

Nationalizations and Privatizations from a Historical Perspective

by Franco Amatori*



Nationalizations and privatizations are two sides of the same coin, a revolving door that is operated by an unequivocal actor: the state. It is that state that, through its bodies, defined by the supreme law of the constitution, establishes the framework for economic activities, the confines between public and private.

In Italy the state has a particular role, because our country came late to political unification and economic modernization with respect to other European powers (Germany is a unique case), with which the goal however is to compete. The aim is to construct the “Third Rome,” after that of classical times and that of the great popes of the Renaissance: the liberal, lay, anticlerical nation of the Risorgimento.

For conservatives, who wanted “to go forward slowly, with care,” in a speech in parliament in April 1863 Quintino Sella responded in the name of the new governing class: “We have chosen a diametrically opposed path, we have boldly jumped in to satisfy the needs of civilization and progress that exuded from all parts of the Italian population.”¹

From the beginnings of the new unitary construction, the state was the main economic-financial operator in the Italian peninsula. It had an absolute need for resources to construct the infrastructure of a civilized country: railways, roads, ports, buildings for the public administration, an apparatus of weapons and military forces that defended the country’s independence and completed the process of national unification.

These are the reasons why taxation was heavy

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and inflexible, the issuance of public debt securities considerably greater than all of the old states put together, and 20 percent of the national territory was ultimately “sold” – or in today’s language “privatized” – which consisted of state and church-owned assets, probably the largest public auction in our history. It was defined a “forced privatization,” by which the government aimed to have the middle and upper classes pay for the costs of unification.²

All that energy soon had to face reality, though: with the so-called “war on banditry” that stained the Mezzogiorno with blood; with the reaction of the Catholics; and with the hostility of some other European powers.

To resist, it was necessary to choose a less centralized configuration of power, rejecting the federalism sought by Carlo Cattaneo, but also the requests for administrative decentralization proposed by Marco Minghetti.

With the concentrated governance structure, Italian unity was safe, but the reality of things, the nature of civil society, could not be hidden.

State concentration corresponded to a fragmented society, with very differentiated needs and resource requirements, just as relations at the international level were unequal. All of this was soon revealed by the great inquiries, such as that conducted by Leopoldo Franchetti and Sidney Sonnino in 1876 on Sicily.

While it was imperative to govern the national territory using a single set of laws, these laws had to be “adjusted,” so to say, so as to make them concretely applicable in the different local areas. That step could only be taken by political society, with all of the discretionary power it entailed and still entails.

When in Italy we use the word “state,” we don’t think of a structure of competent, efficient, and impartial bureaucrats, but of politics, of political militancy.

Italian capitalism can thus be defined as “precocious state capitalism”: the first, and probably the largest privatization in the history of Italy took place, as already mentioned, right after unification, with the sale of church and state-owned goods.

To find a comparable episode in the opposite direction, it is necessary to skip ahead by forty years, to the nationalization of the railways in 1905.

THE GREAT RESCUES

Before considering developments in the 1900s, it is necessary to analyze an issue that is not so obviously connected to the plot of this story, but that is actually an important part of the fundamental dynamics of nationalizations and privatizations in the history of Italy.

From the middle of the 1880s, the Italian state re-

quired the industrial production of steel: for its warships, above all, but also because a clear sense was emerging of the need to embark on the path of industrialization, and due to the impossibility of maintaining economic competitiveness for long within a traditional agricultural-mercantile model.

Yet the state did not address this problem with a direct intervention, it did not create public steel production, but encouraged a private entrepreneur to take the lead. In a certain sense, we can say that a public duty was privatized.

The story is that of Terni, the large enterprise founded in March 1884 for the production of steel – the plates for the armor on the Royal Navy ships, first of all – using the most advanced technologies at the time. This was a strategic choice for the Italian state, that however was entrusted to Vincenzo Stefano Breda, whose biography is characterized by a close interaction between patriotism and business. After fighting in the wars of the Risorgimento, Breda then became a deputy to Parliament from his city, Padua, and in 1872 the chairman of the *Società veneta per imprese e costruzioni pubbliche*, one of the most important companies in Italy.

