional disparities are accentuated, and solutions become more difficult and complex.

Even during the postwar reconstruction, the initial phase of Italian industrial development, Prodi and De Giovanni perceive a lack of strategy and confused objectives. Since then, «general objectives of stabilizing investments and promoting development in poorer areas of the country took precedence over the traditional objectives of industrial policy and increased competition».

Indeed, the main objective of the first pieces of legislation was to control the everyday lives of firms. Debate falsely juxtaposed a "guided and sheltered" reconstruction strategy with a policy of increased international competition. The first significant step occurred during the 1950s and 1960s, when the initial postwar phase of sustained development was interrupted by the first signs of economic crisis. During this period, the creation of a plan, which was announced but never put in place, caused economic and industrial policy to develop a "schizophrenic" character. The dichotomy of "intellectual vision", which at times wished to chart the course to be followed by Italy's economy and industry, and actual economic and industrial development was readily apparent.

Changes in the real economy, domestically and internationally, began to outpace the prognostications of intellectuals and planners alike. Industrial policy was considered a part of planning policy, aimed at demand and designed to allocate production; however, it was continually unable to match the speed of the system. The highly criticized shower of incentives leading to the creation and the growth of small- and medium-sized enterprises (by virtue of the defective Law 623, for example) were re-evaluated. As Prodi and De Giovanni correctly point out, the adverse effect of this policy is the fact that the public sector had delegated its role of administrator to the banking *system, thereby accentuating its lack of efficiency and effectiveness compared with other governments.*

Another important step is the fact that certain large-sized public-sector firms, such as ENI, became responsible for vertical planning within their sector, leaving only "horizontal" planning to be accomplished by the public sector. Further, economic planning began in Italy without the consensus of the interest groups involved. Here, the authors seem to be mildly chastising not only government, but also the unions and Confindustria. In their opposition to planning strategy, albeit for different reasons, the latter two were in effect excluded from it. It is as though a script were written, but the actors, at times explicitly refused to play their parts. Hardly surprising, then, that the five-year plan for 1965-1969 evolved into the 1966-1970 and 1967-1971 plans: the lengthy debate produced no concrete results.

Just as the curtain fell on this period of planning, the crisis of the 1970s began. this period was characterized by a restructuring policy unable to keep pace with fresh developments. While other countries formed the mergers and strategic alliances which would give rise to the new European oligopoly, bailouts and increasing the sphere of action of the public sector were the Italian priorities. A timid attempt to apply the American Chapter 11 *principles to Italian industrial policy came in the form of the Prodi law; however, this law has once again been disowned by its creator. The law was twisted out of shape, and became a mere source of subsidization. During the late 1970s, a serious industrial policy was attempted by means of external European Community intervention. Given the lack of courageous decisionmaking at the national level, this external support was certainly helpful, but the strengthening of Italian industry could scarcely be considered an appropriate objective for EEC regulations. At the same time, attempts to untie the legislative tangle were being made by regrouping the measures in Law 183, in the Presidential Decree of 9 November 1976 and in Law 675.*

Omnibus legislation was resorted to once again, making it impossible to devise or to execute long-term strategy.

Whereas the 1980s signalled the beginning of a new era worldwide, this was the decade of missed opportunities for Italian indus-

trial policy. To be sure, Law 46 on technological innovation and Law 696 were significant improvements. Nonetheless, Italy still has far to go. Prodi and De Giovanni end with several conclusions and a question. The conclusions are as follows: a) *no new leading companies have been created;* b) *industrial policy has in effect been developed within firms themselves;* c) *state-owned firms are impervious to change;* d) *in spite of efforts at restructuring large-sized companies, not enough of these firms exist, and no new ones have been created;* e) *small- and medium-sized firms seem to have no place in the picture, since they are protected by absurd public-sector intervention "shelters". Hence the question: can Italy survive with only small- and medium sized firms?*

The three major relationships between industry and the economy in Italy are examined in the second section of this volume, beginning with a paper by Fulvio Coltorti which focuses on the complex theme of public- and private-sector interaction during each phase of Italian industrial development.

