Italian Economic Reconstruction and the Marshall Plan
A Reassessment

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1. Introduction

The purpose of this essay is to make a comparison among the most recent Italian historiographical views regarding the Marshall plan and more in general the Reconstruction period, keeping as chronological boundary the early Fifties. The present essay attempts to focus on the principal issues historians have put under analysis, by highlighting similarities and differences to show unresolved trends in research. A section follows which is devoted to the description of the economic features of the ERP (European Recovery Plan) in Italy in the broadest context of the Reconstruction process involving the economic and social fabric. Moreover, a description of the related modes of employment and the Italian economic sectors involved in the plan along with figures is provided in the following section. Finally, a tentative description of the actual effects of the ERP on the economy is made and some conclusions are drawn.

The Italian historiographical debate regarding the post-war Reconstruction and the economic policies has undergone a substantial shift during the last fifteen years, which mainly consists in the increasing success of a line that breaks with the traditional manichean contrast between the idea of intervention of the State and the idea of Liberalism. The fundamental contribution in this direction comes from the studies of the economist Fabrizio Barca who analyses the shaping process of Italian capitalism in the period 1945-1962/63 from the perspective of institutional assets, public Administration’s \textit{modus operandi}, and the job, products and capitals markets. In Barca’s analysis a central role is played by the concept of «extraordinary» compromise which qualifies the developing model of capitalism since the beginning of the Reconstruction and in which both terms (extraordinary and compromise) assume specific meanings. The innovative basic feature of this interpretation lays in the multiplicity of subjects involved in this compromise with respect to the traditional lecture that juxtaposed liberals and State interventionists. The main subjects of this emerging model of capitalism are, according to Barca, the “Autonomous Public Boards”: they are public institutions which are autonomous and separated from the “ordinary” public administration. These boards are marked by a private-law organization, a high quality management and are in charge of allocation and mobilization of savings as well as of the responsibility of strategic address in economic choices. It is important here to underline the continuity of this model with respect to the fascist period. The Autonomous Public Boards are the only responsible for the detection of crucial priorities in Italian economic development and also for the collection and distribution of ERP aids since the end of 1944. Barca localizes at the end
of 1949 and during 1950 what he calls a «correction of conduct» in Italian economic policies because of bad employment levels and growing social unrest above all in the South (the so called “Mezzogiorno”). This «correction» is marked by the speeding up of public intervention in the economy. From this specific point of view, an Autonomous Public Board is created once again to compensate the lack of State intervention: this board is the Casmez (“Cassa per il Mezzogiorno”) (D’Antone 1997) which has the target of balancing Southern Italy backwardness also using ERP aids and World Bank loans (Barca 1997: 3-115).

The historian Rolf Petri faces the Italian Reconstruction question in terms of the triumph of an industrialization strategy that he refers to as «neomercantilist», in the medium term between the ‘30s and the ‘60s. A breakthrough in economic policies is pointed out in 1947, which, following Luigi Einaudi’s guidelines, was devoted to bailing out the Italian currency from a hyperbolic inflation. At that time Einaudi was governor of the Bank of Italy. Petri faces then the question of the possible causes of the Communists’ behaviour during the period they were in the government. They did not support a technocratic line of the economic planning at all and this has to be explained considering the actual Communists’ priorities. Under these circumstances, the launch of the Marshall plan played a key-role in the emersion of State-planning lines in the whole context of the decision making process regarding economic policies. These lines are represented by the IRI’s Study Institute led by the economist Pasquale Saraceno (IRI, Istituto per la Ricostruzione Industriale). A second crucial moment is pointed out by Petri in the economic consumption boom provoked by the Korean war. This was represented by the correction of line in economic policies forced by some critical American judgements in the Country study and at the same time by the simultaneous socio-political developments in Italy (Petri 1997: 313-419).

Federico Romero focuses his attention on the United States’ influence in the birth and consolidation of republican Italy and on its post-war economic policies. Washington’s aims concerning the Italian economic developments undergo a radical change during the first months of the 1946 following the irreversible anti-Soviet breaking off. Washington’s policy-makers’ inescapable goals are now the stabilization of the lira «even at the expense of the population» and the Reconstruction take off. Romero underlines that ERP political consequences in Italy have been much more relevant than its mere economic effects since they enabled Christian democratic party (DC, Democrazia Cristiana) to face key political elections on 18th April 1948 with a vital survival margin in a socially torn country, also subject to a criticized deflationary measure. During
1949 a partial change in Italian economic policies takes place but it is not to be intended in a Keynesian direction as desired by the ECA (Economic Cooperation Administration) mission. In fact, these measures were meant to provide capitals to industries in order for them to foster a new cycle of industrialization. According to Romero Marshall plan success in Italy is indisputable under the strategic profile. Although the plan application did not comply with the social philosophy that binds growth and consensus in a Keynesian way, it enabled one of the most vulnerable countries of the Western block to remain within it (Romero 1994: 231-289).

The historian of Economics Giulio Sapelli views Marshall plan function in Italy in terms of an «exchange» between Italian ruling class and United States: a strong control with anticommmunist function of Italy was traded with a consent for economic policies to deviate from Keynesian lines (i.e. opening towards external markets through exportations and internal market widening). Starting from February 1947, after the communist exclusion from the government, Italian policy-makers launch a strong deflationary line and a tightening of credit in order to «save the lira», by these means reassuring the middle class and speculators that capitals could be “repatriated” with the consequence of increasing monetary stocks. Side effects of this policy were a crash in the Stock Exchange, a vertical increase of unemployment and the interruption of productive Reconstruction. However, Italian ruling class targets were monetary stabilization as well as the middle-class social block stability in order to give centrality and political legitimacy to those who saw in Bretton Woods and in the ERP more than a simple economic instrument (Sapelli 1997).

