Bocconi

UNDERSTANDING THE ITALIAN ECONOMY'S GROWTH CRISIS

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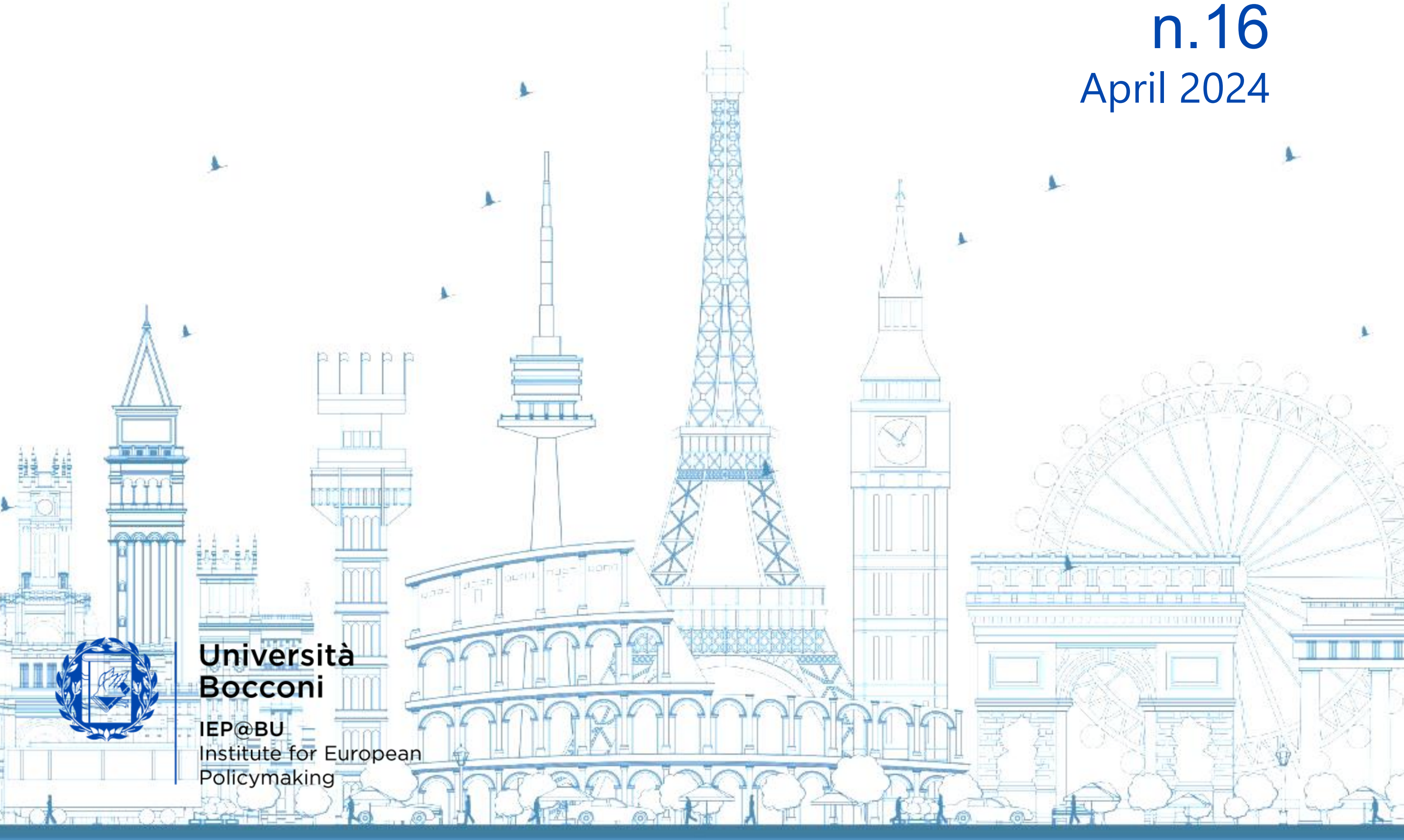
IEP@BU Policy Brief
n.16
April 2024



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Introduction

In the 25 years after the end of World War Two the Italian economy expanded by over 5 per cent per year, raising among the rich countries in the world, with a dramatic improvement in economic and social conditions of its population.

As in other European countries, the golden years of exceptional growth (the “economic miracle”, as the period was often referred to) came to an end in the late 1960s. From that moment onwards, growth continued but at a subdued pace, always lower than in its European partners. And yet the process of convergence towards the income levels of other advanced countries slowed down but did not subside until the mid-Nineties. However, in the ensuing two decades, Italy has lost ground dramatically also in relative income levels

Two separate questions arise regarding this unsatisfactory performance. The first one concerns the determinants of low growth, which apparently became a permanent feature of the Italian economy; the second one concerns the dramatic deterioration of its performance since the mid-Nineties. This paper argues that both phenomena have at their roots the transformation of Italy’s industrial structure that followed, and indeed in my view was determined by, the acute strains in industrial relations in the 1970s, starting with the “autunno caldo” (Hot Autumn) of 1969.

