

Franco Amatori (Bocconi University) and Daniela Felisini (University of Rome "Tor Vergata")

Draft prepared for the 2010 Conference of EBHA, Glasgow

Not to be cited without permission of the authors

Abstract

The State holding company, IRI, was created in 1933 for the purpose of taking over the industrial shareholdings of Italian universal banks in sectors including steel, telecommunications, shipbuilding, and automobiles.. It came forth with the intention of NOT nationalizing the economy. Still, notwithstanding its public ownership, the management style within resembled that of private concerns.

IRI also showed a strong element of rationalization based on industrial sectors. De facto there were three levels: the superholding "IRI", the sectorial financial holdings that were at least 51% owned by IRI, and, at the bottom of the pyramid, the multitude of companies subject to the civil code as if they were private firms.

A third element characterizing IRI was that the sectorial holdings and companies were to be entrusted to the "right hands" (i.e., the best entrepreneurs and managers available). Because of this combination, IRI became one of the principal characters of Italy's "economic miracle" in the 1950s. Its companies were big businesses capable of acting in the marketplace better than their private counterparts and in the nation's best interests.

All of this came to an end when the era of the political system's "benign neglect" terminated. The critical moment was in 1956, with the creation of the Ministry for State Shareholdings. Thus began a precise chain of command with the Ministry at the head and dictating policy. The system's overall aim was to create more and more jobs with little concern for the economic implications. By the Sixties, IRI resembled an agency for economic development more than a system of enterprises struggling in the market. The entire venture can be seen through the short biographies of some of the principal managers of IRI and its holdings.

1. IRI's origins

In Andrew Shonfield's well-known comparison of various forms of national capitalism, the verdict on Italy-- with its proliferation of nationalized and semi-public firms-- is not especially flattering. In Shonfield's opinion, the Italian form of capitalism is nothing more than an agglomerate that comes about about as a result of haphazard events rather than well thought out political and economic decisions. This interpretation is especially true when Shonfield examines IRI (Istituto per la Ricostruzione...) which, at the time of its transformation into a permanent entity in 1937, appeared as the "most absent minded act of nationalization in history".¹

Undoubtedly IRI was the result of an exceptional set of circumstances, a sort of earthquake. It was created in 1933 with the objective of taking over the industrial holdings of Italy's universal banks-- Banca Commerciale, Credito Italiano, and Banco di Roma. The symbiotic ties between these banks and Italy's major industrial concerns had created serious problems for the Bank of Italy which acted as final arbitrator for the nation's financial system as a whole and, thus, the entire economy. IRI was divided into two sections: one focused on financing while the other was concerned with disinvesting (a process that today would be labeled as "privatizations"). Its task, in fact, was to put the companies back on the

path to financial health and then return them to private ownership. This was only possible in part because Italy lacked both capital as well as the independent entrepreneurial and managerial resources needed in order to transform critical industrial sectors (such as steel, heavy machinery, shipyards, and telecommunications) into prosperous entities. These were the industrial branches where IRI operated. In fact, at the time of its creation in 1933, IRI accounted for 40% of Italy's industrial holdings.

At the same time, as explained in a work by Marco Maraffi, big private capitalism in Italy made its own attempts to limit the actions of IRI. As examples of the enduring powers of the private sector in big industry, Maraffi mentions the divestments of Edison, Italy's largest industrial group as well as those of what was then the largest financial holding, Bastogi. In 1933 both fell under IRI's control and then were placed back in the market. But in 1937, when IRI was transformed from an organ of industrial rescues into a permanent institution, Italy was the nation with the largest amount of State-owned industrial concerns after the Soviet Union².

Holdings of this type called for a great deal of pragmatism, as pointed out by management scholar and economist, Pasquale Saraceno (1903-1991). Saraceno was active in the creation of IRI and stayed on as a front line protagonist in the company's early decades³. In the final analysis, IRI has been seen more as an inevitable outcome of an economic catastrophe and its subsequent search for a more stable situation versus the limits of a greedy and weak system of private entrepreneurship.

Still, for us it seems as if Shonfield, Maraffi, and even Saraceno, underestimated the intellectual consistency of the IRI project as well as the managerial capacities of the group which created the concern and guided it through the early reforms of the 1930s. This is especially true when we look at the group's leader, Alberto Beneduce. The essay that follows is based on some of the original documents that can be found in the vast historical archives of IRI; our intention is to reconstruct the profiles of these early managers and to delineate a series of typologies of managers and entrepreneurs that were crucial to the company in the years from immediately after World War II until the early 70s.