2. The first phase of the reconstruction process (1943-1947)

During the last phases of World War II, Allied Military Government (AMG) main tasks in Italy did not provide for economic measures but consisted in the progressive restitution of local government control to Italian authorities placed underneath supervision by the Allied Control Commission (ACC) (Romero 1994: 236-237).

Nevertheless, this strategy of indirect control had really negative consequences on the reorganization of Public Administration and on the economic recovery and ended in the quick widespread of famine, black market and inflation, the last worsened by large issue of allied banknotes necessary for AMG activity (Romero 1994: 237).
General Badoglio’s governments (July ‘43 – June ‘44) conflict with antifascist parties together with Anglo-american paralysis provoked by internal disagreements and little attention to a war theatre judged secondary, led in the end to the failure of the indirect control strategy (Romero 1994: 237).

In this context it is relevant to describe the overall process at the base of the inflationary growth because the need of curbing it would lead to the so called «deflationary turning point» carried out by Luigi Einaudi, governor of Bank of Italy in 1947.

In the two-year period, 1943-45, inflation developed mainly because of financing methods practiced in the two occupied areas of the country. From 31 August 1943 until 30 April 1945, total net money circulation increased from 115.7 to 360.7 billion liras with an increase of 65% deriving from the Northern area of German occupation and of 31% provoked by the already mentioned allied military notes («amliras») issued to some degree without financial backing. AMG decision to fix the exchange rate at one dollar to 100 lira (against 19 pre-war lira exchange) worsened inflation by increasing troop’s purchasing power beyond measure and then exerting pressure on price level. This was, in short, the cause of an inflationary spiral that, except for a momentary lull in 1946, would have been stopped during the second half of 1947 through monetary squeeze (Petri 1997: 325-326).

The measure of exchanging devalued currency with a “heavier” one could have reduced circulating monetary mass and debt but neither socialist Ferruccio Parri‘s government (June – November ‘45) nor first christian-democrat government led by Alcide De Gasperi (December ‘45 – July ‘46) took that measure. Furthermore, widespread opposition to this option into the Bank of Italy made it fade once and for all (Petri 1997: 325-326).

First signs of a Washington closer involvement in the process of Italian reconstruction were evident on the summer of 1944, but they consisted basically in generic suggestions towards policies devoted to achieve economic welfare on the road of self-determination in building a stable democratic system. This policy, known as democratic recovery policy contributed, however, to the opening of a dialogue between AMG and the newborn and sole trade union (CGIL, Confederazione Generale Italiana del Lavoro), dialogue that enabled, in Northern Italy, to refer to an authoritative and representative interlocutor with which to defuse pressures towards social unrest and disintegration. Furthermore, allied authorities’ desire for dialogue contributed to resistance disarmament and to transference of power to the Government in Rome without resorting to force (Romero 1994: 239-240).
United States policy makers found it difficult to work out a clear line of conduct to face reconstruction difficulties after the end of conflict and AMG demobilisation. Italy was emerging from the war with its economic fabric in a tricky situation. Industry did not undergo severe damages during conflict which was fought mainly in the South where the core-base of industrial assets was not located. It was concentrated instead in the so-called “industrial triangle” Milano-Torino-Genova with branches in Emilia Romagna and Veneto. In particular, mechanical engineering and electric industry, following the increase in productivity during the war, were able to start activity again at a level exceeding approximately 30% of the pre-war capacity. The iron and steel industry had to recover war damages in the industrial complexes of Piombino and Bagnoli and the German dismantling of Cornigliano complex near Genova. The textile industry did not undergo any remarkable damage and so could resume production at full rate.

In spite of this situation, looking at European context it is clear the delay in development of Italian industry with respect to France and Germany either in terms of occupation or, and above all, in terms of product. The real limit for Italian economy was the raw materials narrowing, coal principally, as well as infrastructure and lines of communication situation. More than 80% of the merchant navy was destroyed, around 40% of railway tracks and bridges were out of order and building assets underwent serious damages (Barca 1997: 4) (Petri 1997: 316).

The fear of a possible communist advancement in the country provoked by economic and social sufferings, led admiral Ellery Stone, leader of ACC, to ask Washington for a huge shipment of economic aids supported by the Italian embassy in the US. On 10 July 1945, undersecretary to Foreign Affairs William Clayton informed the embassy in Rome to encourage the Italian government to dismantle bilateral commercial agreements and trade barriers in order to open at a global economy without obstacles. The principal difficulties in carrying out those guidelines were to be found mainly in the unwillingness of the US during 1945 to send aid, food and raw material to Italy and at the same time in finding a clear and strong political counterpart to open a dialogue on reconstruction (Romero 1994: 239-240).

In the period between autumn 1945 and the end of 1946 Washington leaders’ attention towards Italian issues was so low that the US ambassador in Rome had not been present for several months. However, new signs of involvement about democratic stabilization of the country could be seen with the coming of the first De Gasperi’s government (December ‘45). The christian-democrat leader firmly took side with American aid to push reconstruction and on 14
February 1946 Italian government asked Export-Import Bank for a money loan of $940 million. It was an amount that strongly overvalued Italian monetary need thus arousing suspicion. Furthermore Treasury Department put off any decision regarding loans to Italy to the definition of war reparation and the signing of the peace treaty (Romero 1994: 241-242).

