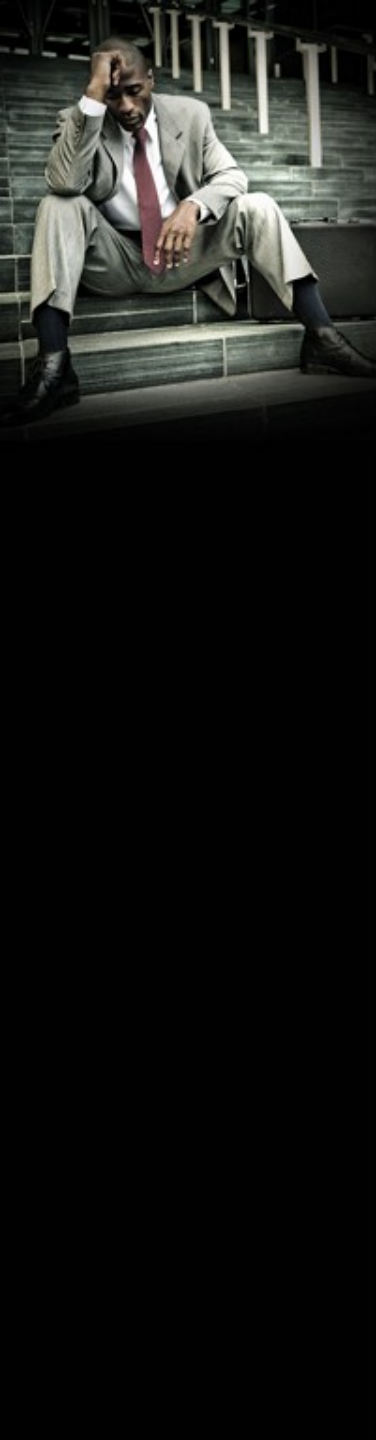


Lecture 2: The roots of Italian economic decline

Italian Economic Decline (I)