The idea of a “state steel works” entrusted to a private enterprise entailed considerable public support for the company: financial advances, contracts, subsidies, and protectionism. But due to an unfavorable general situation and a lack of managerial and technical skills, after three years Terni had not produced a single kilogram of steel, and was on the verge of bankruptcy.

The state dealt with the financial disaster, while the Bank of Italy would print paper money to pay for the production of public steel assigned to a private enterprise. Breda was investigated for having diverted part of the resources provided to Terni to the *Società veneta*, which was also in serious difficulty, and he was tried for irregularities in regard to the state. When he became a senator of the Kingdom of Italy, he was judged by a special tribunal, the senate met as a high court of justice, and acquitted.³

The mixture between public and private appears as a congenital defect in the process of Italian industrialization. While this was the first large rescue carried out by the state in the history of Italy, there would be two more within thirty years.

In 1911, the entire steel sector was saved: this was an enormous operation that allowed Italy to be self-sufficient in terms of steel production, at the time it entered World War I.

In 1922, the strategic handling of public rescue operations was entrusted to the industrial activities related to the *Banca Italiana di Sconto* (BIS): this includ-

ed Ansaldo, the largest Italian enterprise at the time, with 110,000 employees.

This giant was led by the Perrone brothers, who had created a mining-metallurgic-mechanical empire from Valle d'Aosta to Genoa, passing through Piedmont. Given that they produced indispensable goods for the nation, they thought the state should take responsibility for their business "venture," that is, for their debts.

In all three of the cases mentioned – the rescue of Terni, the steel sector, and of Bis-Ansaldo – the Bank of Italy was a leading actor: in the case of Terni, by printing money; with the steel factories, in 1911, paying an enormous sum; and in the Bis-Ansaldo operation in the most original way, through the Special Section of the *Consorzio sui Valori Industriali* (CSVI), thanks to a mechanism that cost the state 3 percent of a year's GDP, that lasted until 1926.

In the history of nationalizations/privatizations, the succession of state rescues left a deep mark regarding the spurious relationship between public and private, that cannot be ignored.

Through these bungled operations, though, and others as well, the country made it to World War II, the only one in Southern Europe with a stable stage of industrialization.

A country similar to ours, Spain, attempted and failed.

THE NATIONALIZATIONS IN THE EARLY 1900S

A nationalization with a clearer intent and results was that of the railways in 1905: an operation that was necessary, given the state of neglect and backwardness of the system managed by private companies, in particular in the Mezzogiorno (we recall the famous image provided by Giustino Fortunato, of the "wreckage hanging on the sea," referring to Calabria, in a 1904 work entitled *The Southern Question and Tax Reform*).

This passage of nationalization of the railways is important from various points of view.

The first: the network was modernized, initiating a massive series of supply contracts for Italian heavy industry: locomotives, rails, and various fixed materials and rolling stock.

The second: the long-term economic consequences. The rail companies were in fact given considerable compensation, most of which would be reinvested in the emerging electricity sector, that from the 1930s to the 1950s would represent a formidable center of financial and political power.

The third: a great manager and technical expert was placed at the head of the nationalized railways,

Engineer Riccardo Bianchi, whose contract was classified outside of the parameters of the public administration. This is how the controversial regime of "parallel bureaucracies" began.

In 1910, the state took another step on the path of nationalization policies, to implement necessary, although costly reforms, creating a monopoly over life insurance.

This episode is interesting in and of itself, because it demonstrates the desire for reform by the bloc of Giovanni Giolitti, but also because it sheds light on an important figure in this story: Alberto Beneduce.

When Fascism first came to power, the leaders openly espoused free-market positions, stating that they would dismantle all of the so-called "harnesses of war": no more public railways, postal service, and telephone operators! Mussolini thundered, on the advice of his Finance Minister Alberto De Stefani.