Four periods are examined. During the first phase, from reconstruction to the economic miracle (1950-1964), the public and private sectors, despite some confusion, adhered to roles which led to positive results: public-sector firms were responsible for the steel and energy industries, while textiles and metals were the province of the private sector.

During the second phase, from 1964 to 1975, state intervention was granted in unprecendented amounts, but had never before been as confused and inefficient. The public-sector sphere of action continued to grow, while industrial and economic policies tied private sector development and management to negative real interest rates. This in turn caused a debt crisis, and led to an excessive growth of capital-intensive processes encouraged by the constraints of industrial relations and the use of labour. Moreover, industrial development in the Mezzogiorno became an objective of public-sector firms. This objective was pursued using capital-intensive equipment to further primary industry, which had virtually no local or regional induced effects. At the time of the energy crisis, the Italian public and private sectors were rife with structural weaknesses, and leaning dangerously toward primary industry.

The third phase, 1975-1983, involved an ostrich-style policy, since restructuring decisions were delayed, and heads were hidden in inflation and devaluation.

During the final phase, 1982-1983, private- and public-sector industry were clearly delineated. Bound by rigid monetary and foreign-exchange constraints, the private sector was compelled to restructure and seemed to take flight. Industrial and organizational innovations recreated profit margins, and financial management began to flourish. Private-sector firms were now able to operate independently on the open market, free of public-sector interference and subsidized financing. Internationalization led to the creation of strategies based solely on cost-efficiency and realized with one's own financial means and/or with funds raised on the market and managed without benefit of a public-sector scheme. Despite major restructuring, Italy's state-owned firms fell far behind the European and international oligopolies. Although individual areas of public-sector industry were set to proceed, no overall industrial policy was developed. Instead, the institutional dichotomy, the ministries of industry and state participations, quickly reduced such strategy to ineffectual debate, thereby paralyzing vital merger and integration processes. At the same time, companies on the international market were merging so as to occupy leadership positions.

The role of public-sector firms, and more specifically the system of state-owned firms widely used in Italy as an industrial policy instrument, is examined in depth in a study by Paolo Leon. The paper analyzes the objectives related to the promotion of industrial development and the cases in which decentralized market decisions frustrated strategic objectives, leading instead to market failure.

The shortsightedness of the microeconomic decisions of individual firms has long been recognized in economic literature. Because of long-term deadlines, high financial requirements, and the high cost of research and development, individual firms are compelled to decide against certain investments which are actually a determinant factor of overall industrial progress. Empirically, the Italian case reveals that shortsighted private-sector decisionmaking is often accompanied by farsighted public policy, leading to an over-abundance of objectives and the misdirection of resources away *from increased profitablility and efficiency. One example is the lengthy debate concerning the applicability of the social discount rate to decisionmaking within the public sector.*

As regards theory, private-sector nearsightedness and public-sector farsightedness revealed the need to direct investments and the development of public-sector firms, as well as the need to subject public-sector firms to the same selection criteria for investment imposed on their private-sector counterparts (*).

The second relationship involves industrial policy concerning the development and restructuring of large-sized firms and the dynamic and complex system of small- and medium-sized enterprises, dealt with respectively by Gian Maria Gros-Pietro and Patrizio Bianchi.

One of the most detrimental characteristics of the Italian economy is the small number of large-sized firms, the majority of which are state-owned. Gros-Pietro also points out the lack of industrial policy strategy, and in particular the absence of an industrial strategy for the public sector. State involvement in large-sized firms could have been used as a means of coordinating strategy during the late 1960s, when the need to shift resources to sectors with higher value-added became increasingly evident. Instead, in the absence of clear objectives and roles, safeguarding employment began to take precedence. This inefficient allocation of resources adversely affected the ability of the system to create new jobs.