On a strictly economic level, the main feature in 1946 was the launch of UNRRA aid program (United Nations Relief and Rehabilitation Administration) for Italy. It was managed by a United Nation mission that placed at Italy’s disposal about $450 million consisting of foods, fuel and medicines whose sale on the Italian market brought to the formation of the «lira fund» that had to be used to start specific projects of reconstruction, subjected to UNRRA mission agreement. UNRRA mission staff was mainly composed by American officials supporting a Keynesian employment of public spending in order to increase domestic consumption and investment. The amount of UNRRA aid was remarkable being equal to 45% of estimated imports for all of 1946 and to 4.2% of Gross national product (GNP) (Romero 1994: 241-242).

Italian historiographical debate stressed the importance of UNRRA aid under the point of view of primary consumption and the balance of payment. Nevertheless it underlined that in a context of public deficit and monetary crisis it was unrealistic UNRRA Keynesian option also considering the lack of a well-established political interlocutor able to ensure a coherent economic planning. Italian minister of Treasury Epicarmo Corbino was a keen opponent to public spending widening and he was often in conflict with mission staff thus thwarting any potential Keynesian influence of UN aid (Romero 1994: 243).

A recent study focuses UNRRA aid meaning and function in Italy in the broader context of ERP aid and in the interpretation of their absolute need in Italian and European reconstruction. In order to reply to this question it is not possible to ignore the importance and effects related to aid programs preceding ERP such as UNRRA but also the so called Interim Aid (IA). Interim aid was an additional aid program which was urged by Italian and French governments on September 1947 during Washington and Paris negotiations. The rationale, explained by Foreign ministers George Bidault and Carlo Sforza, was the result of respective trade gap crisis which would not enable to buy commodities such as wheat and coal. Sforza and Bidault argued that in a possible context of food scarcity it was a realistic communist-led popular revolt (Spagnolo 2001: 92-97).
In fact, the true reason behind Italy’s direct demand to Robert Lovett, Marshall’s deputy, was not food worries but the desire to restore industrial growth and more generally to support the economy as a whole. This is quite clear in the correspondence between the Italian ambassador in Washington Alberto Tarchiani and Lovett in which Italian diplomat made a long list of industrial raw materials for $ 115.2 million, more than 60% on overall Italian demand. The government of Rome did not have at its disposal enough dollars to pay imports beyond October 1947, imports that were requested by industrial demand. Therefore Interim Aid’s principal goal was to widen operating margins for the Central Bank letting at the same time the government breathe by avoiding the difficult choice between an unpopular cut on foodstuff and a slowdown in industrial production. Therefore IA’s political role was decisive in enabling the start of a political strategy otherwise impossible. Donato Menichella, general director of the Bank of Italy underlined it clearly, “Stabilization was made possible by Interim aid. Communists and political parties linked to them were strong. Interim aid and Marshall plan perspective made it possible to reach price stability and, consequently, trust in currency. These conditions helped provoking the heaviest communist defeat after the end of the war” (Spagnolo 2001: 93-97).

Menichella referred to communist electoral defeat on 18 April 1948 thus bringing our analysis on the study of the relationships between economic policies and internal and international political developments. The period between summer 1946 and late spring 1947 is marked by decisive developments in the process of Italian reconstruction on which several Italian and international factors were entangled. It is important here to show in advance a meaningful conclusion shared by most of leading Italian scholars i.e. in the whole process of economic policy definition during reconstruction Italian policy makers enjoyed wide margins of freedom and independence from external pressures and specifically American ones (Sapelli 1997: 2).

In more general terms, the reconstruction process was part of the wider shaping scheme of Italian capitalism after Second World War. This process took the shape of an «extraordinary compromise»: compromise because it was the result of mediation among very different ideas and interests that could find a point of agreement in one renounce and one choice. The former consisted in not creating the «rules of the game» for the ordinary functioning of job, capitals and goods markets as well as of the Public Administration. The choice, in continuity with Fascist period, consisted in the decision to face
development matters through the *extraordinary* means of *Autonomous Public Boards*. Under this perspective the meaning of «compromise» does not refer to the intermediate nature of its own features rather it refers to their emergence, in each specific case, thanks to the convergence or crossed vetoes of the involved subjects (Barca 1997: 11-23).

It is possible to point out from this general parenthesis an element useful for our discussion i.e. *Autonomous Public Boards* key-role in the drawing of a general plan for Italian industrial development, mainly the Bank of Italy and IRI (Istituto per la Ricostruzione Industriale). This plan was the so called «Saraceno plan» that was worked out on September 1947 by the Centre for technical-economic studies inside IRI led by Pasquale Saraceno. It was a long-term plan (1948-52) that, upgraded, was submitted to OEEC (Organization for European Economic Cooperation) by minister of Industry Roberto Tremelloni in summer 1948 in order to support Italy’s claim to take part in the Marshall plan. An evident sign of change in American perspective regarding economic policies to support Italy was clear since summer ‘46. The rationale of this reappraisal lies both in the growing strains inside Italian economy and in the social and political crisis that led to the clash between the communist party and minister of Treasury Corbino who submitted his resignation. Under those circumstances, the US embassy in Rome as well as the UNRRA staff agreed that principal tasks were now the rescue of the lira and the open clash with PCI. However, times and forms of reconstruction were not compatible with contradictory and ineffective policy of Italian government composed both by the Left and the liberals (Romero 1994: 244).