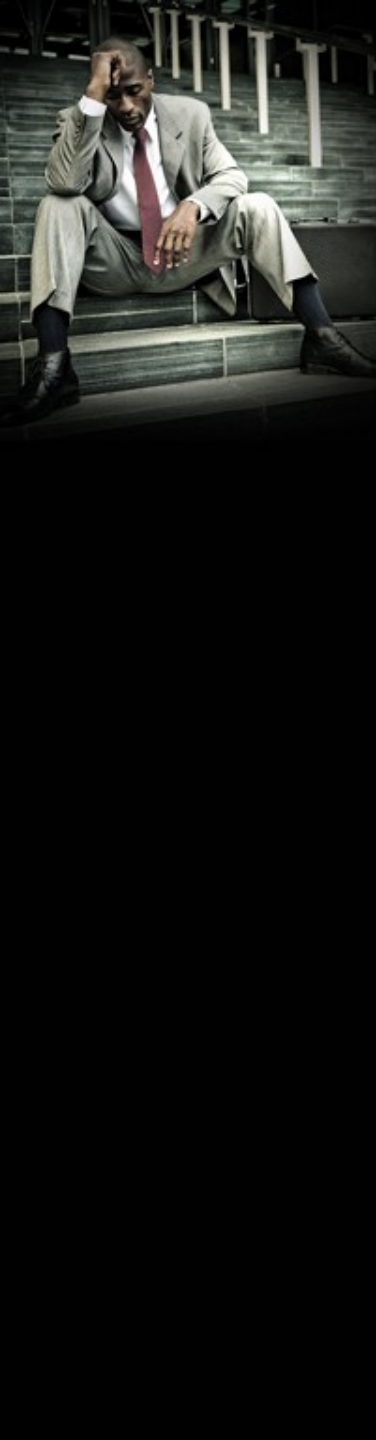


The Rise of Artificial Researchers

December 5th
12.00 Room M117

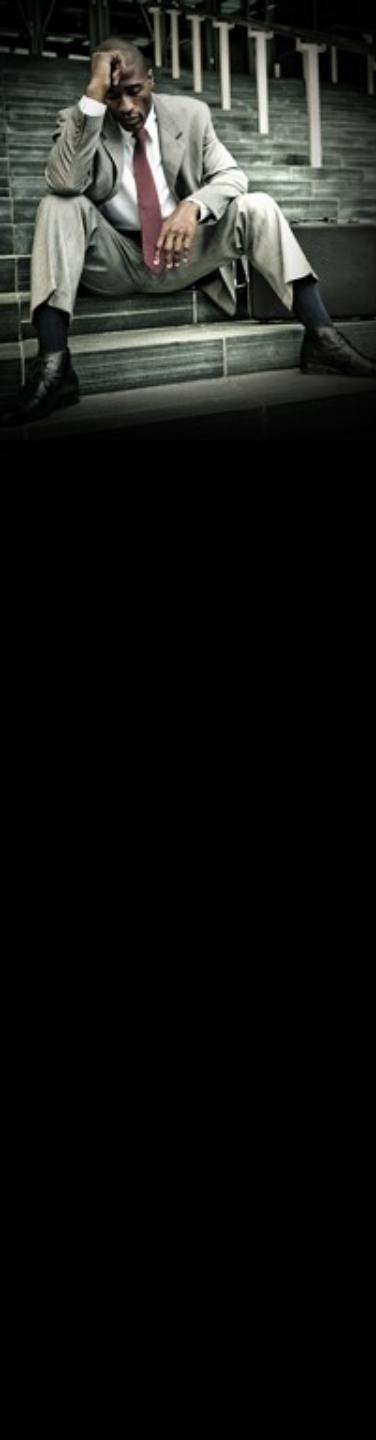


The Path Toward Decline



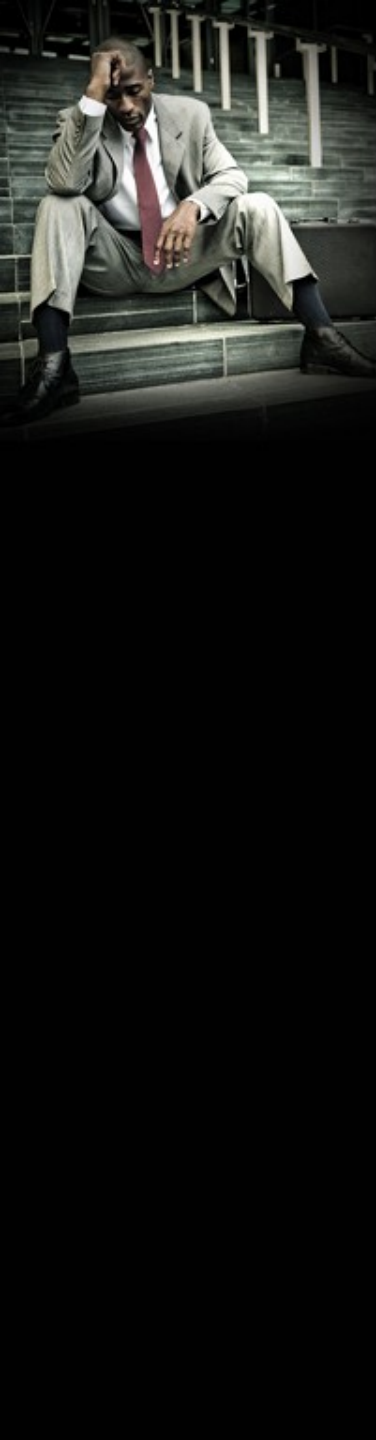
Main Phases of Italian Economic Development

- 1. Post-War Reconstruction (1945-1950)
- 2. Economic Miracle (1950-1963)
- 3. Stagflation and Social Unrest (1963-1983)
- 4. Recovery and European Integration (1983-1992)
- 5. Preparation for the Euro (1992-1999)



Post-War Reconstruction (1945-1950)

- Rebuilding of infrastructure and industry
- Marshall Plan aid
- Establishment of key public institutions (e.g., Cassa per il Mezzogiorno, 1950)
- The IRI (Istituto per la Ricostruzione Industriale) and the State involvement in the economy



The Istituto per la Ricostruzione Industriale (IRI)

Origins and Role: The IRI, established in 1933 during the Great Depression, became a cornerstone of Italy's state-led industrial strategy. Post-war, it was instrumental in rebuilding Italy's industrial base.

Activities: It managed key sectors like steel, telecommunications, shipbuilding, and energy, fostering industrial modernization and ensuring strategic industries remained operational.

Impact: The IRI supported Italy's economic reconstruction by driving industrial growth, creating jobs, and stabilizing critical infrastructure. It played a significant role in the "economic miracle" of the 1950s and 1960s, when Italy transitioned into an advanced industrial economy.