In reality, Italy couldn't afford that type of conduct. The Italian state was full of debts as a consequence of World War I. Moreover, the government could not pursue a policy of inflation, as it would threaten the support of the middle class. Ultimately, there were rescues to be carried out, and in 1926 this led to the creation of the Liquidation Institute, which took on all of the obligations of the Special Section of the CSVI.

THE BIRTH OF IRI

Due to the economic consequences of World War I, the country's three largest banks, Banca commerciale italiana, Credito italiano, and Banco di Roma – had been woven into a monstrous "Siamese twin" relationship with a few large enterprises.

They were universal banks, that is, they collected deposits, provided short-term commercial credit, and medium and long-term credit as well. Thus, if businesses were in a situation of crisis, the banks were as well, as they had tied up the resources of savers in funding the businesses. It was thus unavoidable for the banks to seek help from the Bank of Italy, which in the dramatic situation that had been created after the Wall Street crash of 1929, risked true bankruptcy.

IRI, the Institute for Industrial Reconstruction, was established in 1933 as a provisional entity, and then took over the banks' liabilities, and as a consequence, their industrial holdings.

In the foreign literature there is widespread use of the term "nationalization" referring to the birth of IRI; that's not exactly what took place.

To speak of IRI it is necessary to sketch out the figure of its founder, Alberto Beneduce, a top-rate actuarial mathematician, who had helped Minister Nitti in his reforms aimed at economic modernization of the country.

FOCUS The State vs. The Market?

Beneduce was a pro-intervention social-reformist, and in the post-war period he dedicated his efforts to creating a series of institutions aimed at favoring agrarian reform and the industrialization of Italy's South.

In 1924 he broke off his association with Nitti, who went abroad and considered him a traitor. Beneduce, on the other hand, despite avoiding any outward expression of support, placed himself at the service of Mussolini, and became his most trusted economic advisor. In the second half of the 1920s he thus participated in the major international economic conferences, and we can say that only the governor of the Bank of Italy, Bonaldo Stringher, was his equal in terms of understanding and solutions to the great economic and financial problems facing the country.

Stringher died in 1930, and Mussolini, in trouble due to the very serious domestic and international crisis that risked overwhelming the Bank of Italy, had to turn to Beneduce.

With the help of Donato Menichella – who like Beneduce, had fought on the front lines of the Great War and saw the defense of national unity born from the Risorgimento as an absolute priority – from the initial months of IRI's creation, Beneduce worked on a radical reform of credit that put an end to the system of universal banking, implementing a system of specialization under which the three largest banks – now defined “national interest banks” – were authorized to perform only ordinary lending activities, while for medium and long-term lending special institutions were created that drew resources not from deposits, but from the capital markets.

IRI then took over the banks' assets and liabilities, thus having a debt burden which it attempted to manage by issuing a massive amount of state-backed bonds. In exchange for this, it requested and obtained total possession of the banks, thus safeguarding the savings of a country that had used this resource to construct value that went well beyond merely economic conditions.

This was the indispensable premise for the banking law of 1936, that remained in effect for half a century.

IRI also inherited industrial holdings from the banks that not only represented 40 percent of all listed companies, but consisted of companies operating in absolutely crucial sectors for the country's economic structure: steel, heavy mechanics, shipbuilding, the electricity industry, and a good part of the chemical industry.

Beneduce's intention was to sell as many industrial companies as possible to private interests; to sell them, but not below their value. Ultimately, Italy's large private capitalists, despite being vigorously en-

couraged by Beneduce, proved to represent a weak economic class.

Giovanni Agnelli, the head of a consortium from Piedmont, attempted, with an amount that was entirely inadequate, to acquire SIP, the Piedmont Hydroelectric Company, one of the components of the electricity cartel; with a similar move he also sought to obtain control of Alfa Romeo, which had also fallen into the hands of IRI, but he was unsuccessful there as well.

