Over the 150 years since her unification in 1861, Italy almost caught up with the most advanced economies.\textsuperscript{1} Such a result was achieved in the presence of an industrial structure which is in many respects unique, as it is characterized by a dominance of small firms and a marginal role of large firms.\textsuperscript{2}

However, in the last twenty years this pattern seems to have come to a halt and some scholars wondered if Italy’s poor economic performance since the 1990s was a consequence of this.\textsuperscript{3} Some pushed their criticism further and argued that over her post-unitary history Italy was confined along a sub-optimal mix of small size, family control and specialization in traditional sectors, which prevented full convergence towards the technological frontier.\textsuperscript{4}

The reasons of Italy’s peculiar industrial structure have been widely debated. Historiography stressed that the advent of big business was curbed by some “originary traits”, among which the limited size of the domestic market, the general shortage of capital and the lack of natural resources. As a consequence, only a few big companies could prosper, often enjoying state protection and monopolistic positions.\textsuperscript{5} State interventionism translated into “political capitalism”: entrepreneurs pursued growth not for economic reasons (economies of scale and scope) but to strengthen their bargaining power with politics.\textsuperscript{6}

\begin{thebibliography}{9}
\bibitem{1} Emanuele Felice and Giovanni Vecchi, “Italy’s Modern Economic Growth, 1861-2011,” Quaderni del Dipartimento di Economia Politica e Statistica, Università di Siena, No. 663 (2012).
\bibitem{2} Fabrizio Onida, \textit{Se il piccolo non cresce. Piccole e medie imprese italiane in affanno} (Bologna, 2004).
\end{thebibliography}
Thus, the creation of one the largest state-owned sectors in the Western world was a way to provide those Gerschenkron-type “substitution factors” needed to catch up with more industrialized countries. The action of state-owned enterprises (SOEs) – among Italy’s largest companies – was restricted to those capital-intensive industries that the government considered strategic for the nation’s economic development and in which the private sector was reluctant to invest, i.e., steel, heavy engineering, energy, motor-ways and public utilities.7

Some factors were identified as crucial to the success of Italian small firms in the long run: the key role of family in Italian society; the preservation of craft skills whose roots date back to the late medieval communal civilization; and the propensity of Italian small firms to aggregate in industrial districts (IDs) – i.e., geographic clusters of small firms each specialized in one or a few phases of the same production process – characterized by relevant agglomeration economies.8

Other authors identified the reasons for the dominance of small firms in Italy in the consequences of the restructuring of Italian big business after the “Golden Age” of the 1950s and 1960s. This led to manufacturing decentralisation and the transfer of a large number of activities to small subcontractor firms, which used backward technology and resorted to a large extent to tax evasion and “black” labor.9

This paper analyzes the evolution of Italy’s industrial structure in the long term and provides an interpretation of it based on the role of institutions. It argues that Italy’s peculiar industrial structure is only in part the result of entrepreneurial failures of big business and of the dynamism of small firms. Instead, it emphasizes the role that institutions played in determining the relative performances of both types of firms.

This paper is organized as follows: after this introduction, sections 2 and 3 present a picture of Italy’s industrial structure at the beginning of the 21st century and of its evolution over the 150 years since unification in 1861. Section 4 focuses on Italy’s political and corporate elites and the effect of their interplay on institutional action. Sections 5 and 6 illustrate the role of institutions in determining the performance of, respectively, big business and the small firm sector, leading to the conclusion.

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The classification of Italian enterprises by size at the beginning of the 21st century is relatively simple. The weight of small firms (up to 99 employees) appears to be overwhelming, well above all the other major industrialized nations (see Table 1).