Cassa per il Mezzogiorno

Purpose: Established in 1950, the Cassa was designed to address the economic disparity between Italy's wealthier North and underdeveloped South (Mezzogiorno).

Programs: It funded infrastructure projects like roads, dams, and irrigation systems, and provided subsidies for industrial development in southern Italy.

Impact: While it initially stimulated economic activity and improved infrastructure, its long-term effectiveness was mixed due to inefficiencies and allegations of corruption. Nonetheless, it marked an important effort to integrate the South into the national economy.



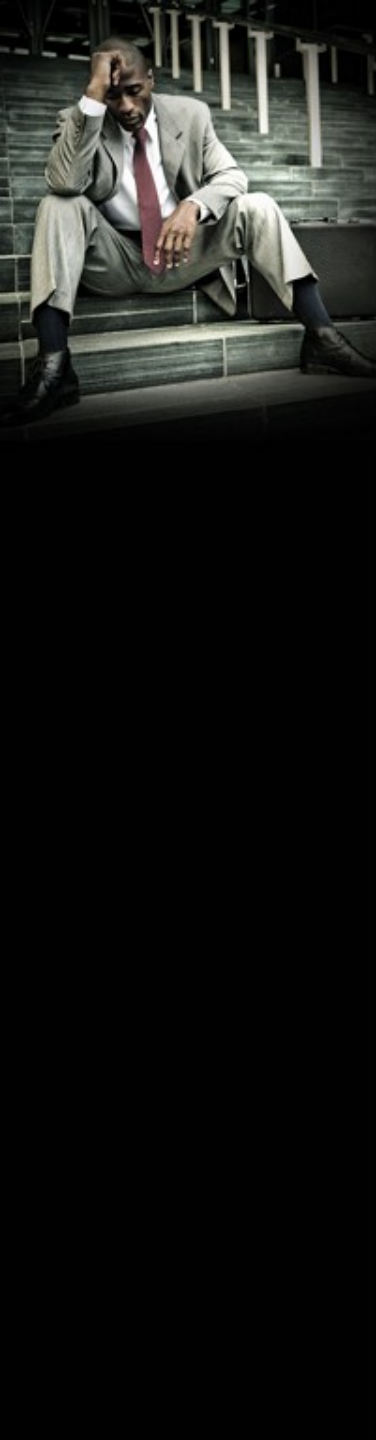
Combined Role in Economic Recovery:

The **IRI** drove Italy's industrial revival, fostering innovation and competitiveness, while the **Cassa per il Mezzogiorno** aimed to ensure that growth was more geographically inclusive. Together, they contributed to Italy's transformation into a modern industrial nation, despite facing challenges in governance and execution.



State ownership and public managers

The IRI and other state-owned enterprises benefited from a cadre of highly experienced managers. Many of these professionals had held crucial roles during the Fascist era, particularly in managing the economic crisis of the 1930s. This generation of managers was instrumental in navigating the complexities of post-war reconstruction, leveraging their expertise to restart production and capitalize on new opportunities.



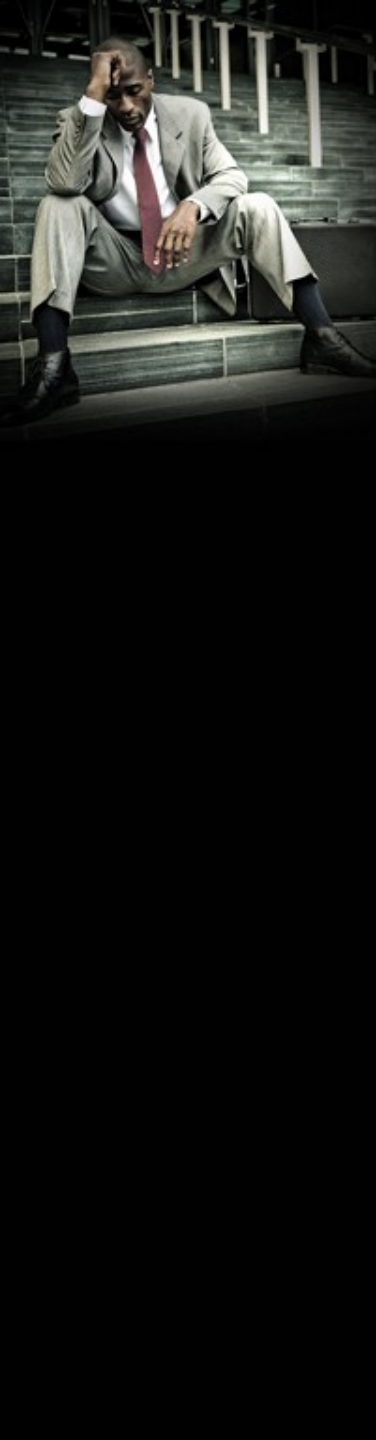
Economic Miracle (1950-1963)