My thesis is that those acute industrial conflicts were at the root of the demise of large companies in the Italian economy, setting in motion a trend of reduction in company size that continued over the ensuing decades; and, in addition, that the acute conflict and deeply rooted social hostility to the market economy – which was a lasting heritage of those turbulent years – fostered a closed ownership structure of family companies, in which the role of professional management remained marginal in the design of company strategies.

One important consequence of these developments was that, despite considerable improvements in profitability in the 1980s and 1990s, industrial companies did not change their prevailing specialization in traditional industries and maintained a backward management structure reluctant to engage in emerging technologies, notably information technology (IT). The prevailing small size and weak technology of much of the industrial sector became more relevant after the middle 1990s, when the IT revolution fundamentally changed the ingredients for success in industry – leading to the observed collapse in productivity.

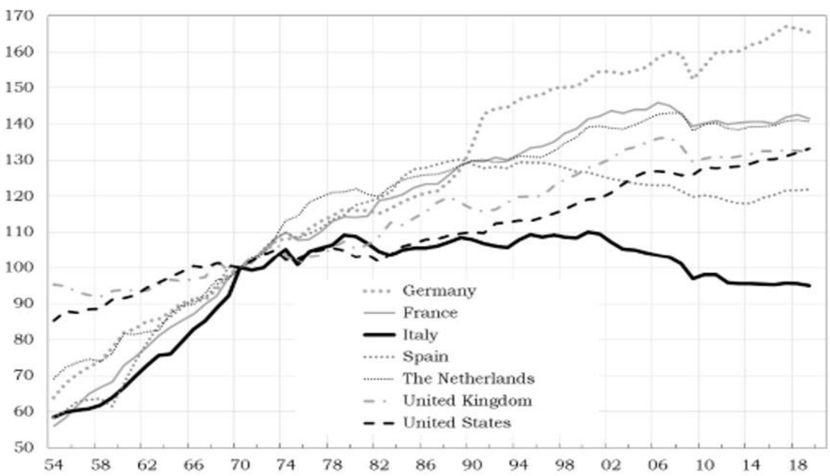
My arguments aren’t based on new empirical evidence, but rather on a fresh reading of events and the existing literature. The paramount role played by developments in labour markets and industrial relations in breaking the post-WWII growth momentum was there for all to see but its deep consequences were overlooked, or diluted into an undistinguished panoply of causes, that in my view led to misreading the roots of dismal growth since the 1970s.
The paper is organized as follows. Paragraph 2 discusses some main features of the growth performance of the Italian economy after World War II; Paragraph 3 describes the labour unrest of the 1970s and its consequences on industrial relations; Paragraph 4 recalls the demise of large industry in the Italian economy; Paragraph 5 identifies the prevailing closed ownership and management structure of Italian industry as a main explanation of Italy’s dismal economic performance since the late Sixties. In Paragraph 6 I have summarised my conclusions.

The growth crisis of the Italian economy

Over the 150 years from unification under the Savoia monarchy, Italy's per capita income multiplied by some 13 times, bringing the country within the fold of rich countries; this compares with increases by 10 times of Western Europe and 8 times of the world economy (Ciocca 2020, Bastasin and Toniolo 2023).

This performance has been the result of relatively short periods of over rapid growth interspersed with long phases of low growth and instability. One of these adverse phases occurred in 1969-1996, following the remarkable expansion of 1950-69 (close to 6 percent annual growth), and was characterised by persistent inflation and an alternation of accelerations and shortfalls of growth (including a recession in 1975, the first since WWII) often in a climate of acute political instability. Total factor productivity largely stagnated for the ensuing three decades and then fell dramatically since the euro inception. Italy started to lose ground dramatically from its main trading partners (Figure 1).

Figure 1: Total factor productivity, selected countries, 1970=100



Source: Codogno & Galli 2023, "Meritocracy and Growth. Lesson from Italy's economic decline" Cambridge University Press 2023

The deterioration of industrial relations had started in 1962-63, when the economy reached full employment and union militancy rose strong (127 million working hours lost for strikes), leading to robust wage increases (+13% in 1962, +18% in 1963). Fears of a leftward shift in national politics led to large capital outflows, following the nationalization of the electricity sector and an increase in the taxation of share returns. The Bank of Italy reacted in late 1963 with a credit crunch that temporarily tamed demand overheating and labour unrest.