<table>
<thead>
<tr>
<th>Country</th>
<th>1-9</th>
<th>10-99</th>
<th>100-499</th>
<th>500 or more</th>
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<tbody>
<tr>
<td>France</td>
<td>11.8</td>
<td>27.4</td>
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<td>36.3</td>
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<tr>
<td>Germany</td>
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<td>Italy</td>
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<td>16.4</td>
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<tr>
<td>Japan</td>
<td>10.8</td>
<td>41.7</td>
<td>27.3</td>
<td>20.2</td>
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<tr>
<td>UK</td>
<td>10.1</td>
<td>29.2</td>
<td>28.1</td>
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<tr>
<td>US</td>
<td>11.0</td>
<td>25.7</td>
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<td>48.8</td>
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Small and medium-sized enterprises (SMEs) – i.e., firms with less than 500 employees – account also for the absolute majority of value-added of the industrial sector, around the 65 per cent.10 Italian SMEs tend to be specialized in the “made-in-Italy” industries – i.e., personal and household goods (such as textiles, clothing, leather, footwear, wood, tiles, furniture, jewelry, cosmetics, musical instruments, toys and sports items) – and light engineering (machine tools), where technical economies of scale are not relevant. So, small does not mean inefficient. For example, spraying pump manufacturers in Reggio Emilia made only a few machine tooling operations and the final assembly of the pumps, while nearly all the components of the pumps were put out to subcontractors. They were produced with the same techniques which would have been used had the firm decided to make them in-house. 11 The advantage in producing all the components of a product under a single roof was thus extremely limited. 12 After WW2 the “made-in-Italy” industries constantly expanded and at the beginning of the 21st century account for about two-thirds of Italy’s total manufacturing workforce, gaining a competitive advantage in international markets, thanks to systematic, often informal, innovation that has not been recorded in the international R&D statistics. 13 Conversely, Italy covers a minor

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13 Michael E. Porter, *The Competitive Advantage of Nations* (London-New York, 1998), 421-453. This in part explains Italy’s lower share of R&D expenditure on GDP with regard to the other advanced
share of the high-tech and large-scale sectors (i.e., ICT, chemicals and motor-vehicles) in comparison with the other advanced economies.\textsuperscript{14}

The role of big business is a marginal one. Among Fortune’s 2011 list of the World’s largest 500 corporations,\textsuperscript{15} Italy has 10 entries, against those of economies of relatively similar size. UK had in fact 30, France 35, Germany 34, Japan 68, not to speak of the US (more than 130) and China (61). The largest Italian manufacturing company is Eni (a State-controlled oil company, in the 23rd place), followed by Enel (electricity, 56th in the global ranking) and Exor-Fiat (83\textsuperscript{th}). In the FT 2008 global ranking by market value of the largest 500 companies, Italian companies were only eight, of which only Fiat in manufacturing, two banks and another five (Eni, Enel, Telecom Italia, Snam and Saipem) in energy and utilities.\textsuperscript{16} The average size of Italian large firms is smaller than that of the other main European economies in all manufacturing sectors.\textsuperscript{17}

The predominance of small firms and the smallness of the big business sector coincide today with a peculiar range of ownership structures. Individual and family ownership dominates among SMEs, while blockholding – i.e., the presence of dominant shareholders in a relevant controlling position – is the rule among the largest corporations, of which almost none can be labeled as public company. Out of the top one-hundred companies ranked by turnover in 2011, roughly one third was family-owned and managed.\textsuperscript{18} A second third was under foreign control, while, despite a massive privatization process which took place in the 1990s, the government was still a relevant blockholder in capital intensive industries such as energy and utilities.

In recent years, other protagonists emerged in the Italian corporate economy. Since the mid-1990s, medium-sized enterprises (MSEs) displayed outstanding results in terms of growth and profitability. By the beginning of the 21st century, more than 1,500 businesses with annual sales between 150 million and 1.5 billion euros were operative in Italy. MSEs often emerged from the entrepreneurial seedbed of IDs. Starting from the early 1990s, the increasing pressure of globalization determined a restructuring of many Italian IDs, with the rise of lead firms that pursued dimensional growth and accelerated internationalization with the establishment of subsidiaries abroad. Most of these MSEs are specialized in niches, often global. However, these MSEs went on sharing many of the features of the traditional ID firms, i.e., family economies. See Alessandro Nuvolari and Michelangelo Vasta, “The Ghost in the Attic? The Italian National Innovation System in Historical Perspective, 1861-2011,” Quaderni del Dipartimento di Economia Politica e Statistica, Università di Siena, No. 665 (2012).