The Italian prime minister’s visit to Washington (5-14 January 1947) assumed a strong political meaning but brought scarce economic results showing, however, a convergence between De Gasperi’s and Washington political interests. The difference regarded once again times and modes not yet corresponding because of a gap in the evolution of Italian crisis and of European context that is to say the US foreign policy horizon. The progressive approach between those two contexts was however nearer and nearer: on February 1947 the Italian government signed a peace treaty and the following month signed Lateran treaty with the Vatican. Those two important goals

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1 The interests involved in this «extraordinary compromise» are, according to Barca, the following: «mittian» option, radical liberalism, communist strategy, «social-christian» thought, diversified industrial interests, Washington option.
closed, at the eye of christian-democrats, meaning and institutional need of antifascist alliance in the government and at the same time they pointed out new tasks in the recovery of entrepreneurs and middle class trust. In order to reach those goals the toppling of social alliances and the rift with the Left was necessary (Romero 1994: 248).

The most recent and parallel developments in international relations were pushing towards that direction: on 12 March 1947 the Truman doctrine was announced pointing out the transition to the age of Cold War. Italian diplomacy immediately proposed an unrealistic comparison between Italian and Greek crisis and asked for an immediate huge loan to US ambassador in Rome to stabilize the country. In spite of this call for help, ambassador James Dunn, while repeating American support and trust in De Gasperi, made it clear that a substantial involvement would come only after a clear sign towards political and economic stabilization. The expected sign in Washington came on 13 May 1947 with the government crisis opened by De Gasperi. On 16 and 20 May, Italian ambassador Tarchiani met several times in the State Department Marshall himself in order to support De Gasperi’s initiative receiving assurances from Marshall on the complete support to De Gasperi’s anti-communist effort. On the following 31 May, De Gasperi launched the first one-party Christian-democrat government including five liberals. Five days later, Marshall delivered his historical speech in Harvard with which the United States declared their desire to provide financial support for an extraordinary plan for European governments. De Gasperi, with American backing, obtained political credibility and economic feasibility to carry out his political project of gaining the trust of a social coalition based on middle class and entrepreneurs (Romero 1988: 371). He played on Italian strategic weakness and opened a distinctive strategy of dependence on the United States to consolidate internal stability of «centrism» (Romero 1994: 250-251).

Summer 1947 was characterized on the economic level by a high inflation together with the suspension of convertibility with sterling. It was necessary to take severe measures against inflation. They became effective with the so called «Einaudi line» (from the name of the then governor of the Bank of Italy): it consisted in a monetary squeeze that was judged necessary also by American authorities in order to stabilize currency while waiting for ERP aid. Scholars’ interpretation about Einaudi’s line is not unanimous. In the next section we will make a comparison between the most recent positions taken by historians.
3. The «Einaudi line»: features and interpretations

Luigi Einaudi represented the real novelty in the DC one-party government being at the same time governor of the Bank of Italy, minister of Budget and deputy prime minister. On 17 July 1947, after the exclusion of the Left from the government, Bank of Italy’s powers were strengthened through the creation of an Interdepartmental Board for Credit and Saving (CICR) and by the attribution of supervisory functions to the Central Bank itself. Einaudi refused to apply any Keynesian measure leading to deficit spending rather aiming to saving and private investment restocking through balance readjustment and cutting state subsidies on prices. The so-called «Einaudi line», a severe monetary squeeze that aimed to restore trust in currency and to curb inflation, is synonymous with capitalist stabilization in traditional historical criticism. Recently a new trend in studies put forward a different interpretation of «Einaudi line» by criticizing the idea that this line consisted in the triumph of a strict liberalism. On the contrary it is argued that the gap between declared principles and real outcomes: free-market economy pursued by Einaudi since 1947-48 was placed in the end under State “guardianship” (Spagnolo 2001: 88).

Einaudi’s steps cannot be interpreted either as a turning point or a rift point with respect to the previous period because they rather represented the end and not the beginning of a phase of uncompromising liberalistic experimentation. The Economics historian Rolf Petri argues that the first two De Gasperi’s governments were characterized by an economic package regarding foreign-exchange market and domestic market of a clearly liberalistic direction. The launch of „Reconstruction loan“ on October 1946 explained with the need of improving the financial backing of huge public spending, resulted in an excessive increase of money disposable for credit institutions thus worsening speculation and stockpiling rather than productive investments (Petri 1997). The principal changes obtained by the «Einaudi line» are three: the opening of a phase marked by economic stability preserved by monetary orthodoxy guarantors (i.e. Bank of Italy); the strengthening of state-intervention expectations and the beginning of a new political period with the breaking with the Left and the birth of «centrism». The launch of the Marshall plan and the political triumph in the April ‘48 elections made it possible for this new political phase to come true. Essentially, Petri describes the «Einaudi line» as a set of measures coherent with an address of «liberal protectionism» rather than as a pure liberal turning point (Petri 1997: 326-330).
The main reason behind the gap between declared economic principles and political practice is to be found principally in the development of negotiations connected to Marshall plan. The relationships between the plan and Einaudi’s measure explain why the latter was applied in two phases. In the first phase, Einaudi and Donato Menichella, governor’s right hand man and later successor, aimed at the creation of institutional bases to curb inflation while waiting for the arrival of ERP aid. They worked principally to curb credit for companies and to the new division of power in the economic field: the government (i.e. Christian-democratic party) was responsible for the control on credit system through the ministry of Treasury while the Bank of Italy was in charge of monetary stability through the newborn CICR (Spagnolo 2001: 88).