Growth resumed but industrial investment fell below GDP growth while increases in labour productivity were mainly achieved by means of tight work discipline and hitting rhythms in mass production lines. At the end of 1969 the renewal of wage contracts in industry triggered a sharp rise in industrial conflict that was to last till the beginning of the 1980s.

Two features stood out in the new wave of industrial unrest: on one hand, there was a shift of conflict to the factory level, where workers' delegates challenged management power to determine the organization of labour in mass production lines; on the other hand, union organizations rode on the labour revolt to take up an autonomous political role, driving demands for social reforms in such areas as housing, health and labour rules aimed at the government rather than factory management (Rossi 2020, Salvati 2000).

A new law enacted in 1970, the Statuto dei Lavoratori, strengthened workers' rights and protections within company floors but at the same time greatly weakened company hands in enforcing labour discipline. To the Statuto dei Lavoratori I will come back later.

In the ensuing years, until the early 1980s wage increases (on average 18 per cent per year) exceeded inflation (15 per cent per year); as a result, real wage increases were systematically higher than productivity (2.3 per cent per year).

The price-wage spiral was aggravated by a new indexation mechanism – the "scala mobile" – agreed between the Confederation of Italian Industry (Confindustria) and the main labour unions in January 1975, which was warranting close-to-100 per cent per cent protection against consumer price inflation (including inflation of external origin from oil price increases and the falling exchange rate) as well as fostering wage convergence to the highest rates for the various work categories and professional qualifications. The government then adopted legislative measures to extend the mechanism to all private and public workers.

As a result, by the second half of the decade the rate of increase of labour costs shot up to over 30 per cent and inflation to over 20 per cent. The Bank of Italy largely accommodated inflation and the fall in the exchange rate for fear of aggravating social costs in the prevailing climate of unrest.

After the large shift in the distribution of income towards dependent labour in 1970-72, private companies were shielded from further profit compression by the exchange rate depreciation (30 per cent by the mid-1990s) and by extensive public support through government transfers. In a number of cases, ailing private companies were purchases by public companies, such as EFIM, GEPI and IRI, with the goal of preserving employment levels.

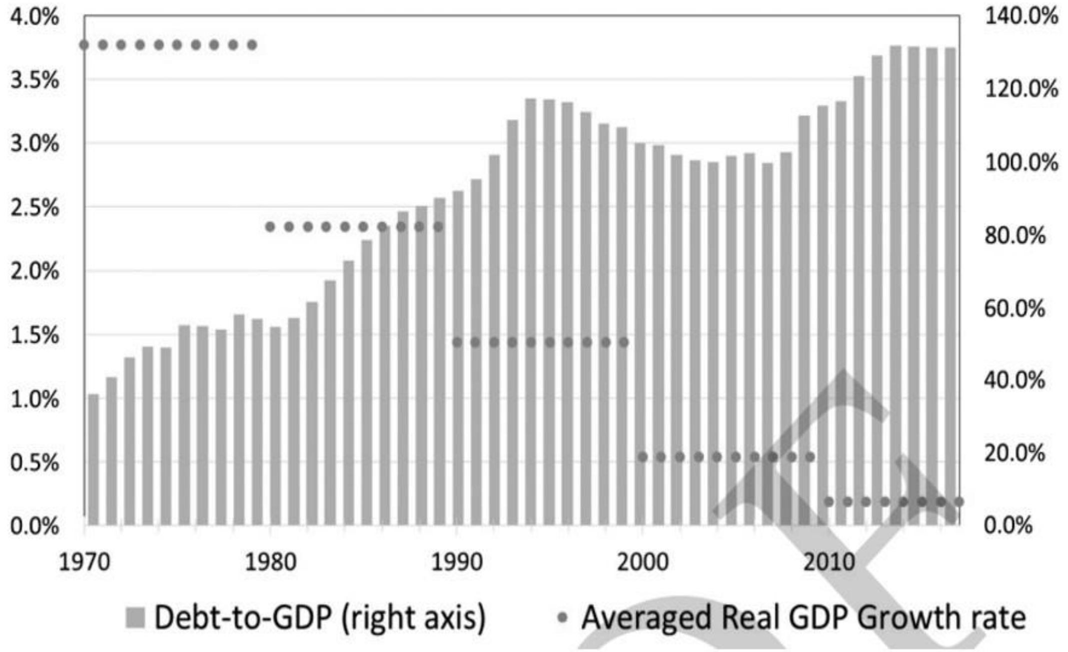
After the end of social unrest at the beginning of the 1980s, industrial employment started to fall at an increasing pace over the ensuing two decades; wage convergence had the effect of concentrating the rise in unemployment amongst younger workers, whose wages rose more than proportionately relative to productivity, thus engendering the youth unemployment problem that has plagued the Italian economy ever since (Cipolletta 2012). By the end of the Eighties the unemployment rate rose to 12 per cent and then hovered around 10 per cent for much of the ensuing two decades. This is the second notable feature of the Italian economy established following the social unrest of the Seventies: its constant inability to fully utilize its labour (Ciocca 2020).