Alberto Beneduce can be seen as typical of those parallel bureaucracies that characterized the workings of Italian public administration from the late 1800s. For many years he worked with Francesco Saverio Nitti, an intellectual who served as minister of various economic functions in pre-Fascist Italy. Nitti was convinced that the only way for overcoming Italian backwardness—especially as regarded the big gap between North and South—was via a rapid industrialization process based on widespread use of energy coming

from the new electric industry. In this process the State played an important role, especially from a financial perspective. Beneduce shared this vision and dedicated most of his intellectual energies as a statesman to the problem of procuring funding for long-term industrial projects. In the early Twenties his efforts brought about the creation of CREDIOP (Consorzio di credito per le opere pubbliche; *Consortium of credit for public works*) and ICIPU (Istituto di credito per le opere di pubblica utilità; *Institute of credit for projects of public utility*). For both these institutions, the major objective was supposed to be the financing of infrastructures and big electric plants by issuing bonds that would be guaranteed by the State. Although he was Socialist in his thinking, Beneduce never supported a nationalized economy where firms simply acted as bureaucratic appendages of the State.

With the advent of Fascism, Beneduce (as a reform-oriented Socialist as well as Labor Minister in one of the last liberal Italian governments) was forced to adopt a stance different than that of Nitti. While the latter opted to abandon Italy and go into exile, starting in 1925 Beneduce (who had initially kept himself out of the fray) slowly reached out to the regime, ultimately becoming the economic advisor to whom Benito Mussolini gave much credence. After the Great Depression, it was Mussolini himself who gave Beneduce full operative powers for the realization of the “IRI Operation”. From its outset, the operation was based on some guiding principles even if there was no detailed action plan. These guidelines can be found in the IRI project as well as the subsequent reform of the credit system which was launched in 1936: this banking legislation was drafted by Beneduce together with his top collaborator, Donato Menichella, who would subsequently become Governor of the Bank of Italy in the postwar period. By drastically separating banks from industry, the State took on its responsibilities as owner by establishing guidelines for development; at the same time, it did not intervene in management and left the firms it controlled to operate with the criteria of private businesses so that they could truly compete in the market. By considering the ties with private interests, Beneduce recognized the importance of socio-political equilibrium and perfectly understood that IRI needed to operate within well-defined limitations. This was also because he was well aware of the fact that managerial resources on which he could count were scarce. Still, he was fiercely opposed to underselling “his” companies to private business, as when Montecatini attempted to buy the chemical operations of Terni. For Beneduce it was paramount that private companies paid the correct price.

Beneduce also foresaw an organizational plan for the product lines that became public after the sell-offs. The objective was an industrial rationalization based on well-defined sectors: this was especially innovative in an era when the Italian economic structure

was primarily characterized by confusing multisectorial groups. The choice to group into a holding meant that firms of the same sector (that had previously been broken up on the basis of the shareholdings of the various banks) were now brought together.

The overall structure called for a superholding, IRI, that was wholly owned by the State which exercised the role of setting out the basic strategic direction. Prior to the war there were three financial sectorial holdings (STET, 1934, for telecommunications; FINMARE, 1936, for maritime activities; and FINSIDER, 1937, for steel) under IRI which controlled at least 51% of each. Below the sectorial holdings were the firms that functioned on the basis of programs fixed by STET, FINMARE, or FINSIDER but which then would independently define their concrete actions on the basis of being able to effectively compete in the marketplace.

The strong point of Beneduce's plan was to put the most talented managers possible at the head of the financial holdings as well as the firms they oversaw. Where private capitalism had failed, now these companies would be in the best hands possible. As Keynes commented in the Thirties, faced with a crisis it was important that new managerial figures were discovered. These individuals had to be capable of managing both financial as well as industrial aspects.

Working together with Menichella, Beneduce "created IRI's top management echelons from nothing"⁴, by recruiting from private companies in strategic sectors (like electricity and steel) managers and technicians who were known for their skills as well as scientists from research labs. Another important project launched by Beneduce was to set up a training program for both IRI's top and middle managers. The intention, as explained in a talk he gave to participants in 1938 was to "form (you) into an elite management class that understands that experience isn't everything, that intuition is not enough, but that industrialists need to give a free hand to techniques and to science. It's not impossible to imagine that your activities might bring you to work for firms that aren't controlled by IRI".

In reality, it was in these very firms of IRI that we can find an important consolidation of talented managers among whom were some of the leading names of Italian entrepreneurship. These managers put together staffs made up of individuals who showed great technical and managerial skills; many would go on to become the first nucleus of Italy's technocracy, including Giuseppe Cenzato, Ugo Bordoni, and Agostino Rocca.