The second phase of the measure (22 August – late September ‘47) began after the sterling crisis and during the Paris conference thus starting the monetary stabilization through devaluation and fixing exchange rate. In order to approach convertibility with US currency, government devalued currency from 225 to 350 lira per dollar (as compared to 600 lira in the parallel banking market) and since 28 November the exchange rate was brought to around 575 lira per dollar. Spiralling prices of imports and a drop in export prices were the immediate effects of Einaudi’s measure (Spagnolo 2001: 89). It must be underlined, with regards to export, that Einaudi’s measure consisted also in a number of initiatives taken by the minister of Foreign Trade Cesare Merzagora devoted to currency devaluation (in a European context characterized by the lack of currency convertibility and transferability including sterling) while other countries chose to overvalue their own currencies. Merzagora’s choice aimed to massively foster exports and led Italy to have a credit balance with her European commercial partners, which was a significant advantage for exporters but not as much for the State. Indeed, Italian public administration, in return for the departure of goods, received currency not convertible, not transferable (and overvalued) and then useless outside that very bilateral agreement. Government policy was characterized by monetary devaluation, bilateral trade, support to firms and productive sector, according to Merzagora’s slogan «we have been able to aid ourselves». This kind of policy would go on during 1948 together with a „cautious“ use of ERP aid (Gualtieri 1998: 859-863). The need to restore the balance of payments and to recover public spending was largely out of government control requiring a decrease in imports and a growth in exports. Keynesian theories of increasing demand through public spending
were not enforceable, at least in such a context. Einaudi’s economic package lacked any program for industries as well as any type of social compensation for wage-earners thus assuming highly conservative features (Spagnolo 2001: 89-92).

In similar vein, Giulio Sapelli’s interpretation is clear: Einaudi’s designation to minister of Budget, “a ministerial post created *ad hoc* to enable middle class and speculators’ supporters leader to take the leadership of the country’s economic policy [...]” (Sapelli 1997: 28), was the sign of antifascist government coalition’s end. Consequences of Einaudi’s measures are the already mentioned drop in overall demand, the following drop of prices and the stop of inflationary spiral but also unemployment increase and productive reconstruction paralysis. Political tasks of this economic package was middle class reassurance about saving debasement as well as speculators that could repatriate their capitals contributing to the increase of monetary reserves. Those reserves could therefore add to ERP fund, the latter necessary to pay imports. The social alliance based on middle class and on which the government were lying, could gain confidence and at the same time monetary stabilization was obtained (Spagnolo 2001: 88-92).

The clear christian-democrats election success on 18 April 1948 was influenced also by a massive propaganda campaign organized by the US with anti-communist function and characterized by placing in the middle of the political struggle the imminent arrival of Marshall plan aid. During the last weeks of the election campaign, State secretary George Marshall made it publicly clear that ERP aid for Italy would have been cancelled if the Italian communist party (PCI, Partito Comunista Italiano) had won the election. Election success for De Gasperi, on one side represented one of the first major achievements of US *strategy of containment*, on the other it reassessed DC dependence from United States in concurrence with weak result for liberals and social democrats. Substantial differences between Rome and Washington policies to reach economic stabilization would emerge soon behind common anti-communist commitment. After 18 April 1948 and in concurrence with ERP effective start, American authorities began to exert stronger and stronger pressures on Italian government through ambassador Dunn in order to allow the government use of counterpart funds to increase productive investments and absorb unemployment, after the already obtained currency stabilization. Bank of Italy and minister of Treasury behaviour however, clung to reconstruction policies of budget deficit and balance of payment, contributing in this vein to keep production growth slow and to keep Manning level down (Romero 1994: 262).
4. European Recovery Program (ERP) in Italy

Recently, a periodization of ERP aid in Italy has been proposed consisting of two phases which followed one another between the second half of 1949 and 1950. The principal difference between them is related to impact of aids on the economy and to ECA pressures on Italian government: a first phase marked by substantial ineffectiveness is followed by a phase characterized by strong quantitative influence on public budget and by American staff pressures towards a Keynesian use of available funds. This chronological model of describing ERP is confirmed by the comparison between the change in composition of imported goods, stockpiling of counterpart fund and its strategic usage decided by Italian government. Furthermore, from May 1949 ECA was obliged to substantially modify delivery procedures because of delays and ineffectiveness in their absorption by involved European countries. With regards to the composition of imported goods in Italy, since 1950 prevalence was evident in the share of industrial equipment and raw materials with respect to foodstuffs that composed main imported goods in the first ERP phase (1948-49) (Spagnolo 2001: 133-136).

In the two-year period 1948-50 ERP aid selling by Italian administration did not substantially influence balance of payments but in the following period things were different: military aids overlapped stockpiled reserves thus making the counterpart fund contribute decisively in increasing the low income. Counterpart fund composed around 16% of income in 1950-51, year of ERP highest impact on Italian balance, while remaining higher than 5% until ERP end (Spagnolo 2001: 137-138, 146).