Montecatini, which was led by Guido Donegani, made every attempt to acquire Terni Chimica, the only enterprise in Italy that could challenge Montecatini's monopoly in the sector of nitrogen fertilizers, but in this case as well, Beneduce considered the amount offered to be insufficient.

Privatization was easy for Edison, on the other hand, the largest electricity group, that had emerged in the most industrialized part of Italy, the metropolitan area of Milan, that boasted a high return on investment.

Ultimately, based on the principle of “sell, but don't undersell,” IRI kept the ownership of most of the industrial shares resulting from the bank rescues. This did not imply a Soviet-style nationalization, or a process led by fascist corporations.

According to Beneduce, the management of these enterprises needed to follow rational market criteria as much as possible. IRI sought a unitary management of the sector, in a period in which Italy was made up of confused, multi-sectoral groups.

Then, on the eve of World War II, companies that



depended on the IRI super holding company included STET for the telecommunications sector, Finmare for the shipbuilding sector, and Finsider for steel; below the holding companies, in the theoretical scheme, are the businesses, for which the best entrepreneurs and managers available in the country were chosen as leaders.

THE GOLDEN YEARS OF IRI AND THE BIRTH OF ENI

This is the basis on which IRI presented itself as one of the protagonists of the extraordinary period that goes from right after World War II to the beginning of the 1960s; it worked like an upside down pyramid, with priority to businesses, then the financial companies, and finally the super holding company, willingly accepting the entry of private capital, provided it was at a controllable level, but definitely with a demanding approach.

This was the period of names such as Sinigaglia, Reiss-Romoli, Luraghi, and Cova.⁴

In 1953, after a series of adventurous turns, ENI was born, the National Hydrocarbon Entity, that in a certain sense represented the epitome of Beneduce's philosophy, that of public ownership associated with a private entrepreneurial style. ENI was in fact defined as "the private initiative of a great public entrepreneur, Enrico Mattei."⁵

We can certainly not say that this group of companies was coordinated and responded to economic planning needs. There were often serious clashes, like when Finelettrica, controlled by IRI, opposed the creation of a single entity for energy, advocated by Mattei.

This is a scenario that saw the presence not of "a state capitalism," but of "state capitalisms."

THE STATIST TURN

Between 1956 and 1962 events took place that were decisive for the entire system.

In 1956, the Ministry for State Holdings was created, that led to the formation of a chain of command diametrically opposed to the previous philosophy. The system conceived by Beneduce and defended vigorously by Menichella (who after the war became the governor of the Bank of Italy), then showed its weak point, that of state ownership.

During the late period of Fascism the weight of politics was that of a single man at the helm, the *duce*, who had full trust in the leader of IRI. In the decade after World War II, public enterprises benefitted from "benign neglect" on the part of political forces. This group of companies appeared to be too great of a temptation not to implement a spoil system

though, which however was a one-way street, because the Communist party could not be part of the government coalition, given its international ties.

In any event, for a number of years the consequences of this subordination of IRI to politics did not appear so evident. The position of minister of State Holdings was held by yes-men for Enrico Mattei until the early 1960s.

In 1962 another great event took place, the nationalization of electricity. This happened due to a specific request from the Socialist Party, which used nationalization as a condition for its entry into the center-left government.

In actual fact, the electricity industry represented a conservative bulwark that prevented any possibility to enlarge the governing coalition on the left, and also, due to a sort of "announcement effect," the private electricity industry stopped investing in its own plants, that were not only in poor condition, but prevented the creation of a truly national system.

The nationalization of the electricity industry was opposed by that group of left-leaning Catholics whose intellectual leader was Pasquale Saraceno, one of the authors of the Code of Camaldoli. They wanted the entire sector to be "IRI-ized," and on the other hand, through its holding company IRI already held a significant stake in the sector (in addition to SIP, it controlled SME, the Southern Electricity Company).⁶

The nationalization position prevailed, that in this case meant placing the sector outside of the market and ensuring conformity with rates set by an inter-ministerial committee.