Giuseppe Cenzato (1882-1969) received a degree in electro-machinery from the University of Milan before starting his professional apprenticeship in companies that manufactured electric machinery including Brown Boveri. In 1919 Cenzato was named a

director of SME (Società Meridionale di Elettività) and nine years later he was appointed Chief Executive Officer. Under his management SME acquired an almost monopolistic position in Southern Italy. Beneduce sat on the board of SME and had an opportunity to know and appreciate Cenzato's skills as a manager and his technical abilities (including his talent in finding highly skilled technicians for SME). Cenzato, too, gave special importance to training programs. In 1932, based on a model of what was taking place in Milan, Cenzato was among the promoters of the creation of "Fondazione Politecnica del Mezzogiorno" inside the engineering school of the University of Naples. Among the talented individuals who worked with the Foundation were entrepreneur Nicola Romeo and chemist Francesco Giordani (who later became one of the three "sages" behind the Euratom project). Until the Fifties, SME was often the source of some of IRI's most talented managers.

Another scholar much sought after by industry was Ugo Bordonì (1884-1952). After receiving a degree in electro-technical engineering (1906), Bordonì undertook some pioneering research in physics that received international recognition. He taught at the University of Rome for almost four decades. An official in the engineering corps during the First World War, Bordonì went on to serve as a member of the Committee for industrial mobilization. At the time of IRI's creation, Beneduce asked Bordonì to serve as a consultant on telecommunications, analyzing the situation of Italy's telephone network and outlining some possible future prospects for its development. In November 1933 Beneduce went on to offer Bordonì the presidency of STET which he accepted with some hesitation. He was given the mandate to reorganize STET both technologically as well as financially. The first important measure was the sale of a significant quantity of bonds so as to increase the company's working capital. When the first issue was closed, 42% was in the hands of private investors. The first financial holding in the telephone sector was an interesting mix of co-shareholdings between public and private investors.

After military training, Agostino Rocca (1895-1978), volunteered to serve in World War I and was an early adherent to the new Fascist movement. In 1921 he received a degree in industrial engineering from Milan's Polytechnic. Two years later he was hired as an apprentice engineer in Dalmine (controlled by Banca Commerciale Italiana) where he would subsequently become director of laminations with responsibility for the plants, the technical-industrial plans, and international relations. Starting in the Thirties, Rocca acted as a trustee of Sofindit, the financial holding of Comit. He was also involved in the reorganizations of a number of firms including SIP, Mira Lanza, Silurificio italiano, and Unes. These experiences fostered in Rocca a work style based on financial rigor and technical-strategic rationalization which would come in handy for the management of big

national concerns⁵. Rocca joined IRI in 1933 working for the Committee on special wartime steel manufacturing entrusted with rationalizing the production lines of Ansaldo, Cogne and Terni. In 1935 he was appointed CEO of Ansaldo (heavy machinery and shipyards) where he undertook an important restructuring of the company's technical-productive, organizational, and commercial activities. Three years later he was named Managing Director of Finsider, IRI's newly created financial holding for activities in the steel sector. As such, Rocca joined forces with Oscar Sinigaglia in promoting a new Plan for Italian steel which would come to fruition in the years immediately following World War II.

What Rocca accomplished in the steel sector is well known; our intention here is to put special focus on the organizational and technical skills that he possessed. These were the skills that brought him to favor a scientific organization of labor (“technicize production, substituting study and technical-scientific control for theorizing so as to achieve a rationalization of the processes of manufacturing”) and to assemble a staff of managers and planners made up of technicians with different professional experiences and varying political orientations. It was this last element that would be a positive factor for State industries, even if limited by the Fascist regime's priorities⁶.

But what was the glue that bound together this first generation of managers of State-owned firms and which formed the basis of a new management culture? An answer can be found in the words of Beneduce: in order to convince Bordoni to accept the appointment as head of STET, Beneduce emphasized the function of the firm which was to “protect the rights of investors... including a large number of common people”⁷. The cultural paradigm that brought together these managers was founded on public service and a desire to modernize the nation's economy. In no other field was it possible to realize a true merger between patriotic convictions and professional ambitions⁸. This view of the economy and of the role of enterprise actually preceded Mussolini; it would be erroneous to attribute it to Fascism. Even in the first decade following World War II—when clearly the political scene as well as the economic situation were entirely different-- we can still find ample signs of these attitudes in the management team that headed IRI.