In the late 1960s and early 1970s, large-sized firms were also faced with the problem of changing market strategy. For much of the 1970s, the burdensome constraints on industrial relations and on the labour market and the macroeconomic policy framework (negative real interest rates, inflation and a weak lira) caused companies to gradually increase the ratio of capital to labour, thereby creating further technological rigidity. In an effort to increase economies of scale, workers were laid off; this decline in employment was formally hidden by government regulations and subsidies. Moreover, negative real interest rates caused a debt crisis which only served to fuel this

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(*) Mario Baldassarri: *Spesa pubblica, inflazione e crescita,* Ch. V, Bologna, il Mulino, 1979.

process, since firms could scarcely raise large amounts of risk capital on Italy's small stock exchange. The context of uncertainty ruled out the possibility of raising funds on foreign markets.

At this stage, Gros-Pietro identifies five industrial policy objectives for large-sized firms, and dedicates the latter part of his study to the changes and plans for improvement made during the 1980s.

The author's findings are extremely interesting: until 1980-1981, more than half of public-sector transfer payments were used to offset financial operating losses, principally those of state-owned firms; in 1987, the percentage of transfer payments used for this purpose fell to 6%. During that period, Gros-Pietro asserts, industrial policy was made not so much for large-sized firms in general as for the "great losers". The major developments which took place from 1983 onward include a more coherent strategy aimed at fostering technological innovation and exports. Although this more recent industrial policy direction seems justifiable, it is found to be sorely lacking when compared with the qualitative and quantitative reality of other industrialized countries.

As regards the industrial policy situation, the author outlines the autonomous action of large-sized firms during the last few years. One important step is the shift from old-style industrial decentralization of the 1970s to the "network company" concept, which decentralizes production even as it recentralizes and coordinates strategic functions, decisionmaking and resource management (the difficulties involved in carrying out a similar process aimed at small- and medium-sized firms are examined in the paper by Patrizio Bianchi). The ever-changing international scene, clearer (albeit insufficient) industrial policy direction and the great effort of firms have carried Italian industry through the difficult period of the 1970s and 1980s. The five industrial policy requirements, Gros-Pietro concludes, have remained more or less the same: 1) to restore financial health to state-controlled companies; 2) to restore financial health to specific troubled public and private industrial sectors; 3) to encourage large-sized private-sector firms to move toward more sophisticated products and technology; 4) to free the major banks from loans accumulated by certain large-sized firms; 5) to develop a capital market capable of meeting the needs of Italian industry.

The other side of the relationship, small- and medium-sized firms, is analyzed by Patrizio Bianchi, with particular emphasis on the creation of the single market and on the need to bring Italian policy in line with Community regulations. According to Bianchi, the essence of the industrial policy question lies in the fact that the individual firm is generally targeted. Small- and medium-sized enterprises in Italy are unable to develop coherent strategies, and do not have sufficient resources to execute them. In addition, the incentives provided by industrial policy are often "out of reach".

The problem of industrial policy is twofold: on the one hand, it consists of the reality of integrated industrial districts while on the other it concerns the need for individual entrepreneurs to adopt an industry-wide or district-wide perspective when making decisions. However, the many risks and difficulties faced by small- and medium-sized firms lead the author to ask, as Prodi and De Giovanni did at the end of their paper: can small- and medium-sized firms survive, and what are their chances of development?

During this postwar period, the regional relationship very gradually became more complex. Nowadays, in the Mezzogiorno, giant steps in industrial progress exist alongside deepening poverty and underdevelopment. To be sure, the effects of industrial development have largely been positive; nonetheless, they stand out in stark contrast to the underdevelopment ever present in certain areas of southern Italy. In the central and northern regions, the old industrial triangle is complemented by major development to the east, primarily along the Adriatic coast. Here, too, the industrial progress of certain areas highlights the lack of development in others. For this reason, it was considered appropriate to deal with this relationship in two separate studies. The paper by Mariano D'Antonio examines the problems of the South, while the paper by Maurizio Tenenbaum analyzes the problems of regional development in the Centre-North.