An important, and certainly not positive consequence, is linked to the position of the governor of the Bank of Italy, Guido Carli, who sought to compensate not the shareholders, but the electricity companies.

Carli, who held the role of governor from 1960 to 1975, aimed to repeat the experience from 1905, when an old sector had shifted its resources to an emerging sector: from the railways to the electricity industry.

In this phase as well, there was an industry in Italy that seemed to have great potential, but also serious financial problems: the chemical industry, and the governor thought that the compensation provided for the electricity sector could easily flow into this industry that was flourishing from a technological and scientific standpoint, but stranded by the low availability of capital. The prevalence of this position represented one of the most disastrous decisions in the history of Italian industry, and Carli himself, in his autobiography, makes ample amends for it.⁷

The reason is very simple: "From the railways to the electricity sector" meant going from one monop-

ly to another; “from the electricity sector to the chemical sector” was practically like going from a pool to the open sea, so different were the requests in terms of production, marketing, and R&D.

Large chemical companies no longer exist in Italy, as they essentially collapsed with the Montedison disaster and the tragic events of Tangentopoli in the summer of 1993.⁸

THE RISE AND FALL OF STATE HOLDINGS

From the start of the 1970s, in an increasingly conflictual environment, that saw the country suffer from a sort of “perfect storm” – labor unrest, the strategy of tension, and terrorism – the companies that were controlled by the state became a battleground between political factions and a tool for political support, in a manner detached from economic logic.⁹

Ultimately, at the beginning of the 1990s, the general opinion was that the country could not avoid a broad process of privatization, in part because Reaganism, and especially Thatcherism, exercised strong political and cultural hegemony.¹⁰

As regards Italy, there are three reasons that led to a vast operation of privatizations.

The first was that the public sector was now identified with the corruption amply revealed by Tangentopoli. The second: privatization would contribute to alleviating the public debt burden that appeared out

of control in the 1980s. On this point, the European Union was particularly insistent (with the Andreotta-Van Miert agreement¹¹). The third: it was thought that Italy had a store of entrepreneurship that the privatizations would offer the opportunity to emerge; and that the securities market would definitely be revived.

These hopes turned out to be mostly illusions.

It is true that Italy was almost the leader in terms of value of privatizations carried out (160 billion euros from 1985 to 2000),¹² yet it rapidly became evident that even a sum this large could not solve the problem of public debt.¹³

The large entrepreneurs, as had happened in the 1930s, seized the opportunities, but without preparing long-term strategies. Consider the Riva family and the negotiations to acquire the Taranto plant,¹⁴ or the “courageous captains” who conquered Telecom with leverage,¹⁵ or the case of the Benetton, one of the exemplary families of Italian capitalism, who at the start of the 2000s pursued a concept of rent, without reservations.¹⁶

In conclusion, we can say that although all of the relevant legal and institutional mechanisms were introduced in Italy to favor large enterprises, it is almost non-existent in terms of exclusively private initiative, or it is located in areas of activity with little strategic weight at the international level. And what is left of



large enterprise today is controlled above all by the state: ENI, Enel, Fincantieri, and Leonardo-Finmeccanica.

The debate is open and the pandemic has made it even more urgent: some want to push public and

state-controlled enterprises towards a sort of *post-lit-teram* planning, or even give them a mission, while others would be happy to simply put them in the right hands, as Beneduce and Menichella sought to do at the origins of IRI.

¹ Text cited in F. Amatori, A. Colli A, *Impresa e industria in Italia. Dall'unità ad oggi*, Venice, Marsilio, 1999.

² F. Bonelli, *Il capitalismo italiano: linee generali d'interpretazione*, in *Storia d'Italia-Annali 1. Dal feudalesimo al capitalismo*, Turin, Einaudi, 1978.

³ F. Bonelli, P. Craveri, Breda, Vincenzo Stefano, in *Dizionario biografico degli italiani, vol. 14*, Rome, Treccani, 1972.