\begin{footnote}{14} Renato Giannetti and Michelangelo Vasta, \textit{Storia dell’impresa industriale italiana} (Bologna, 2005), Table 2.7.\end{footnote}

\begin{footnote}{15} http://money.cnn.com/magazines/fortune/global500/2008/index.html\end{footnote}

\begin{footnote}{16} http://www.ft.com/intl/cms/33558890-98d4-11e0-bd66-00144feab49a.pdf\end{footnote}

\begin{footnote}{17} Amatori, Bugamelli and Colli, “Technology, Firm Size and Entrepreneurship.”\end{footnote}

\begin{footnote}{18} The ranking is available at www.mbres.it\end{footnote}
ownership, centralized management and specialization in the sectors of the “made-in-Italy” and light engineering.\textsuperscript{19}

Another major novelty is the growing weight of foreign-owned firms. Actually, foreign capital has been constantly present in Italy’s industrialization since its inception before WW1. Foreign-controlled firms tend constantly to cluster in industries in which indigenous entrepreneurship has been weak or even absent, and where a high technological expertise is needed.

Was Italy ever different?

Was there any moment in which Italy’s industrial structure was different from that outlined above? To reply to this question Table 2 confronts the picture we have at the beginning of the 21\textsuperscript{st} century with some other portraits, taken at the industrial censuses carried out at various times over the 20\textsuperscript{th} century.

The presence of a large small-firm sector represents a long-term trait of the Italian economy, dating back well before Italy’s unification. The textile districts of Schio, Biella and Prato, for instance, went through a remarkable expansion since the late 18\textsuperscript{th} century.\textsuperscript{20} The years following the unification gave a further boost to existing IDs through the creation of a national market and of technical schools training skilled workers.\textsuperscript{21} The first industrial census in 1911 showed that micro-firms with fewer than 10 employees accounted for a staggering 40 per cent of Italy’s manufacturing workforce. In the following decades their share of total employment progressively diminished to a minimum in 1981 (Tab. 2). Then the trend was reversed, as happened for the immediately upper class (small firms from 10 to 50 employees). MSEs from 51 to 500 employees remained pretty stable around 30 per cent throughout the 20th century, whereas large firms with more than 500 employees showed an inversely-U shaped dynamic, reaching a 25.6 per cent peak in 1951. The decline was slight in the 1970s, but became massive after 1981, spurred by the crisis of fordist big businesses.

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<tr>
<td>&lt;10</td>
<td>40.0</td>
<td>35.7</td>
<td>35.2</td>
<td>31.9</td>
<td>28.0</td>
<td>23.5</td>
<td>23.4</td>
<td>26.2</td>
<td>25.9</td>
</tr>
</tbody>
</table>


The birth of big business in Italy dates to the last two decades of the 19th century. Starting from the 1880s, investments (largely of foreign capital) in transport (railways and tramways) and utilities (gas, electricity and water supply) accompanied the urbanization process in the largest centers of the peninsula, as Milan, Genoa, Turin, and Naples. At the same time, both domestic and foreign entrepreneurs started successful ventures in fast-growing industries such as cotton, metallurgy, electricity and mechanics, while the state - together with a banking system modeled on the German-style universal bank - created a favorable framework for entrepreneurial action and also the main business opportunities. This happened in the case of steel in which the procurement necessities of the Navy drove the establishment of the first modern steelworks in Terni (Umbria region). The state was also an important buffer in periods of crisis. In the case of the steel sector, the state, through the Bank of Italy, provided the financial resources for a massive rescue of the entire sector in 1911. So, in the twenty years prior to WW1, large companies like Fiat (automobiles), Pirelli (caoutchouc), Ansaldo (shipbuilding), and Falck, Terni and Piombino (mass-produced steel) established themselves as “first movers” in their respective industries.

WW1 provided sound opportunities for existing leaders which consolidated in their respective sectors and pursued vertical integration. Examples range from Montecatini, a mining company, which undertook an ambitious downward integration, becoming the leader in fertilizers, to Fiat which became a powerfully integrated engineering and motor-vehicles company. The interwar period saw Italy in a contradictory situation: on the one hand, some leaders had emerged in modern industries characterized by a level of industrial concentration in line with that of the other advanced nations. On the other hand, the domestic market was small, by no means comparable to those enjoyed by US or German companies. The result was that mass production remained almost unattainable.

