1. The Italian Economy in the Immediate Post-War Period

Progressive capitalist economies expand [...] thanks to the combined effect of population growth, technical progress in production and the general public’s propensity to save; and thanks to the intervention of enterprises. The first three factors create the necessary conditions for new investments, which are essential for the expansion of the economy, to take place; that is, they determine the extent and rhythm of the potential expansion of investments. Enterprises transform the latter into actual expansion, by making the new investments which gradually become sufficiently profitable, thanks to the potential expansion. (Fanno, 1956, p. 353).

1.1 Problems of reconversion and reconstruction

After the Second World War, which virtually devastated the countries engaged in conflict, vigorous measures to transform the war economies back into peacetime economies were required. This was a momentous and arduous task: the experience of the previous post-war period and the bitter memories of the 1929 Crisis sparked fears of a return to overproduction and unemployment in the non-communist countries. This is why policy objectives focused principally upon the achievement of full employment.

A crucial consequence of the Second World War was the division of the world into two spheres of influence, with the Union of Soviet Socialist Republics on one side and the United States of America on the other blocs upon which; the nations tied to the two powers came to depend upon these blocs. Fundamental issues such as war debts, financial reserves and monetary convertibility emerged and were to dominate the international economic scene for many years to come.
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At the end of the Second World War Italy was faced with three types of problem: reconversion of industry, reconstruction of war damage, and deep-rooted problems of a structural nature. The most pressing structural problem was the level of unemployment. This was evidently linked to the business cycle,¹ which in turn was related to the events of the war; it was also related to structural elements in the Italian economy. The rate of income growth was never sufficient to absorb the natural increase in population, and emigration had become an outlet for excessive population growth. Agriculture had suffered under autarkic fascist policies which focused almost exclusively on the production of cereals, sacrifying livestock and fodder farming. The unmanageable situation in the Mezzogiorno, a typically Italian problem² and a long-standing feature of the country’s history, came to the forefront after 1945.

Undoubtedly the repercussions of reconstruction and reconversion were felt most heavily in industry: initial estimates reported 30% to 40% destruction of output capacity, although in more reliable estimates this figure fell to 8-9% (Graziani, 1972, p. 291). In the light of this fresh evidence, effective damage to industrial equipment was actually rather more limited. In fact,

the flow of investments did not cease until 1943, since even during the war years, industrial investment programmes planned before Italy joined the war were completed, with a view to resuming production at the end of hostilities. As a result, in 1945, despite war damage, output capacity was one and a half times higher than in 1938. (Gualerni, 1980, p. 24)

Nevertheless the difficulties facing industry were huge. At the time food, textiles and electrical energy were the most important sectors of Italian secondary manufacturing industry.³ Only the textile industry

¹ The initial and certainly partial absorption of female labour was merely a substitute for scarce male labour, deployed on the war front. This brings back to mind the Marxian concept of a reserve industrial army.
² Today we still refer to the Southern issue, the North-South gap, the Italian case, or economic dualism, to identify one of the current economy’s greatest problems. These terms refer to the gap between an advanced North and a backward South. This vast and complex problem has inspired numerous contributions from home and abroad. The analysis by Trigilia (1992) is undoubtedly of great interest, and investigates distortions produced by state intervention in the Mezzogiorno. For a foregoing analysis see Podbielski (1974).
³ The iron and steel, chemical and car industries in particular were impaired. The country yearned for renovation, and a different structure for the secondary manufacturing sector was proposed. Catholic economists including Vito (1946),