- Rapid industrialization and urbanization
- High growth rates (average 5.8% per year)
- Expansion of exports: Italy from a low tech product exporter to light industry leader.
- Reduced North-South gap (internal emigration)



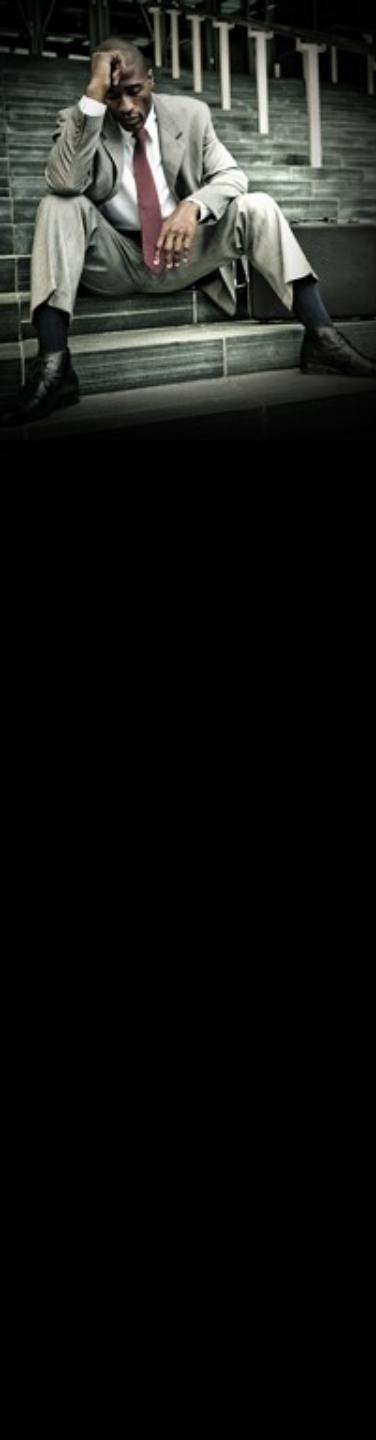
The social consequences of the economic miracle

- **Political Reconstruction and Stability:**
The 1950s were marked by the gradual consolidation of democratic institutions and political stabilization, both essential to addressing reconstruction efforts and fostering trust in the institutions.
- **Social Tensions:**
Post-war Italy was a devastated country: large segments of the population lived in poverty, especially in the South, where infrastructure was severely lacking. In the North, industrialization created new opportunities but also fueled tensions between the working class and entrepreneurial elites.
- **Reform Movements:**
Trade unions and left-wing parties fought for better labor rights and a fairer redistribution of wealth. This pressure contributed to the introduction of welfare policies and social reforms, such as the pension system.
- **Social Reconstruction:**
Despite the challenges, there was a strong will for reconstruction and a sense of national unity, which found expression in cultural movements such as Neorealism. This movement depicted the hardships but also the dignity of the working class.
- **Hope for a Better Future:**
The possibility of accessing higher education, purchasing a home or car, and living in a more modern society fueled optimism for a better future. This confidence was further reinforced by the perception that economic progress would support more inclusive social reforms and greater equity.



Stagflation and Social Unrest (1963-1983)

- Slowdown in growth
- High inflation
- Labor market tensions
- Oil shocks (1973, 1979)
- Rise of public debt



Recovery and European Integration (1983-1992)

- Economic recovery in the mid-1980s
- Further European integration (Single European Act, 1986)
- Continued increase in public debt
- Preparation for the Single Market



The Turning Point: the 1992 Crisis

Causes of the 1992 Crisis in Italy

Economic Challenges:

- High inflation and declining competitiveness in export industries.
- Rigidity of the European Monetary System (EMS), with fixed exchange rates limiting flexibility.
- Increased interest rates in Germany (to fund reunification) diverted capital, destabilizing Italian finances.

Structural Weaknesses:

- Dependence on foreign capital, making Italy vulnerable to sudden outflows.
- Liberalization of capital flows (completed in 1990) amplified "hot money" movement and inflation.