In the 25 years following WW2, the Italian economy enjoyed extremely high growth rates, led by fordist big business. External forces, among which the creation of the European Common Market and a consistent inflow of foreign direct investments were at work. A growing share (from less than 40 per cent in the interwar period to 60 per cent in 1971) of employees in manufacturing were concentrated in capital-intensive industries (automotives, chemicals, rubber, heavy mechanics, steel and shipbuilding). The nation’s industrial structure became more

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similar to that of the more advanced economies. The total assets of the top 200 manufacturing companies rose from 26 per cent of GDP in 1952 to 38.5 per cent in 1971.\textsuperscript{23} Income levels also converged towards US standards: in 1950 Italian GDP per capita was 37 per cent of the US’s, and jumped to 65 per cent in 1970.\textsuperscript{24}

As to ownership structures, the Italian big business remained characterized by strong concentration in the hands of few blockholders. Entrepreneurial dynasties started at the beginning of the 20\textsuperscript{th} century and consolidated under Fascism, were controlling the majority of the largest companies. Another relevant blockholder was the state, as a result of a massive bailout of the banking sector, which brought in the hands of a state agency, the \textit{Istituto per la Ricostruzione Industriale} (Iri), all the shareholdings of the former universal banks. After WW2, Iri was in control of about one quarter of the share capital of all Italian joint stock companies. After WW2 another big state holding, Eni, was created as the national champion in the energy industry.\textsuperscript{25}

However, the convergence of Italy’s industrial structure with the more advanced economies came to an end in the 1970s. Since then, divergence started.\textsuperscript{26} Total assets of the top 200 manufacturing companies fell from 38.5 per cent of Italy’s GDP in 1971 to 16.3 per cent in 2001.\textsuperscript{27} Employment in large firms (with 500 employees or more) decreased in Italy more than in the other advanced nations.\textsuperscript{28} Divergence concerns also the sectoral distribution of large firms, with a much smaller weight of ICT-related industries in Italy.\textsuperscript{29}

Notwithstanding diffuse expectations, the privatizations of the 1990s did not change much in this respect. Fully privatized companies became under control of powerful families and of foreign multinationals, while the state has remained the majority shareholder in some strategic (and profitable) companies such as Eni, Enel and Finmeccanica. This process did not (or only randomly, as in the case of Finmeccanica) result in the emergence of global technological


\textsuperscript{24} Felice and Vecchi, “Italy’s Modern Economic Growth.”


\textsuperscript{29} Ibid., 472.
leaders enjoying dominant positions, eventually supported by the state in the process of their international expansion.\textsuperscript{30}

**Political elites and corporate elites in Italy**

A major consequence of the fact that Italian big business grew highly protected by the state was that the corporate elite did not try to become also a political elite. In fact, after unification industrialists preferred to bargain sectoral benefits from the established ruling elite of Northern landlords and financiers and Southern notables, and this had structural consequences on the relationship between that political and the country's corporate elite, which was dramatically lacking of what the Italian leftist thinker Antonio Gramsci named "cultural hegemony". Industrialists failed to work out a project for the development of the whole Italian society which legitimized them as the leading force of the nation and shaped institutions according to corporate values. The weakness of the corporate elite became apparent at the beginning of the 20\textsuperscript{th} century, when prime minister Giovanni Giolitti pursued a policy that coupled fast economic growth led by big business with a modernization of the Italian society hinged on the creation of a state-funded welfare system and more advanced labor relations. The corporate elite refused to engage in a leading role in this process. Instead, most industrialists opposed it as they were reluctant to pay the cost for the enlarged welfare system and to recognize trade unions as a co-determinant of income distribution.\textsuperscript{31}

So, the way was paved for the advent of fascism after WW1. But also in this case the corporate elite relied on a actor on which it had little control and which was in many respects foreign to private big business and corporate values.\textsuperscript{32} Thus, the fascist regime freed industrialists from independent trade unions and allowed them to consolidate their positions in a protected domestic market, but at the same time it extended the state’s presence in the economy to an extent with no comparisons in the other advanced nations of the West.\textsuperscript{33}