With those remarks, we turn now our attention to the analysis of economic policies carried out by centrist governments with respect to ERP aid. The strong connection between those policies and domestic task of political consolidation will be pointed out. As we have already stressed, the Italian government and the Bank of Italy pursued economic policies devoted to recover public budget in order to curb inflation and reach monetary stability even after the 18 April electoral success and in contrast with ECA advice. The choice of squeezing public expenditure and at the same time non-raising tax was necessary to stabilize social alliance at the base of DC government. The governments’ views on taxes were explained clearly by the minister of Treasury Giuseppe Pella on March ‘48, during a conference organized by the Confederation of Italian Industry (Confindustria) titled “Italian industrial economy and European cooperation programs with particular regard to European Recovery Program”. According to Pella, the Marshall plan counterpart fund could feed public expenditure...
without inflation as long as it was addressed towards growth of production and productivity (Spagnolo 2001: 174-175). In this context, counterpart fund function was invaluable as they suffice, since 1950-51, to determine public investment policy (Spagnolo 2001: 145-148). Among the American initiatives in the ERP context, it is also present an action in the trade union field. On the level of propaganda, the American trade unionists in ECA staff succeeded in transmitting to Italy the image of ERP aid as a promise of higher welfare and democracy at a popular level and in legitimating Marshall plan towards public opinion as a project of diffusion of a newer and more prosperous way of life (Ellwood 1985).

In spite of this success, American trade unionists failed in transmitting their model of settlement of the social conflict to Italy. To be more precise, this failure was double: on one side, Italian choices in the conduction of economy were different, as already stressed, from those desired by trade unionists supporting the New Deal. Italian choices remained indeed linked and rooted on internal national dynamics. On the other side, the contractualistic and non-political model of industrial relations promoted by the ERP in Europe and in which trade unions would have played a leading role in the negotiations, never took place. On the contrary, Italian unions faced a long period of decline distant from that role of major supporter of the development in the framework of neo-corporatism desired by new dealers unionists in the ECA (Romero 1988: 367-369).

The need for a boost in economy was moving forward little by little inside government alliance and entrepreneurs while at the same time (December 1948) ECA threatened to cut aids for Italy in 1948-49 from $ 601 million to $ 583 million because of high increase in Italian monetary reserves during

2 According to Chiarella Esposito, Pella could follow undisturbed his policies of monetary stabilization principally thanks to the internal divisions and the chaotic situation in the various levels of ECA. This condition was provoked by the ECA staff’s incapability to understand the Italian reality in which it was necessary to gain political alliances rather than to rely on technical and administrative solutions to achieve economic development. (Esposito 1994)

3 The massive American propaganda operation in Italy began on summer 1948 with the Information programme of the ERP led by its Information Division headed by Andrew Berding. Between June 1948 and the end of 1950, $ 537239.30 million were spent to fulfil propagandistic aims, the most withdrawn from counterpart funds of ERP aid.

4 American trade unions participation to international political initiatives promoted by US administrations in the post-war period can be explained considering the global character of the American intervention in Europe in the reconstruction period. The America effort entwined economic, political, social and cultural elements. In particular, the need to involve unions in this global effort was born from the crucial goal of defusing the social conflict thus depriving it of its class aspect.
the last three months of 1948. The conflict between different development strategies for Italy conceived by centrist government and by ECA came to light on February 1949 with the presentation to American Congress of the ERP first-year report presented by ECA president Paul Hoffman. The “Hoffman report” contained some enclosed studies regarding each country involved in the plan, the so called Country studies. Country study on Italy expressed a severe criticism with regard to national development programs with references to long-term plan, the afore-mentioned “Saraceno plan”: excessive monetary stockpiling, lack of an investment coordinated plan and appropriate use of State intervention to fight unemployment and a strong protectionism (Spagnolo 2001: 207, 217).

As a result in the first half of 1949, ECA leadership in Washington threatened an $ 85 million cut on ERP second year aid (after $ 50 million cuts in the first year) in case Italy had not started an industrial based growth plan and, to show its firm stand, ECA interrupted allocation of lira funds until July ‘49.

The dispute emerged with Country study between Italy and the United States was one of the concurrent factors which contributed towards a change in Italian investment policy. The most recent studies have defined it as 1949 «small turning point». The next section is dedicated to describe this further step in post war economic reconstruction.

5. The «small turning point», «third stage» and perspectives\(^5\)

The expression «third stage» points out that period of economic and social reforms which had begun with the «small turning point» between the end of 1949 and 1950 and is so called because it followed the stages of reconstruction and stabilization. Recent studies agreed in outlining some innovative features in economic policies compared to the previous period’s but they share complementary traits thus not allowing speaking of a clear break. The tasks of monetary stabilization and of the rebuilding of gold reserves, fulfilled within 1949, enabled indeed to set economic policies of development for the period 1950-51, represented by three key measures: liberalization of the trade, revision of the protectionist policies in favour of a decrease of taxes on foreign goods and finally industrialization of the country (Fauri 1998: 224-225).

In order to shed light on this point it is useful to refer to that interpretation which describes this change as a «correction of conduct». At the beginning

\(^5\) In Italian historical literature «piccola svolta» and «terzo tempo» are the expressions here translated with «small turning point» and «third stage».
(Autumn ‘48) this «correction» concerned the use of ERP aid to buy industrial equipment and later, in 1950, it took the shape of a boost of public intervention in economy (Barca 1997: 31).

This boost was represented by the decision to allocate ERP funds in such sectors as iron and steel industry, mechanical engineering industry, car industry, chemical industry and in programs for underdeveloped areas by the instrument of Autonomous Public Boards. Southern Italy Development Fund (Cassa per il Mezzogiorno, Casmez) was created to enable the State to start a ten-year project for the development of Southern Italy (D’Antone 1995: 17-64). In 1950, distribution of counterpart funds was addressed to industry (28.1%) and transports (20.7%) as well as agriculture (14.3%) and public works (25.1%) (Romero 1994: 264).