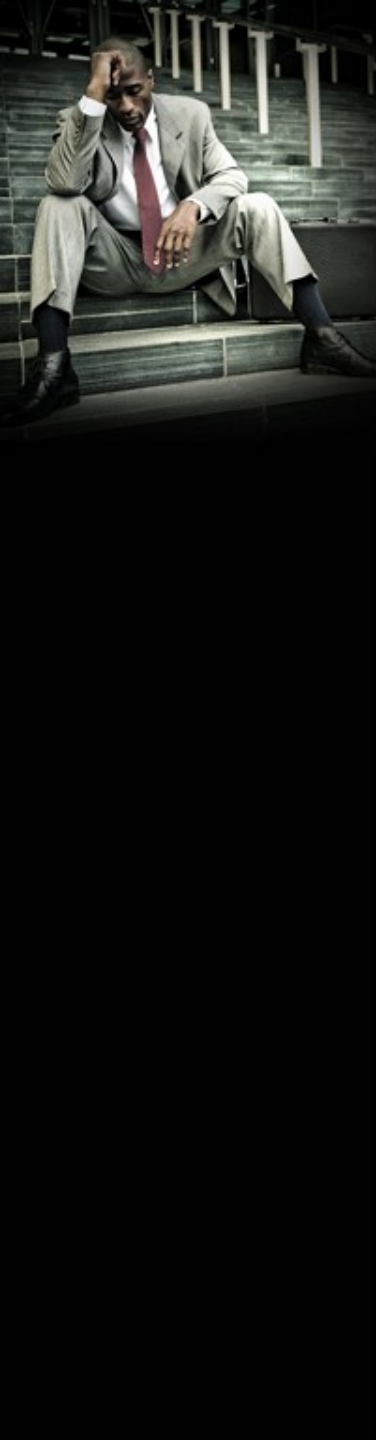
Political Instability:

- Corruption scandals from the "Mani Pulite" investigations weakened government credibility.
- Failure to implement necessary economic reforms undermined confidence in Italy's ability to adhere to EMS commitments.



An Ephemeral Revolution

- **Collapse of the First Republic:**
 - Disintegration of long-standing political parties like the Christian Democrats and Italian Socialist Party.
 - Rise of new political movements, including Forza Italia and the Lega Nord.
- **Economic and Political Shifts:**
 - Increased reliance on technocratic leadership to manage crises (e.g., Ciampi's government in 1993-94).
 - Introduction of critical reforms like the 1993 wage agreement to combat inflation and restore competitiveness.
- **Impact on European Integration:**
 - Despite skepticism, "staying in Europe" became a political goal, symbolizing renewal and modernization.
 - Italy's eventual entry into the Eurozone in the late 1990s was framed as a national achievement despite lingering structural weaknesses.



Preparation for the Euro (1992-1999)

- Currency crisis and exit from ERM (1992)
- Fiscal consolidation efforts
- Privatizations
- Labor market and pension reforms
- Meeting Maastricht criteria



The Rise of Berlusconi

Silvio Berlusconi emerged as a central figure in Italian politics in the early 1990s, capitalizing on the vacuum left by the collapse of the First Republic and its dominant parties, such as the Christian Democrats and the Italian Socialist Party. His entry into politics marked a pivotal moment in Italy's political transformation.

Post-1992 Context:

- The collapse of the traditional party system due to the corruption scandals of "Mani Pulite" created a fragmented political landscape.
- Disillusionment with the old political elite opened space for new movements and leaders to gain traction.

The Creation of Forza Italia:

- Berlusconi founded Forza Italia in 1994, presenting it as a fresh, anti-establishment force while drawing on the networks and clientelistic practices of the past.
- Many of Forza Italia's early members had ties to the disbanded Christian Democrats and Socialists, enabling Berlusconi to inherit aspects of their political base.



Berlusconi's plan

Objectives of Political Reconstruction:

Berlusconi sought to rebuild the patronage networks and alliances that had underpinned the pre-1992 system. His vision emphasized a return to a form of political stability through the re-establishment of key relationships between political actors, private businesses, and the state. This included leveraging state influence to benefit private interests, a hallmark of the Christian Democrat-led governments of the First Republic.

Economic and Political Strategy:

Berlusconi's policies aimed to reduce state intervention publicly while preserving strategic alliances with business sectors that had historically thrived under state support. His populist rhetoric appealed to a broad electorate, from small-business owners to workers disillusioned with the left, promising both economic liberalization and stability.