After WW2, in order to tackle the left-wing parties, the Confindustria – the Italian industrialists’ association (representing Italy’s corporate elite) – supported the Christian Democratic Party (Dc), despite the ideology and political program of this party were in many respects hostile to big business. In fact, the Dc awarded positive value to the petite bourgeoisie and sought to swell the small firm sector. In emphasizing the role of small firms, the Dc was heir to the problem that had urged Catholics into the political arena: the need to deflect the proletariat from the attractions of socialism through the diffusion of property. In the Dc’s view, large firms

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\textsuperscript{31} Guido Baglioni, *L’ideologia della borghesia industriale nell’Italia liberale* (Turin, 1974).


engendered class struggle, whereas smaller units fostered interclass solidarity and social cohesion.\textsuperscript{34} Moreover, the Dc was influenced by the Catholic economists of the early 20\textsuperscript{th} century, who stressed that technological progress was not a prerogative of the large factory, but also small firms could exploit it.\textsuperscript{35} So, the state had to promote small undertakings and, at the same time, combat the “antisocial” forms of property: the latifundia and the large monopolistic concentrations. This anti-monopoly-orientation was not based on any objective assessment of the Italian market structure, but on the assumed attributes of scale. The Dc tended to identify big business \textit{tout court} with the monopolies: the significance given to this term was explicitly political, referring to “an economic overlord capable of subverting government policy and the democratic process.” This left the room for the expansion of the SOE sector: in order to meet those problems normally requiring large-scale undertakings, the state itself will had to step in to fill this gap.\textsuperscript{36}

In the mid-1950s the expansion of the SOEs worried the Confindustria to such an extent that in 1956 it signed an alliance with the Confagricoltura (the Italian landlords’ association) and the Confcommercio (the Italian tradesmen’s association), called the Confintesa. The three employers’ associations agreed to mobilize their membership in favor of the right-wing candidates of the Dc at the 1958 parliamentary elections. That is, the Confintesa aimed to weaken the Dc’s pro-SOE leadership (Italy’s political elite at that time) by not just lobbying the party from outside but also by acting from inside of it. However, such an initiative eventually failed as only a few candidates supported by the Confintesa were elected. The main reason for the failure was the lack of a mass-support for the Confintesa. In fact, its campaign against the expansion of the SOEs and the anti-private big business stance of the Dc was not of interest to the mass of SMEs that constituted the bulk of its membership. Contrary to the leadership of the Confintesa, most of Italian SMEs were not worried about SOE expansion and supported the Dc’s policy in favor of small private undertakings of which they were the main beneficiary.\textsuperscript{37}

Thus, the weak hegemonic grip of the corporate elite on the Italian society and its disconnection from the political elite throughout most – if not all – of the post-unification history ended up emphasizing the role of the political elite in mediating the relationship between the society and the state. Political parties became prominent actors, able to profoundly condition institution building. In particular, this widespread political culture made almost impossible the diffusion in Italy of constituencies alternative, or potentially in competition, with powerful mass-based political parties. Powerful big business independent from politics could play this role of alternative constituency. Politics thus pursued institution building in order to limit the relevance of big business, creating a favorable context for non-competing constituencies as small firms.

\textsuperscript{34} Dc (Democrazia Cristiana), \textit{Atti e documenti (1943-67)}, 2 vols (Rome, 1968), 246.

\textsuperscript{35} Giuseppe Toniolo, \textit{Osservazioni e discussioni durante le Giornate sociali di Milano. Resoconto delle Giornate sociali di Milano (7-9 febbraio 1907)} (Città del Vaticano, 1951).


\textsuperscript{37} Liborio Mattina, \textit{Gli industriali e la democrazia. La Confindustria nella formazione dell’Italia repubblicana} (Bologna, 1991), 302-6.
The sole big business allowed to exist could be that in some way under political control, that is SOEs.