2. The postwar success of the “Beneduce system”

At the end of World War II, Donato Menichella successfully convinced the American occupying forces that the “Beneduce system” offered numerous points of strength, one of them being the special competencies of the management group itself. For IRI—given that it was impossible to privatize the firms it controlled—this meant assurance that it would be able to successfully navigate Italy's delicate political-institutional transformation, showing

its best results during the nation's so-called "economic miracle". In these same years IRI played a front-line role in national plans for innovation in manufacturing and in infrastructures.

At the end of World War II, with an assemblage of firms in various sectors (in 1948 Finmeccanica was established followed by the creation of Finletterica four years later) IRI looked like a giant conglomerate; in many cases the links between sectors were few or non-existent. Big groups of this type are a reality of our times; they can be found in both advanced economies as well as in those nations which are trying to reduce the gap that separates them from the major industrialized nations.

In the postwar years, the most important typologies of this kind of group were the American conglomerate and Japan's *keiretsu*. They differed on the basis of the type of control exercised by top management. In the case of US conglomerates, the headquarters established corporate policies and allocated resources among the various firms, basing its choices on the firms' financial results; the system was known as *management by numbers*. In the horizontal Japanese groups, instead, individual firms were almost entirely autonomous. Each company made its own decisions regarding markets, investments, and time horizons. The keiretsu headquarter was little more than a series of meetings (usually monthly) between presidents of the largest firms in the group; the hub of the keiretsu was the so-called *main bank* which assured continuity in shareholder equilibrium and, as a result, could guarantee a certain form of management stability. The choice of the conglomerate to separate top from middle and lower management (where those managers faced the battles of the marketplace each day) was one of the weaknesses of American big business whereas the keiretsu became a cornerstone of Japanese success.

The lesson to be learned was that a big highly diversified group needed to be "headless" so as to guarantee a large amount of autonomy to the individuals heading the single firms that made up the group. In order to avoid serious fractures between the individual businesses and headquarters, the latter needed to be of reduced dimensions and to limit its actions to guaranteeing entrepreneurial choices made by the businesses.

A major source of pride for Beneduce was that he had been able to limit IRI's top management to offices the size of a normal apartment in the center of Rome and that his own office was staffed by a small group of collaborators. "IRI didn't have an invasive presence" wrote Gianlupo Osti, one of the most important managers in the public steel sector in the 50s and 60s, in his autobiography⁹. "The company was made up of a small group, about fifty if I remember correctly. All of them were talented and well skilled. They

say that Menichella [...] absolutely didn't want IRI executives involved in the planning and strategic decision making of the single firms. They were expected to simply carefully control the forecasts prepared by the financial holdings and the reports presented at the end of the year, confirming their truthfulness. He was very much against the idea that IRI's comptrollers should visit the plants: 'they won't understand a thing'—Menichella would say to his staff— 'and the plant technicians will make fun of them'".

We also shouldn't ignore the fact that IRI continued to reaffirm its prerogative as owner to nominate the greater part of the members of the Boards of Directors and the Board of Statutory Auditors of the firms making up the group. These appointments can be seen as a form of indirect control over the holdings as well as a tool for progressively expanding and regrouping the structure of State-owned groups.

In the Fifties, its best period, IRI was "weak", the sectorial holdings were strong and the firms underneath the holdings were even stronger. This was a sort of reverse pyramid with IRI serving as guarantor of the nation's financial solidity by allowing the banking system to focus its resources on assuring a diffuse system of credit for Italy.

This was the season when both old and younger managers worked together for projects such as continuous cycle steel plans, the development of telecommunication systems, the construction of tollroads, and the manufacture of automobiles like the Giulietta which came to symbolize the "*dolce vita*".

A notable protagonist of this era was Oscar Sinigaglia (1877-1953): a courageous volunteer in World War I, a vocal member of the Italy's irredentism movement that worked to bring about the integration in the newly unified Italy of those borderline territories which had been omitted from the Unification settlement, and a Fascist. Sinigaglia was one of those engineers who formed the first generation of IRI's entrepreneurs: as President of ILVA during the 1933-34 period, he elaborated a Plan for reconverting Italy's steel industry into the manufacturing of steel for mass production. But it was only in the postwar period (when Sinigaglia was named President of Finsider) that his Plan actually came to fruition. The Plan was based building a new integral cycle plant in Cornigliano and rendering the plants of Piombino and Bagnoli specialized in traintracks (Piombino) and steel for ships (Bagnoli); the result was a strong increase in manufacturing capacity that meant lower costs for steel. Approved by the Italian government in 1948, the project benefited from financing secured via the Marshall Plan to be used for restructuring plants; further impetus would be received later when Italy joined the European Coal and Steel Community (ECSC) whereby it was possible to procure raw materials at reduced costs. With his tenacity, Sinigaglia was not only

able to continue the project (while adapting it to the country's new international stance whereby the steel sector came face to face with international competition) but also to win over the resistance of private steel firms as well as securing the support of Fiat with whom an agreement was reached for the sale of a major portion of the laminated steel produced in the Cornigliano plant.

