

## **Did ideas or context drive business and economic thought in Italy up to the Second World War?**

### **Introduction**

The development of economic ideas in a country is guided by several factors, such as the internal political and societal context, the external global pressure, the occurrence of wars and the advancement of theoretical models to explain and improve the given economy.

Politicians, economists, scientists and philosophers, who are the catalysts of such development, answer with rational models and ideas to the material questions imposed by the historical context. Transient political circumstances contribute to evolve new economic strategies. This period-dependent relationship between historical situation and advancement of business concepts is evidently observed in the history of Italian economy, which never failed to impress for its oscillating pattern: historical periods of richness are followed by eras of financial stagnation and political instability. From the Age of Napoleon around 1796, when Italian regions were fragmented into different regional independent authorities, Italian Unification (“il Risorgimento”, the resurgence) in 1861 paved the way towards a centralised economy and a rich Age of Industrialisation. This was followed by the posterior post-war crisis felt by other European nations and the United States during the Great Depression of 1921. In the context of the Fascist regime, new economic ideas developed as answers to escape from the crisis and return to another period of wealth and stable government. The occurrence of World War II and the transition from a Monarchy to a weak parliamentary Republic in 1946 later started a new cycle, open to new economical interpretations again.

By focusing on the change in political configuration and historical circumstances, the aim of this paper is to summarily describe how context influenced economic thought in Italy from 1800 until the beginning of World War II.

I. At the beginning of the nineteenth century, Italy as unitary state did not exist but regions of the Italian peninsula were under the control of different states. The House of Savoy ruled the Kingdom of Piedmont and Sardinia, the Habsburgs controlled the Grand Duchy of Tuscany, the Pope the Vatican State and in the central Italy the Bourbons dominated the Kingdom of the Two-Sicilies (Romeo, 1963). This fragmented Italy – Italy as the geographical area limited by the Alps in the north and the Mediterranean Sea as natural border – was characterised by an underdeveloped agricultural economy in the South and a wave of Industrialization in the North, brought by the influx of the industrial revolution that invaded the United Kingdom and France. Along with the arrival of industrial trends, other influences from the North such as Napoleonic invasions (1796-1797) and Austrian domination of Lombardy (1815-1866) brought a gust of modernity that contributed in advancing political economy and building a common sense of national identity. During the French rule of North Italy (1804-1815), Italy constituted a client state under the control of the “French Empire” led by Napoleon by his step-son Eugene de Beauharnais as “Viceroy of the Royaume d’Italie”. During this period, Napoleon carried with him and his army the French Revolution in the Italy. Old dynasties, aristocratic and ecclesiastic privileges were deposed by Napoleon, who started to unify the fragmented regions by gradually establishing modern reforms in the legal, fiscal and administrative systems. The interests of Napoleon in his client Italian state was to draft soldiers to enrich his army, raise revenues and natural resources to sustain his expansionistic campaigns and natural resources (Hughes, 2011). A strong tax administration system and a new bureaucratic machinery, alien and independent from the old Italian elites, was a requirement to permit the development of his empire. A strong bureaucracy, new political and financial administration inspired Italian intellectuals and fostered the advancement of political and social sciences. The relationship between bureaucratization, defined as the progressive rise of goal-oriented organizations with rational principles to efficiently optimise the protection and achievement of their interests, and economic development has been analysed among others by Max Weber. The German philosopher links the advancement of rational administration to an increase in democracy and economic complexity (Scott, 1996). These trends are clearly observed in the Italian history plot, where the advent of such “Napoleonic

bureaucratic machinery” marks the inflection point between an aristocratic feudal state dominated by landowners and agrarian economy and the progressive liberalisation and industrialization experienced from 1800 up to World War I. Most of the Italian intellectuals, such as the revolutionary writer and poet Ugo Foscolo and the philosopher and economist Melchiorre Gioja disliked the French and Austrian tyranny and dreamed of a unified Italian nation. Melchiorre Gioja, whose ideas on political economy and political economy drove the economic unification of Italy, claimed the need for the country to come together, innovate and keep up to date with the economic trends in other European countries. Gioja has been the most distinguished and first thinker of the time who translated Adam Smith’s ideas and rearranged them under an Italian perspective. He praises the concept of division of labour read in “On the Wealth of Nations” but moves away from Smith’s liberistic view of the economy, by defending a restrictive policy and promulgating the necessity of the state as a guiding and regulating power in the pre-industrial landscape developing, in northern Italy especially. His thinking is in line with the authoritarian French and Austrian administration, which tries to optimise the industrial production directed by a strong and central state economy (Toniolo, 2013). The enforcement of a strong industrial economy would accelerate the exchange of products and ideas in the Italian region and contribute to the political unification as answer to control and regulate such production and trades. This utilitarian perspective of industrial optimization was derived also by reading Bentham’s “An Introduction to the Principles of Morals and Legislation”. Gioja agrees with Bentham that moral, political and economic directions can be directed by a consequentialistic ethics: good is an action which lead to the most desirable, utile outcomes. Economic unification of Italy is, for Gioja, a morally good and necessary action to escape the tyranny of “The Foreigners” and establish a coherent Italian sovereignty.

The construction of national identity terminated in the Unification of Italy under the king Vittorio Emanuele II of the House of Savoy and was accomplished also by secret revolutionary societies, such as the “Massoni”(Giuseppe Garibaldi, the “hero” of unification) and Carbonari (Giuseppe Mazzini). These organizations remained active even after the unification and nucleated the birth of corporations

and major interest groups important in the rise of Fascism and the economy of Corporatism (Kroes, 2017).