**Institutions and weak big business**

A number of entrepreneurial failures undermined Italy’s competitive capabilities in some capital and technology intensive industries, such as those of Montedison in chemicals, Olivetti in electronics and Enel in nuclear energy.38

However, institutional factors (which formally and informally frame the way in which entrepreneurs and business organizations make their choices and design their strategies) must be considered. Of course, institutional settings are only partially exogenous. To a large extent, business organizations and economic actors are able to condition and drive institution building. It is possible to individuate several (necessary, even though not sufficient) conditions which can allow an economy characterized by a small and not particularly dynamic domestic market to develop a bulk of large companies in leading positions in their respective industries, both at home and abroad. A first one is that large firms can successfully develop internationally instead of relying on a small domestic market. A quite trivial precondition for this is a strong market leadership, which is normally (even if not always) of technological nature. The history of the Swiss chemical and pharmaceutical industry is particularly significant in this respect, combining strong technological leadership with precocious strategies of internationalization. A second factor for big business expansion pertains to industrial policies aiming at fostering international competitiveness and at the same time preserving control over the domestic market. Even not always so, the successful catching-up of Asian latecomers demonstrates how aggressive policies for competitiveness can play a key role in the growth of domestic companies.39 A third factor concerns the availability of adequate human capital, both of a technical and managerial nature. Nurturing technical and managerial capabilities has been a key element of Japan’s success since the late 19th century.40 Technical training is considered the main asset in the affirmation of German big business, while the rise of big business in the US was accompanied by the rise of powerful business and technical schools.41 A fourth prerequisite is an efficient financial sector able to channel resources to firms for investments and growth.

Unfortunately, institutions in Italy proved unsatisfactory in all these four areas. Thanks to efficient institutions, large companies could have leveraged on international expansion to break the constraint of a small domestic market. What happened was just the opposite: thanks to the

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38 Amatori, “Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations.”


state’s protection, Italian big businesses, with a few exceptions, enjoyed monopolistic positions on the domestic market despite a lack of technological leadership, which involved limited internationalization. They pursued dimensional growth until the point in which the marginal benefits deriving by a better bargaining position with the state were superior to the marginal cost of the investment. As a result, the Italian market became quickly populated by foreign leaders in advanced technologies, such as German companies in electro-mechanics at the end of the 19th century, Swiss (pharmaceuticals and chemicals) and French (glass and aluminum) companies in the interwar period, and then American companies in refining and petrochemicals after WW2.

A second institutional failure was the unwillingness of the Italian government to foster the internationalization of domestic companies to an extent at least comparable to that of another latecomer nation such as Japan in the 1950s and the 1960s. Undoubtedly, Italian industry benefited quite substantially from the creation of the European Common Market in 1958 which added its beneficial contribution to an already fast-growing domestic demand. Recent research on Italian foreign trade, however, suggests that the most relevant effect of this enlargement in terms of exports were felt in low and medium tech industries, and largely in activities carried on in SMEs.

Institutions also did not provide adequate human capital and organizational capabilities. Large firms were not only smaller than their European counterparts, but also less modern in their organizational and ownership structures: their management was rarely carried on by professionals, whose training could not rely on institutions comparable to those of the other advanced countries.

Finally, the domestic corporate finance system has also been inadequate to sustain big business growth. The weakness of the banking system had its roots in the events which accompanied the growth strategies of Italian large firms during WW1, when (as happened in other European countries) large companies established close equity links with the main

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44 Colli, “Host Country Attractiveness.”


46 Robert J. Pavan, *Strutture e strategie delle imprese italiane* (Bologna, 1976). This in turn might have negatively affected firm performance as there is evidence that poor management practices are associated to hereditary family management that is so common among Italian firms (Nicholas Bloom and John Van Reenen, “Measuring and explaining management practices across firms and countries,” *Quarterly Journal of Economics*, 122 (2007): 1351-1408).