Increasingly, during the decade, industrial companies reduced vertical concentration and company size, outsourcing part of their activities to smaller companies less afflicted by union militancy and able to pay lower wages, following the model so-called of flexible specialization (Barca and Magnani 1989). We will examine the impact of these developments on industrial structure in the next paragraph.

In 1979 Italy joined the new European exchange rate mechanism (ERM), limiting exchange rate oscillations between the main European countries, following a sharp correction of public sector imbalances. In October 1980 a mass demonstration in Torino of Fiat middle management turned around the political climate and ended militant contestations of management within industrial groups. New wage contracts were rapidly signed with moderate increases and in the ensuing years the scala mobile was progressively defused, till its abolition in 1992.

However, over the 1980s financial imbalances in the economy were not corrected but were rather financed by means of large fiscal deficits. Between 1982 and 1992 the government debt-to-GDP ratio almost doubled, from 60 to 120 per cent of GDP (Figure 2). The chart clearly shows that growing deficits accompanied rather than contrasting falling growth rates; Ciocca (2020) and Bastasin and Toniolo (2023) see this high debt as a permanent factor depressing private investment and growth due to its effects in raising investors' uncertainty and fears of future tax increases.

Figure 2: Italy, Debt-to-GDP and real GDP growth 1970–2017



Source: Bastasin & Toniolo 2023, "The Rise and Fall of the Italian Economy (New Approaches to Economic and Social History)" Cambridge University Press

Inflation declined to below 5 per cent in 1987, also thanks to the sharp fall of oil prices in 1986, but then stabilized at around 6 per cent in the ensuing years, a rate incompatible with exchange rate stability within the European exchange rate mechanism. In 1992 the lira was ejected from the ERM (together with the British pound) and by the first quarter of 1995 its exchange rate fell by some 30 per cent.

The exchange rate crisis eventually convinced leading parties and the public opinion that the time had come to tackle domestic financial imbalances, while the Bank of Italy maintained restrictive monetary conditions for the rest of the decade (Rossi 2018, Ciocca 2020). In 1994-96 corrective measures to reduce the public sector deficit amounted cumulatively to some 8 percentage points of GDP. Public spending was cut by some 5 percentage points of GDP (from 46 to 41 per cent). Stabilization was helped by moderate wage dynamics: over the decade since 1993 wages rose on average by 3 per cent per year. These achievements made it possible for the lira to participate in the euro from its inception (in 1979).

These events took their toll on economic growth: per capita GDP slowed from 2-3 per cent in the 1980s to 1,5 in 1993-2001 and flattened out after the euro inception. As a result, much of the gains in incomes relative to other advanced countries that had been achieved in the previous decades were lost (Table 1). The high public debt ratio remained as the permanent legacy of a decade of fiscal irresponsibility.

Table 1. Italy's GDP ratio per capita as percentage of GDP per capita in four developed countries (US dollars at 1990 purchasing power)

Year	USA	Germany	France	United Kingdom
1871	61	91	82	50
1896	46	59	61	38
1913	46	70	70	52
1938	54	66	74	53
1973	64	89	83	90
1995	70	89	94	98
2007	62	96	88	85
2016	53	77	78	72

Source: Bastasin & Toniolo 2023 The Rise and Fall of the Italian Economy (New Approaches to Economic and Social History)

Labour unrest in the 1970s

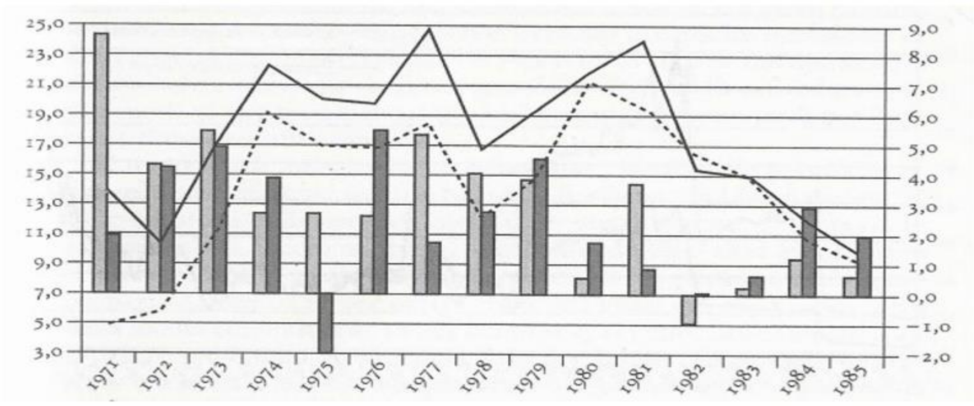
In the 1950s labour conditions in manufacturing were generally determined unilaterally at company level by management, within the context of spreading adoption of Tailor-type mass production lines – a technology imported from the US that entailed a parceling of labour and taxing rhythms of activity along moving assembly lines (cf. Musso 2002 for a detailed account of developments in Italy's labour markets in 1950-1990).