Italian public expenditure strategy, far from following main Keynesian tasks upheld by ECA (aggregate demand support, start of a widespread welfare system and above all growth in workers’ employment and wage rates to defeat communist threat), aimed to target aids to heavy industry and to clientelism welfare that won over the support of both northern entrepreneurs and southern notables. The tasks that ECA expected the Italian government to undertake within the framework of the so called Productivity Drive were only fulfilled on a microeconomic level by acquiring new plants and machinery and by introducing new organizational models. The sectors that benefited from this rationalization process through technological transfer were the mechanical engineering industries such as Fiat, Alfa Romeo, Lancia, Innocenti, and Piaggio. These latter two imported by the ERP complete supplies for tracking, moulding, assembling and welding the scooters Lambretta and Vespa. By the ERP, the power supply industry bought facilities for drilling, boring, oil cracking, methane cracking and massification. Moreover, the evident technological gap the electricity and electro-mechanical industries suffered from since the end of the war, was caught up by the purchase of huge American turbo generators (otherwise unavailable in Italy) and the consolidation of direct connection between Ercole Marelli and Westinghouse (D’Attorre 1985a: 74-76).

The iron and steel industry benefited from ERP aid in a crucial way. In particular, it is enlightening to describe the troubled events related to both Cornigliano plant, near Genoa, and ECA administrations behaviours at their different levels, local and central. Cornigliano plant received for its building $ 26.3 million of ERP aid, the 80% of the overall amount, that is to say $ 32 million, reserved to the Finsider group (subset of the state agency IRI devoted to the steel and iron control), about 50% of the whole allocation for this sector. It may be stated that “[...] the Genoan plant dominated the scene of the post-
war steel investment [being also] one of the major industrial undertakings not only in Italy but in the whole Europe” (Ranieri 1996: 188).

Post-war national steel and iron industry followed the development directives laid down by the «Sinigaglia plan». However, the plan met the perplexity and the opposition of ECA in Washington and above all of Langdon Simons, ECA iron and steel section chief. Simons deemed indeed excessive the Finsider call for funds because over dimensioned in front of the needs and the capabilities of an industrial sector as small as the Italian one. Simons could count on the support of prominent subjects in the private steel and iron industry such as Falck.

The outbreak of the Korean war seemed to be a turning point from a double perspective. One emphasizes the submittal of all the job orders for industrial machinery apt for war to the authorization, beyond ECA-MSA (Economic Cooperation Administration – Mutual Security Administration), of the newly formed National Production Authority, slowing down the delivery times and increasing prices. This situation provoked the diplomatic intervention of De Gasperi on June 1951, who foreboded serious negative consequences on the DC government in case the Cornigliano plant would not start operating. So most of the supplies was delivered within the end of 1952. The other perspective underlines that the issue of manufacturing capacity that Simons presumed excessive in the Italian estimate was dropped by ECA in Washington since the outbreak of the Korean war because “[…] already in April 1950 Simons, visiting the plant, wanted to be reassured about Cornigliano capacity to someday reach the production level of one million [tons of raw steel]” (Ranieri 1996: 184-185).

The so-called depressed areas and in particular the Mezzogiorno were important recipients of ERP aid as mentioned before with regard to the institution of the Cassa per il Mezzogiorno. The case of Sicily shows some central themes and behaviours adopted by ECA administration and by the Italian government at both central and local level. The role and importance of the announced American aid to Europe were mainly interpreted in political rather than economic perspective in Italy until the key election of April 1948. Sicily, although with some disruptive elements of the social fabric such as mafia and brigandage, was animated by innovative cultural initiatives aimed at the economic and civil reprise of the island and those found further strength from the very announcement of a long-term plan of economic aid. During the two-year period 1947-48, among the different positions and proposals regarding industrialization and reactivation of the pre-war manufacturing assets, the pragmatic line upheld by members of local and central government
such as Scelba, Ferrari Aggradi, and De Gasperi himself, prevailed. This line consisted of contingent rather than long-term planned measures (several small credit facilities granted very slowly and with discretionary criteria), such as the Togni law for incentives to establish manufacturing plans in the South and the Sicilian regional law that abolished the registration of securities of newly set up companies. Moreover, the monetary squeeze dictated by the Einaudi line (preceding the two aforementioned measures) strongly reduced their range. The Einaudian measures penalized much more the South than the North of the country in view of the production recovery even though small criticism came from the most influential economic circles and from the press of the island because these measures defended savings and fixed estate incomes (D’Attorre 1986: 6-8).

The distinctiveness of the Sicilian case lay in the massive action of propaganda and pressure on the Department of state exerted by the Italo-American Committee that was born on 1941 thanks to the initiative of some AFL (American Federation of Labour) members. On March 1948, the Committee sent a report to Washington in which it was stressed the central position, in the context of the “problema Italia”, of the “questione meridionale” in anti-communist function. In this vein an immediate agrarian reform was supported to stop communist progress in the Southern countryside. Substantially “the commitment of the Committee in the election of April [1948] cemented a stable link between Italo-American circles and island ruling class characterized by the well-known illegal aspects, destined to go on during the whole period of the Marshall plan”(D’Attorre 1986: 9).