universal banks. This led to the capture of the creditor by the debtor-shareholder, as it was the case for the Banca Italiana di Sconto, closely linked to Ansaldo, a huge vertically integrated konzern in steel and heavy mechanics. At the end of the war, the group was so heavily indebted with the bank, that this brought its Hausbank to bankruptcy. The worse came however in the early 1930s, when the whole Italian big business was hit by the great depression, and the largest universal banks found their balance sheets burdened by toxic assets: credits towards the distressed industrial systems, plus the shares of failing big business.48 The solution, a giant bailout of the nation’s three largest banks, brought in the hand of a state agency, the Iri, around one-fifth of the whole share capital of Italian stock companies, included the shares of the banks in the portfolios of these companies. The Italian state became thus the most relevant blockholder of the country, as well as the owner of the three largest domestic banks. This put, in theory, at disposal of the state a powerful instrument to pursue effective industrial policies. The effect was, however, extremely different from that of other experiences, for instance Korea – where the government used bank ownership and credit selection as an incentive for the international growth of domestic companies, or, more recently, China, where the state ownership of the financial sector is a powerful instrument for influencing the strategies of state-owned and private big business. Instead, Italian SOEs pursued growth and expansion mainly in the domestic market, in this behaving similarly to the private ones.49 Additionally, the 1936 Banking Law allowed banks to provide only short term credit to the industrial sector, explicitly prohibiting them to act as shareholders and to provide long and medium term credit to industrial firms, which was left to state-owned agencies set up with this explicit purpose. At the same time, also the other source of corporate finance, the stock exchange, was weak and unattractive to both companies and investors.50 The Italian stock exchange was lacking of any form of protection of minority shareholders, and the weak regulatory framework allowed the main blockholders (the state and families) to exploit widely minorities.51 An opportunity to create a financial institution which boosted the growth of big business was missed in 1962, when the Bank of Italy rejected the proposal by Mediobanca – Italy’s only merchant bank at that time – to set up a big investment trust to manage the sums the state had to pay in compensation for the nationalization of the electricity industry. Instead, the compensations were given directly to the former electrical companies that scattered them in a range of unrelated and often unprofitable investments.52

48 Amatori and Colli, Impresa e industria in Italia dall’Unità ad oggi.

49 Amatori, “Beyond State and Market,”; Toninelli, “Between state and market.”

50 Giovanni Siciliano, Cento anni di Borsa in Italia. Mercato, imprese e rendimenti azionari nel ventesimo secolo (Bologna 2001)


Institutions and the expansion of the small firm sector

If the weakness of big business is to a large extent consequent on a failure of the institutions that should have supported its growth, the expansion of the small firm sector was also to a large extent the result of institutional action. In fact, an important push to the small firm economy came after WW2 from state action. Since the late 1940s, the Italian state put into effect a set of measures which not only promoted small undertakings, but positively discriminated in their favor. One of them was the 1956 Artisan Act, that defined the boundaries of artisanship. Unlike the German and French systems, where the artisan qualification was defined on the basis of professional lists of activities, the Italian artisan firm was defined on the basis of size. Not a professional category, but a legal regime, membership of which entitled the owner to a wide variety of benefits, i.e., soft loans, loan guarantees, lower tax and employers’ contributions, welfare benefits at reduced premiums, exemptions from keeping accounts and from bankruptcy proceedings. Thus, contrary to other European countries, Italian artisanship policy did not foster firm growth, but, instead, provided incentives to remain small, since it was a condition in order to qualify for such a wide array of benefits not to exceed the size-limits established by the Artisan Act.

A policy was conceived also to support SMEs, defined as the companies sized 11-500 employees. Financial subsidies in favor of SMEs were introduced from 1952. SMEs could receive soft loans through the network of the Regional Medium-Term Credit Institutions (Mediocrediti Regionali), which were able to extend loans at lower interest rates because they could refinance themselves under favorable terms at the Central Medium-Term Credit Institution (Mediocredito Centrale).

After WW2 Italy’s banking system was restructured to strengthen the local banks that funded small firms clustered in IDs. The growth of the former was strongly associated to that of the latter. In fact, throughout the post-WW2 period the national banks within IDs had a much lower share of the local credit market than elsewhere. Lower assessment, monitoring, and enforcement costs, and social connections between local banks’ managers and local entrepreneurs gave local banks a competitive edge within IDs. The Bank of Italy played a decisive role in this respect: bank competition was restricted to prevent an increase in industrial

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53 The Artisan Act established a maximum of 10 persons employed (or 20 including apprentices), with exceptions for cooperatives, artistic trades (e.g. ceramics, fashion, etc.), limited companies and partnerships, “as long as members are personally involved in the work, and al long as such work has a pre-eminent role on capital.”