The assembly line became a synonym for poor-quality work, monotonous and repetitive, with low qualification requirements. The expansion of production to meet rapidly rising demand for cars, electrical appliances and other durable goods went along with a reduction in the share of specialized and qualified workers in the workforce. For instance, by the mid-Sixties at Fiat unqualified workers came to represent three quarters of the total workforce. Wage differentials among the different categories of workers flattened.

In 1959 union militancy came back strongly – for the first time since the early 1950s – on the occasion of wage contract renewal in the textile and metalworking sectors, with fresh demands by the unions to share control of labour organization in assembly lines; in the ensuing two years wage negotiations at company level spread out to many industrial companies in the North. In 1962 workers went into a strike at Fiat, the car manufacturer, for the first time since the early Fifties.

Since the early 1970s wage contracts, signed after long and tensed negotiations, entailed wage increases much exceeding those of productivity; the same trend prevailed through much of the decade (Figure 3). An influential line of thought within FIOM, the combative metal workers' union, held it that industrial wage increases could be independent of productivity. Harsh wage contract negotiations in industry at the end of 1969 were a harbinger of the explosion of unprecedented tensions in industrial labour relations that were to last till the beginning of the 1980s. In 1969 the hours lost for strikes were close to 38 million; in the seven years 1969-75 they averaged 21 million per year. Labour costs in the private sector went up by 132 percent, that is at a yearly rate well above 20 per cent. These numbers compare with annual 3,5 million hours lost in 1952-58 and a [3] per cent yearly increase in labour costs. The heightened number of strikes, however, was not the only development in industrial relations: perhaps even more important was the new climate of permanent conflict within industrial plants, where management decisions were routinely challenged by line workers and discipline often broke down.

Figure 3: Wages, prices, and productivity in Italy (1971-85) (percentage changes)



Real compensation for standard labour unit (Tot economy – Right scale)

Productivity (Tot economy – Right scale)

– Nominal compensation for standard labour unit (left scale)

- - - Consumer prices index (left scale)

Source: Ciocca P. "Ricchi per sempre? Una storia economica d'Italia", Bollati Boringhieri, 2020.

Rather than terminating the conflict, wage contracts – often exceedingly generous, concluded also under pressure from the government – were just the occasion of new demands at company level comprising the refusal of tasks, the reduction of workloads and the extension of breaks, together with growing demands to share control the organization of work. In this climate of permanent conflict companies were often unable to maintain their production plans, making it exceedingly difficult to implement the investments required to adapt their production processes to the higher costs and the rigidities on the deployment of workers introduced by wage contracts.

Rigidities and union militancy were compounded by a new law, the Statuto dei Lavoratori (Law nr. 300 of 20 May 1970), which greatly strengthened workers' rights and protections against management – notably including the right to undertake union activities within industrial plants, call workers assemblies, launch referendums and post union documents. The Statuto entailed large increases in costs, due to higher allowances for union activities during worktime and fresh rigidities in labour management.

Strong limitations to the possibility of individual dismissals remained in place and still apply nowadays; in 2018 a new law attempting to overcome this constraint by allowing individual dismissals with standard compensation was rendered null and void by a Constitutional Court decision – a strong reminder of the difficulty of changing the environment for doing business in the country. A notable feature of the Statuto is that firms with less than 15 employees are exempted from its application; this provision, as we shall see, has had large effects on company size.

At the end of the “hot autumn”, the 1970 national contract explicitly provided for the “contrattazione articolata” (decentralized negotiations) at company level, soon leading to limitations to overtime work, plant saturation and variations in piece rates, as well as provisions for individual and collective work breaks. Strong constraints were also introduced on labour mobility at plant and company level, making it increasingly difficult to move workers in response to a changing composition of demand in the market. The 1973 contract contained provisions for the unified classification of line workers and employees despite strong resistance by companies. New rights of information on company strategies were introduced at Fiat in 1974, which two years later were extended to all national wage contracts.

Two additional important changes were introduced in 1975. The first one, adopted with law 164 of 20 May 1975, removed all time limits to the utilization of the national redundancy fund, which as a result became an instrument of income support for workers becoming redundant for plant closure. This was hailed as a success by the unions; however, it also facilitated the dismissal of workers in ailing companies.