The study by D'Antonio begins with the most recent experiences of the 1980s, which he defines as a period of missed opportunities to industrialize the Mezzogiorno once and for all. Despite the significant changes which had occurred, weaknesses in the two traditional pillars of industrial policy for the South, the investment of state-owned firms and the granting of incentives (particularly financial relief) *began to show, and they very gradually broke down. New specific and national legislation did little to improve the situation.*

The author's well-documented conclusions are analytical, detailed, and of great interest. The work ends with a hard-hitting point: «the big question concerning the southern Italian industrial apparatus is how to create, over the next few years, a steady flow of exports, and how to include small enterprises in this flow. Incentive policies must either find a suitable answer to this question, or risk being accused and suspected of acting as a curtain to southern Italian entrepreneurs, shutting out not only foreign competition, but also international markets».

The analysis by Maurizio Tenenbaum provides new insight into industrial policy and regional development in central and northern areas. This work is largely based on cross-comparison analysis by sector and by region, used for the first time in a study of this kind. The case studies included in the appendix will undoubtedly be of interest. Detailed analysis of the documentation and a keen critical sense led Tenenbaum to develop a working plan focusing specifically on the development of small- and medium-sized firms. Decisions on the type of instruments to be used vary with each different scenario. The objectives included in this proposal are indeed justifiable, and are the subject of study elsewhere in this collection.

In our view, the exhaustive nature of this volume and the diverse subjects, opinions and viewpoints of the authors provide an interesting mix of analyses, conclusions and proposals. However, each work is subtly yet clearly linked to the others. This link is the need for Italian industrial policy to develop an accurate, rigorous strategy of intervention, and to leave behind the differing and often incoherent objectives which in past decades created a bureaucratic structure resistant to change. The strategic focus needed for industrial policy and technological innovation is of prime importance.

This is the subject examined by Bruno Lamborghini and Cesare Sacchi in the final paper of this collection. The two authors begin with an analysis of what they call the "driving forces" of innovation during the past few decades: the external action of government, and the internal action of firms. A dangerous situation is created, then, if the internal force drives companies toward innovation while the external force of government action is on the wane. The conclusions made by Sacchi and Lamborghini at the end of their paper are representative of the entire collection:

1) during the 1980s, a sharp upturn in Italian industry brought companies out of the crisis of the 1970s;

2) this transformation was largely due to the "driving forces" of firms;

3) though insufficient, the innovative effects of industry on small- and medium-sized firms as a result of the transformation of large-sized firms have been positive;

4) developments in industrial policy, especially innovation policy, though insufficient, have been positive. Incentives for applied research, technological innovation and new plant and equipment in the case of small- and medium-sized enterprises, recent legislation for the Mezzogiorno, measures to promote research and innovative services, and the signing of planned contracts between the state and enterprises are all positive steps. Most of these measures, aimed at providing direct assistance, were fraught with difficulties, delay and uncertainty as far as the access to funds and actual payment were concerned. This ran counter to the turn of events in other leading industrialized countries, such as France and Germany;

5) the transformation and redress of the industrial apparatus enjoyed a favourable international economic climate of sustained growth of industrialized economies, and low-cost raw materials. Changes in this situation began to occur even before the effects of the recent Middle East crisis. The persistent inequality of domestic costs in Italy in a context of increasingly fixed exchange rates may be a major obstacle to development over the next few years;

6) it is now obvious that competitivity involves entire economic systems. The lack of clear industrial policy direction is therefore a major handicap for Italian industry, especially as regards innovation policy. However, policymaking in support of innovation, Lamborghini and Sacchi conclude, implies «policymaking to promote the development and modernization of infrastructures, networks and services in industry» and «creating the necessary conditions for a truly competitive market, fitted into the Community-wide

framework and open to international comparison. Markets, industry, networks and services must be closely interconnected to meet the competitive challenge of the 1990s».

Industrial policy and innovation policy lack «true synergy between the driving forces of innovation internal and external to firms. A context of real competitive market conditions must be created in which the presence of the state is quantitatively lower, and yet qualitatively higher».