concentration since it was felt that if the small firms were deprived of necessary credit they would be forced to merge with the larger firms.\textsuperscript{56} Also labor market regulation provides incentives to remain small. In fact, Law 300, 1970 (known as \textit{Statuto dei Lavoratori}), which protects individual workers against unjustified firing, applies only to firms with more than 15 employees.\textsuperscript{57} To this we must add the shortcomings of the insolvency legislation which, by not providing efficient instruments alternative to bankruptcy to guarantee still potentially vital companies’ continuity, also contributed to high company turnover and keep company size small.\textsuperscript{58}

Finally, an important contribution to the expansion of the small firm sector came from local institutions. Especially in the North and the Center, these provided services and infrastructure – i.e., technical and vocational schools, estates for SME settling, innovation centers – that effectively supported SME development.\textsuperscript{59}

In recent years MSE growth seems to have relied less on domestic industrial policy, as it appears principally a corporate response to the challenges of globalization and ICT revolution. Nonetheless, some of these companies took advantage of the massive privatizations of the 1990s to re-orient their business towards the domestic market. This was, for example, the case of Benetton that acquired Società Autostrade, Italy’s largest highway company.\textsuperscript{60} However, insofar as these MSEs are rooted in their IDs of origin, their surge did not undermined their need for institutional support, even though the relevant institutional action changed. A good case in point is that of Emilia-Romagna, where the Confindustria lobbied the regional government to establish the “Regional System of Industrial Research, Technology Transfer and Innovation” to prompt technology transfer from the region’s universities and research centres to the local MSEs.\textsuperscript{61}

\textsuperscript{56} Francesca Carnevali, \textit{Europe’s Advantage. Banks and Small Firms in Britain, France, Germany, and Italy since 1918} (Oxford, 2005), 177-191.


\textsuperscript{59} Piore and Sabel, \textit{The Second Industrial Divide}, 29-30, 227-29.

\textsuperscript{60} Marcello De Cecco, “La politica italiana delle privatizzazioni,” in \textit{Le privatizzazioni nell’industria manifatturiera italiana}, ed. Massimiliano Affinito, Marcello De Cecco and Angelo Dringoli (Rome, 2000), xv-xxxvii.

\textsuperscript{61} Alberto Rinaldi, “The Emilian Model Revisited: Twenty Years After,” \textit{Business History}, 47 (2005), 244-266.
Conclusions

This paper has shown that Italy’s industrial structure in international comparison is characterized by an overwhelming presence of SMEs and, conversely, by a marginal role of large firms. SMEs are concentrated mostly in the “made-in-Italy” industries. Conversely, the weakness of big business led Italy to cover a minor share of the high-tech and large-scale sectors than the other advanced economies.

This peculiar industrial structure seems the outcome of a long-term evolution of Italian capitalism, which has been only partially modified by the two novelties occurred in recent years: the rise of MSEs and the increased weight of foreign-owned firms.

This paper argues that Italy’s industrial structure is only in part the result of entrepreneurial failures of big business and of the dynamism of small entrepreneurs. It instead emphasizes the role that institutional factors played in determining the contrasting performances of big business and small firms.

Institutional action was inadequate in all the areas in which big business could be supported: technological leadership, internationalization, human capital, and corporate finance. As a result, Italian large firms grew protected on the internal market, strong and in a monopolistic position at home but relatively small, and weak, in an international comparison. Conversely, after WW2 institutions fostered the small firm sector through a variety of measures: the artisanship policy, the soft loan schemes for SMEs, the banking and labor market regulation, and the insolvency legislation.

Such an anti-private big business stance of Italian institutions is largely the consequence of the weak hegemonic grip of the corporate elite on the Italian society and its disconnection from the political elite throughout most – if not all – of Italy’s post-unification history. This ended up emphasizing the role of the political elite in mediating the relationship between the society and the state. Mass-based political parties became prominent actors, able to profoundly condition institution building, and prevented the creation of constituencies alternative to them. Powerful big business independent from politics could play this role of alternative constituency. Politics thus pursued institution building in order to limit the relevance of big business, creating a favorable context for non-competing constituencies as small firms.