The second change concerned inflation indexation of wages, with the introduction of the so-called “punto unico” which, as already mentioned, entailed very high protection against past inflation as well as rapid wage convergence by sector and qualification. The mechanism was seen by Confindustria – then led by Giovanni Agnelli of Fiat – as a means to reduce wage conflicts, which it failed to achieve. It did, however, lead to the acceleration of inflation to unprecedented levels.

A further factor of rigidity was the so-called “numerical call” mechanism for hiring, which started to bite when after 1977 the economic recovery required new hires by industrial companies. In 1978 refusal by the unions to adjust working hours and overtime work forced Fiat to hire about 15 thousand workers with no scrutiny, thus bringing into its factories large numbers of women and youths with no experience of factory work, leading to large rates of absenteeism and poor work quality. Productivity fell to historical minima.

Eventually, also following the homicide of its manager Carlo Ghiglieno in September 1979, Fiat had enough of it and fired 61 militant cadres on ground of insubordination and repeated acts of violence within its factories. The ensuing 35-days-long strike failed to deter the company from its decision, which raised the ante in the Fall of 1980 by announcing 14 thousand layoffs. While workers’ pickets were still blocking access to the factories, on 18 October some 40 thousand Fiat cadres took to the street, demonstrating against workers’ militancy and demanding a return to viable working conditions.

The message went through. The unions closed rapidly ongoing negotiations by accepting 23.000 redundancies at Fiat (with the support of the redundancy fund). For them it was a dramatic defeat that ended the worst unrest in the history of Italy’s industrial relations (Rossi 2020, Salvati 2000).

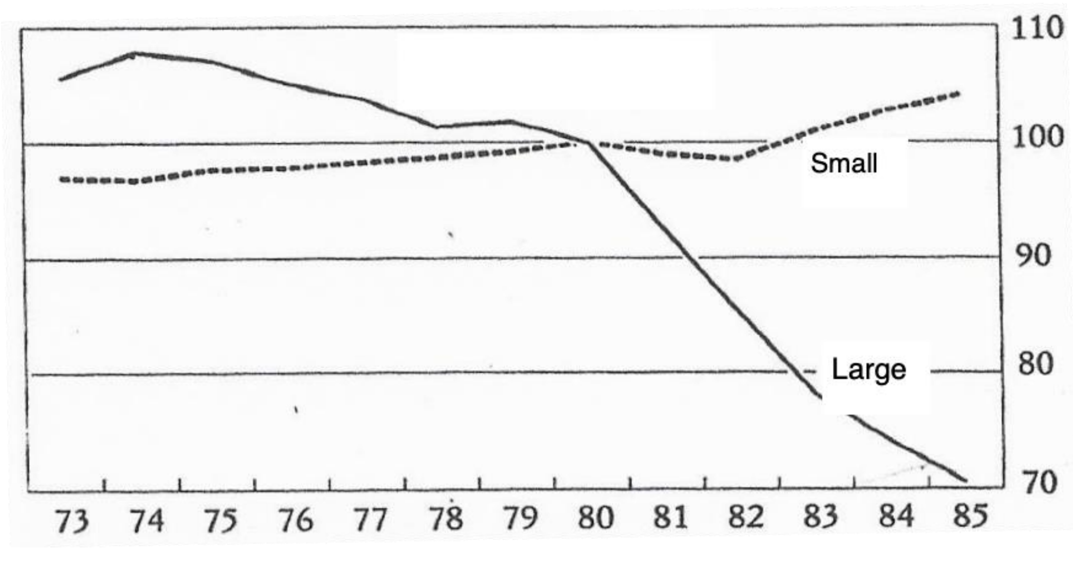
The end of turmoil, however, did not stop its effects from unfolding on company structures and the business culture of company owners' (the "capitalists"). The two main legacies were the demise of large industry, on one hand, and the closed structure of capital and management that became the distinguishing features of family companies. Capital/labour ratios rose dramatically, following wide-spread efforts to economise labour. We now turn to the discussion of these developments.

These developments were reinforced by the concentrated structure of labour negotiations that allow for limited local wage adjustment, fostering wide local gaps between wage costs and productivity. Boeri et al. (2020) have shown that the system has high costs in terms of foregone aggregate earning because it generates a spatial equilibrium where workers cue for jobs in the South and remain unemployed. This negotiating structure reflects once again the strong egalitarian ethos fostered the labour militancy of the 1970s.

The demise of the large industry

Figure 4 provides the dramatic picture of the evolution of employment by firm size between 1973 and 1985. As may be seen, employment in large and medium-sized companies (above 200 employees) fell by almost 40 percent. The reduction of employment proceeded rather slowly in the 1970s (about one fourth of the total), when political constraints to dismissals were stronger, and accelerated sharply in the 1980s, once those constraints were removed, also following the historical defeat of the unions at Fiat in October 1980.