⁴ F. Amatori (editor), *Storia dell'IRI-2. Il "miracolo economico" e il ruolo dell'IRI*, Rome-Bari, Laterza, 2013.

⁵ Bonelli, *Il capitalismo italiano*, op. cit.

⁶ M. Comei, *La nazionalizzazione dell'energia elettrica e i suoi effetti*, in F. Amatori (editor), *L'approdo mancato. Economia, politica e società in Italia dopo il miracolo economico*, Annali della Fondazione Feltrinelli, Milan, Feltrinelli, 2017.

⁷ G. Carli, *Cinquant'anni di vita italiana*, Rome-Bari, Laterza, 1996.

⁸ F. Amatori, *"Impresa e industria in Italia negli ultimi trent'anni"*, in *Marca/Marche. Imprese e industria nelle Marche del Novecento*, M. Moroni (editor), 13, 2019.

⁹ F. Amatori, *"Grande e piccola impresa nella storia dell'industria italiana"*, in *Annali di storia dell'impresa*, 17, 2006.

¹⁰ E. Reviglio, *Privatization in Europe. A Brief History of European Capitalism in the XX Century*, Rome, Accademia dei Lincei, 2002.

¹¹ B. Carli, *Il "vincolo europeo": le privatizzazioni dell'IRI tra Commissione europea e governo italiano*, in R. Artoni, (editor), *Storia dell'IRI-4. Crisi e privatizzazione*, Rome-Bari, Laterza, 2014.

¹² F. Lavista, *"San Vittore e lo yacht Britannia"*, in F. Amatori (editor), *L'approdo mancato. Economia, politica e società in Italia dopo il miracolo economico*, Annali della Fondazione Feltrinelli, Milan, Feltrinelli, 2017, p. 293

¹³ M. D'Antoni, *"Privatizzazione e monopolio. Il caso della Società autostrade"*, and M. Mucchetti, *"L'ultimo decennio, revisione di una liquidazione sommaria"*, in R. Artoni, (editor), *Storia dell'IRI- 4. Crisi e privatizzazione*, Rome-Bari, Laterza, 2014.

¹⁴ R. Gianola, *L'illusione del mercato: il grande inganno delle privatizzazioni*, Milan, Baldini&Castoldi, 1996.

¹⁵ S. Mariotti, *"Politiche di privatizzazione e competitività dell'industria italiana"*, in R. Artoni, (editor), *Storia dell'IRI-4. Crisi e privatizzazione*, Rome-Bari, Laterza, 2014.

¹⁶ A. Colli, *Famiglia, management e diversificazione. Edizione. Storia della holding Benetton 1986-2016*, Bologna, il Mulino, 2017.

SYNOPSIS

- In Italy, the mixture between public and private has been an unavoidable characteristic in the nation's path of economic modernization. Between the nineteenth and twentieth centuries, state initiative gave concrete form to the unification of the country, providing indispensable infrastructure. The large privatizations of public and church-held assets were accompanied by constant support for strategic sectors (steel and mechanical industries), that culminated in the rescues of Terni (1894), the steel sector (1911), and Ansaldo (1922).
- In addition to taking over the banks' assets and liabilities, in the 1930s IRI also inherited their industrial holdings, that not only represented 40 percent of all listed companies, but consisted of companies operating in absolutely crucial sectors for the country's economic structure: steel, heavy mechanics, shipbuilding, the electricity industry, and a good part of the chemical industry.
- The companies in the IRI group were then the protagonists of the "economic miracle," in which the attitude of "benign neglect" by governments favored the activism of competent public managers. The establishment of the State Holdings Ministry and the ensuing political decisions overturned the chain of command and required public companies to make decisions outside of a normal economic logic.
- At the beginning of the 1990s, Italy also saw the launch of a broad process of privatizations, with expectations that were unfulfilled, though.
- Large private enterprise is almost non-existent in Italy today, or is in areas of activity with little strategic weight at the international level. What remains of large enterprise is mostly controlled by the state: ENI, Enel, Fincantieri and Leonardo-Finmeccanica.