On May 1948 the Department of state sent to Sicily a mission, on Italian plea, whose final report, marked by an evident New Deal spirit, was centred on the need for a mainly agricultural development. On the whole, the McCall-Tomlinson report (by the names of the two mission leaders) overshadowed the problem of industrialization (with the exception of the mining industry that attracted American interest in the ERP context), overestimated the effectiveness of „technical“ answers to consolidated economic and social bottlenecks and at the same time it insisted on the role of private initiative, although it was not quite sufficient for that reality. In the ECA action in Italy it is possible to recognize many of those goals, even though they did not find approval as a whole in the central level of ECA in Washington and in the Department of state (while anti-communism steadily remained as main political task) (D’Attorre 1986: 9-10).
Between 1949 and 1950 ECA administration policies in Italy underwent a radical change in which the Southern “recipe” based on the centrality of the agricultural development was replaced by a strong pressure towards industrialization. In particular, the Korean war modified the international situation convincing ECA of the need to directly mobilize American private capitals towards Italy. In this context, Sicily thanks to its mineral and oil resources could start a process of industrialization. The Korean juncture drew new attention for the United States on the problem of strategic raw materials and Sicilian sulphur and oil attracted ECA interest. It subsequently endorsed the use of large amounts of ERP funds devoted to the digging out of sulphur. ERP funds contributed, for what regards oil, to the fulfilment of its exploitation in Sicily. American pressures kept pace with it, in order to push the Italian government to modify the law of 1927 that regulate the exploitation of mineral resources so as to reserve a more favourable treatment to those firms engaged in the drillings. A regional Sicilian law that took in account American expectations was promulgated on March 1950 thus paving the way on the island to multinational corporation such as Gulf and Anglo Iranian (D’Attorre 1986: 24-32).

According to ECA figures Sicily benefited from imports on grant account principally composed by wheat, flour and penicillin rather than raw materials for industry, while the loans assigned to Sicilian industries amounted to the 3.5% of the available allocation with a clear prevalence for electric industries. Sicily received, for what regards the lira fund, 26.6 billion liras, about 4% of the whole counterpart fund, an amount since then judged too small for a region that counted 10% of the overall Italian population. The 45% of this figure was addressed to public works, private building and reconstruction of tourist facilities. The assessment of the ECA-MSA activity on the island at the conclusion of that experience was substantially negative because the economic tasks set in advance were only marginally fulfilled, as the parliamentary inquiries on poverty, unemployment and workers’ living standards revealed. Nevertheless, a concrete achievement in anti-communist stance was found by social stabilization through charging entrenched local institutions of the management of the continuous flow of American resources in the form of allocation of credits and of distribution of goods. In this same vein, the case of Federconsorzi is paradigmatic because this network of agricultural consortia, heritage of the Fascist period, was not only left untouched but even permitted to freely manage both the allocation of cereals to Sicily (out of any democratic control) and, above all, of American grants to buy machinery for agriculture (129 million liras) (D’Attorre 1986: 32-35).
6. Conclusion

In this final section I will try to propose an answer to the main question that arises among leading scholars while debating about the relationship between Italian reconstruction process and the Marshall plan: was the Marshall plan necessary for industrial and economic recovery of Italy? I take my cue from the answer to that question which, in the post-war period, was given by Luigi Einaudi, liberal economist and among the first responsible for the shaping of Italian economic policy. He believed (and with him the whole Italian liberal alignment) that American aids were not necessary for Italy; on the contrary they introduced a bias in market by continuing and even increasing dollar deficit in the balance of payment (Spagnolo 2001: 137-138).

Einaudi’s disagreement was provoked first of all by ideological factors and it did not take into account Bretton Woods political imperative of stabilization, the need to manage German industrial power and popular pressure for wealth redistribution. The Marshall plan, while introducing a bias in market and balances of payment of involved countries, enabled to avoid cut in consumption and to negotiate the paths of reconstruction. It is in this very meaning that American economic backing was fundamental: by shielding European political systems (the Italian one in the first place) from market side effects avoiding the instability of the first post war period (Spagnolo 2001: 138-139).

On strictly macroeconomic level figures of ERP aid point out a not negligible role for Italy: in the period 1948-52 goods and services for around $ 1.500 million came to Italy, equal to about 11% of the whole Marshall plan – important figures but not decisive. In all the involved countries (Germany as well) productive reflation had already started before ERP aid arrived. The Marshall plan crucial role as well as all the previous aid programs, (UNRRA and Interim Aid) was to be found on the political level rather than on the economic one. In Italy, economic reflation had already begun but ERP aid guaranteed a decisive margin to centrist governments. A margin that allowed DC to avoid the danger of a radicalization in social conflict above all during 1948, a delicate period of political consolidation (Romero 1994: 260).

American aids allowed involved countries to avoid cuts in consumption and to negotiate the process of reconstruction and Italian government, though developing orthodox and non-expansive monetary policies, could stockpile precious reserves for imports above all during 1951-53 (Spagnolo 2001: 138).
Marshall plan anti-communist meaning in Italy was not unfolded through ECA mission supported social philosophy devoted to combine growth and consumption, productivity and working class integration in economic welfare. It was rather unfolded through political and economic strengthening of anticommmunist social alliance under Christian-democratic leadership. The use of «extraordinary» means of Autonomous Public Boards aimed to allocate ERP resources either towards public and private industrial entities enjoying highest negotiating power (Fiat, Finsider, Edison) or towards underdeveloped areas, first of all the South of Italy, the so called Mezzogiorno, through Southern Italy Development Fund (Cassa per il Mezzogiorno, Casmez) (Romero 1994: 264-265).
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