Figure 4: Employment during industrial transformation, by firm size
(Total employment, 1980=100)



Source: Barca and Magnani (1989), Istat.

Up until 1978 there was an intense accumulation of capital, without significant modification of either products or production technologies, in a context of stagnant or falling industrial output in the main sectors (Barca and Magnani 1989). Thus, the increase in the capital/labour ratio barely managed to shield firms from the increase in production costs – which was also aggravated by two successive oil shocks (in 1973 and 1979).

As may be seen from Table 2, employment shares continued to fall over the ensuing decades for all company size classes above 50 employees, most dramatically for the size class above 1000 employees. The share increase, on the other hand, was largely concentrated in the class with less than 20 employees. An important component of the shrinking size of Italian industry was the demise of the publicly owned industrial companies, which in the 1950s and 1960s had played a propulsive role in the development of the Italian economy but were later sacrificed to the inefficient protection of employment and the rescue of ailing private companies. This a separate topic in Italian economic history which is not considered in this paper.

Table 2. Distribution of employees in industry by company size at Census dates

Employment Classes	1971	1981	1991	2001
Up to 19	29,8	39,1	44,4	48,7
20-49	12,5	12,9	14,5	14,6
50-99	9,5	8,6	8,1	8,6
100-199	8,9	8,3	7,1	7,1
200-249	2,5	2,2	2,1	2
250-499	7	6,4	5,6	5,2
500-999	6,2	5,5	4,6	4
Above 1000	23,6	16,9	13,6	9,8
Total	100	100	100	100

Source: Frigero et al. 2013, Istat.

Intense restructuring did not lead to higher investment in new sectors but resulted in a shrinking industrial base. Consequently, the ratio between active workers and total working age population permanently worsened. The concentration of production in traditional sectors left its industry exposed to harsh price competition in world markets, thus constantly forcing it, in order to survive, to seek cost savings from a labour force with low levels of education and professional skills. There thus was a dramatic impoverishment of Italy's industrial base (Gallino 2003, Micossi and Parascandolo 2010).

Barca and Magnani (1989) confirmed that, since the introduction of the Statuto, the probability of hiring was systematically skewed in favour of the smallest companies. It is difficult not to relate this change in employment composition to effects of the threshold excluding small companies form the application of the Statuto dei Lavoratori – and indeed no other convincing explanation has been offered.

Moreover, the original shock in industrial relations continued to affect the behaviour of "capitalists" in the Italian economy in the ensuing decades. As may be seen from Table 3, Italy always had a smaller industry size than its main partners in the world economy. Moreover, in the 1980s and 1990s some reduction in average company size also took place elsewhere in the advanced world. However, the reduction of average company size in the Italian economy is much more intense, and the distance from its competitors has widened dramatically.

Table 3. Share of employment in manufacturing in firms with over 500 employees.

	1960s	1970s	1980s	1990s
Italy	28,5	32,1	26,2	19,8
France	51,6	55,2		42,8
Germany	48,6	56,8		56,3
United Kingdom	50	54,3		43,5
United States	64,8	71,4	69,9	65,2

Source: Traù (2003)

This has become an increasing handicap following the development of the new information technologies, which require higher capital and company size for their full exploitation. Indeed, while in the early phases of decentralization and reduction of company size, in the 1970s, productivity was rising more rapidly in companies with less than 200 employees, in the ensuing decade the productivity performance of larger firms started to jump ahead of that in smaller firms (Frigero et al. 2013, Rossi 2020).

The evidence that has been discussed suggests that the dismal evolution of total factor productivity in the Italian economy in the 1980s and 1990s is to an important extent a straight consequence of the labour turbulences of the 1970s. The resulting adaptation of private companies, largely family owned, undertaken by systematically economising labour and shunning the large size has left us with a productive system that – while certainly displaying examples of successful firms – is in the main unable to expand its activity and compete effectively in world markets precisely because of its small size and poor technology.

Closed family company structures

The governance structure of Italian companies has been the constant object of attention by economists in Banca d'Italia, notably led in this endeavour by Fabrizio Barca (cf. Barca 1994). An important conclusion of these studies has been that the ownership structure of family companies has represented an important brake on their willingness to increase their size and compete effectively.

The delegation of management to professional managers has been scanty or absent even in successful companies, which therefore failed to exploit their success to acquire significant international dimension. For many less successful companies, this has meant surviving with poor management and poor technology.

The main features of Italian family companies is effectively summarised by Rossi (2020). First of all, empirical evidence generally shows a strong performance of family companies when the founder manages the company, much less strong once control is transferred to siblings and relatives. The most interesting results, however, emerge from a comparison with family companies in other European countries, i.e., in France, Germany, Spain and the UK.