- II. Before the Unification of 1861, the Italian peninsula had not been united since the fall of the Roman Empire of 476 C.E. The transition from a “geographical expression”, as described by the Austrian Foreign Minister and later Chancellor Metternich, to a politically unified and centrally governed nation represented for Italy a major symbolical change. While Romantic poets such as Giacomo Leopardi and Vittorio Alfieri focused on the symbolical aspect of such change, economists and statesmen were committed to find answers to the questions of political and economic administration of the new State.

The new government was centralised in Torino, former capital of the Kingdom of Piedmont and Savoy, under the progressist liberal rule of the prime minister Count Camillo Benso of Cavour. The unexpected death of the prime minister and the necessity of money to fill up the bank of the State, depaupered by the Unification campaign, marked the transition to a more protectionist economy and higher taxation, required to further centralise the State. The country also lacked large coal and iron deposits and the aim of such protectionist measures was also to foster the formation of a heavy-industry sector capable to supply the increased demand for the construction of railways to connect the regions (Toniolo, 2013).

In between the XIX and XX century, the Italian State was politically united but heavily polarised: a rich and modern industrial economy dominated the northern region and illiteracy, whereas agriculture characterised the South. As modern economists observed, the Italian bourgeoisie was more ‘a bourgeoisie of landed proprietors and professionals than an industrial bourgeoisie’ (Banti, 1996). Land attracted the middle class: it “confirmed wealth and conferred status” (ibidem). This obsession for land led the Italian middle classes to keep on prioritising “investment in real estate long after their counterparts in Western Europe had made the switch to other more mobile forms of wealth, stocks, shares and bonds” (Malatesta, 2004).

As response to such a closed and immobile economy, Statesmen and economists like Giovanni Giolitti and Valfredo Pareto developed alternative economic models to move from protectionist perspectives and agrarian economy to a modern and

industrial capitalism. Valfredo Pareto is famous for defining the “Pareto Efficiency”, an economic parameter to calculate the optimal allocation of resources. He advocated for a more liberalistic and open economy by applying a scientific methodology to the study of industrial growth and public finance (Fossati, 2013). Similarly, the prime minister Giovanni Giolitti agrees that a laissez-faire economy would favour the burst of industrialization required to sustain the consolidation of the Italian State (Salomone, 1996).

In this historical context (1890-1918), more liberal economic ideas were developing and contributed to advance the economic science of Italy, now living a period of gradual growth and temporary political stability. As during the “Risorgimento”, when political discontent drove economic unification, likewise this period is characterised by a development of liberalism fostered by the backwardness of the economic situation.

- III. A strong heavy-industry sector was established during the first decade of the XX century, in line with the liberal reforms. Liberal Italy succeeded in the task to provide wealth for the growing Nation; as observed in the increase of the manufacturing power, especially in the field of automotive (e.g. FIAT), shipbuilding and chemical industry. The situation, however, is not equally distributed but heavily polarised between an industrial and modern North and an economic retarded South. As a result, only a small percentage of the Italian population was enjoying the fruits of capitalism.

The parenthesis of World War I interrupted the Liberal state in 1915, accentuating such disparity. Two main models developed an answers to this context: socialism led by Antonio Gramsci and Fascism by Benito Mussolini.

Antonio Gramsci, fervent Marxist and representor of the historical anti-liberal school, argues that Liberal Italy “was from the beginning a failed state” (Carter, 2011). The socialist thinker described the Unification and the rise of Liberalism as a passive version of the French Revolution, guided by a weak middle class, synonym of a weak capitalist economic base. The Italian bourgeois failed to “impose itself on the ‘old feudal classes’, or establish hegemony over the popular classes” (Ibidem). As a consequence of its conservative nature, the middle class cannot truly bring Italy to the status of modern capitalism. The only solution is for

Gramsci a Marxist revolution to install a socialist economy (Beilharz, 2016). On the other side, Mussolini's model was to seek popular approval through the protection of the agrarian sector and a consolidation of industrial manufacturing, in order to please the interests of both the land-obsessed old landowners' elite and the new emerging industrial aristocracy (Welk, 1938). If the economic thought of Gramsci was influenced by the ideas of Marx, Engels and the Bolsheviks, Fascism was a political and economic response to the historical context and the devastation caused by World War I. The fact that a Fascist economy developed in this period but not a Marxist revolution, as proposed by Gramsci, supports the view that the context was the most driving factor in the development of Italian economic thought. Protectionist economy and isolationism of the state emerged as answers under Fascism and remained dominant in Italian economic thought until the end of World War II, when the Fascist regime and the Monarchy collapse and economists will have to find new solutions again.

## **Conclusion**

To sum up, Italian fluctuating economic history reflects the pattern of political instability and historical situation. Discontent towards the French and Austrian domination in the XIX century led to the development of nationalist economic ideas, exemplified by Melchiorre Gioja and incorporated in the Unification.

The retarded agrarian economy after the Unification contributed to develop new liberal and progressist ideas – such as the Pareto's utilitarian and scientific methodology- as solutions to the problem of Italian modernization. Finally, the incompetency of the middle class to bridge the development gap between North and South and the event of World War I guided the economy towards a new form of protectionism under the fascist regime. In conclusion, the three historical periods described above support the thesis expressed in the introduction, that political and historical context has been a major factor in the development of Italian economic thought.

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