In all these countries family companies represent more than 80 per cent of the total number of companies. Their share of total employment in industry ranges from over 70 per cent in Germany and Italy to 41 per cent in the UK. In Italy, as well as in Germany, in a high share of family companies – about 84 per cent – the chief executive is also drawn from the family.

And yet, the main feature singling out Italian family companies from the others is another one: the fact that in two thirds of Italian family companies the entire management is drawn from the family. The corresponding share is one third in Spain, one fourth in Germany and France, one tenth in the UK. For larger companies (with more than 250 employees), the share of companies where the entire management is drawn from the family is about one fourth of the total, as against negligible shares (between 3 and 7 per cent) in the other countries under consideration. In this higher size class Italian companies are on average considerably smaller (700 employees, as against 900 in France and Germany).

Moreover, among Italian family companies only 10 per cent has more than 500 employees, as against 20 per cent of non-family companies. Family companies also appear less well capitalized and need greater resort to bank credit to fund their activities – which makes them more exposed to credit rationing in times of monetary restraint.

Bianchi et al (2005) have argued that this behaviour is explained by the tendency of Italian private companies to generate large private benefits of control, which are appropriated by family members, and are incompatible with opening capital to outside investors. This boils down, effectively, to weak competition in their product markets (Nardozzi 2004, Micossi and Parascandolo 2010).

Institutional incentives also played an important role in promoting small size – including the exemption already mentioned from the Statuto dei Lavoratori, extensive exemptions from accounting and reporting obligations for tax purposes, favourable credit treatment, and preferential contract awards in public tenders (Arrighetti and Serravalli 1997).

The pressure to open capital to outside investors was systematically weakened by government protection and measures to limit access by foreign companies to domestic markets. A famous deleterious example concerned the transfer, in 1986, of Alfa Romeo from IRI to Fiat, thus eliminating the only domestic competitor of the car manufacturer and foreclosing the market to Ford. In the ensuing two decades Fiat then mismanaged Alfa Romeo close to the point of its ultimate demise.

The massive exchange devaluations of the 1970s and 1990s were also very important in protecting Italian firms from international competition and eventually depressing the incentives to seek higher productivity, as often stressed by Ciocca (2020). When competition became nonetheless more intense, following among other things market opening policies and state aid control by the European

Commission, this led to a fall in Italian companies' market shares.

The key point to retain is that the closed company structures and the widespread reluctance to grow have not changed, they have developed as a constant feature of the Italian economy. Therefore, the explanations that we have just reviewed have certainly contributed some truths in explaining the small size of Italian manufacturing companies.

However, in my view they fail to see a fundamental motivation of small size deep inside family company culture, which is its political determinants. As was originally investigated by Roe (2003), closed company structures – both to outside capital and outside management – are more frequently observed in political environments hostile to free markets and prosperous company returns. In such an environment Roe believes that company owners will be more reluctant to delegate management powers than the views and attitudes of the company owners, the "capitalists" – with the result that the latter prefer to recruit their managers among family members that do not threaten their established culture and views on how the company should be managed, notably considering societal hostility to profit seeking.

If there is one place where such view seems relevant, this is Italy, which not only was the theatre of unprecedented turmoil in industrial relations for over a decade, but since WWII has also been host to the strongest communist party in the Western world, in a political system where the established majority party – the Cristian Democratic Party – was always prone to pay tribute to anti-capitalist feelings and suggestions promoted by the Catholic Church and catholic militants within society.

Of course, over time political conditions have evolved, and today all parties in the political system are fully committed to democracy and the market economy, and no general threat to capitalism and private ownership of capital is conceivable. Labour unions have also evolved to resemble increasingly their sister organizations in other social-democratic European political systems.

However, the closed structure of family companies both regarding the ownership of capital and the selection of management may reflect deep and persistent cultural beliefs that are difficult to eradicate, and that therefore remain as a permanent factor impeding company size and an efficient capitalist economic system.

Conclusions

This paper has discussed the growth crisis of the Italian economy since the 1970s. The economic literature on the Italian economy has recognized already that a main factor driving the growth crisis has been the ownership and management structure of Italian family companies, stubbornly closed to outside capital and management inputs.

The contribution of this paper is to show that this closed ownership and management structure was to an important extent the response to the dramatic labour turmoil of the 1970s – which were of an intensity and duration without peers in the advanced world.

The demand for labour was also permanently depressed, making the Italian economy systematically "poor of labour" and taming investment in the quality of people involved in manufacturing output.

The resulting reluctance to expand company size and develop modern management structure stands out as a permanent handicap of the Italian economy – which may not be easily corrected in view of its deep cultural roots in family companies' attitudes and behavioural inclinations.

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