In the postwar period, Guglielmo Reiss Romoli (1895 – 1961) served as head of the telephone sector. Reiss Romoli was a manager at Banca Commerciale Italiana when in the Thirties he took part in the reorganization of some of the telephone concerns controlled by SIP Elettrica; these firms formed the basis for the constitution of STET. In 1938, to spare Reiss Romoli the harsh measures against Jews adopted by the Fascist regime, the CEO of Banca Commerciale Italiana, Raffaele Mattioli (1895-1973), sent him to the United States as head of the New York branch of the bank. Upon his return to Italy after the war, Reiss Romoli took over as STET's managing director, remaining in this role until 1961. Over a period of fifteen years, he reconstructed and strengthened Italian telecommunications, blending together innovation (Italy was one of the first nations to activate direct dialing between urban centers) together with strong financial management (under Reiss Romoli, STET's working capital grew by a factor of ten as its investor base grew from 5000 to more than 50,000 shareholders).

Fedele Cova (1904-1987) received a degree in industrial engineering after completing a thesis based on organic materials chemistry, especially cement and concrete. He began his professional career in various companies in this sector, eventually being appointed technical director of Eternit in the Ligurian city of Genoa. He also added some important work experience abroad to his curriculum before being invited by Finsider in 1950 to become a consultant for the firm. Here he came to know the director, Ernesto Manuelli, and together the two elaborated a program for constructing a plant for exploiting and disposing of production residuals from cement. The project was important at the time; the nation was in the throes of the "Sinagaglia Plan" which brought about an expansive phase for steel production via the integral cycle. It was Sinigaglia himself who approved the project drafted by Cova and Manuelli: from it a firm named Cementir was born. Cementir's growth was guaranteed: Italy was in a phase of intensive construction projects. Cova was first appointed director and then CEO of Cementir. He oversaw the construction of new plants, dealt with issues of funding, and took an active role in recruiting and training both technical personnel as well as managers for this sector that was new for IRI.

But the project to which Cova's name was most linked was that of Italy's tollroads. In 1956 IRI was entrusted with the construction of a network of highways in Italy. Aldo Fascetti, president of IRI at the time, appointed Fedele Cova as the CEO of the newly formed company, Autostrade. As their first assignment, Cova and a group of collaborators, left for an extended stay in the United States where they would acquire know-how as regarded the most modern techniques for constructing as well as managing tollroads. In less than eight years (1957-1964) the 800 kilometer road linking Milan and Naples (Autostrada del Sole) was completed. It was a true symbol of Italy's economic growth. Even though it was an immediate success (especially as regarded the image of Italy which it projected), Autostrade was the victim of a series of financial problems which it attempted to confront in the Sixties by embarking on an even bigger project of highway construction. By the end of the decade, the company's economic situation was worse, due in large part to the fact that, under increasing political pressure, Cova had abandoned many of the management principles upon which he had based his career.

Giuseppe Luraghi (1905-1991) wrote a thesis on civil and commercial aviation which earned him a degree in economics from Milan's Bocconi University. For two decades he held various roles at Pirelli until, in 1952, he was appointed Managing Director of Finmeccanica where much of his focus was on the auto manufacturer, Alfa Romeo. It was thanks to Luraghi that the Giulietta automobile model was born in 1955; this car would position Alfa Romeo among the pre-eminent auto manufacturers in Europe. But in 1956, after an animated discussion with IRI's president (Fascetti), Luraghi quit the State group and accepted a position as president and CEO of Lanerossi (textiles). Only four years later did he return to IRI when he was appointed president of Alfa Romeo.

For Alfa Romeo, the Sixties were characterized by the construction of a plant in Arese (outside of Milan) and, in 1966, plans were drafted for another plant in Pomigliano d'Arco (outside of Naples) where a new model, the AlfaSud, was built.

A truly multi-faceted individual, Luraghi was not only a talented manager but also a person of culture; a poet, he also was a sponsor of the publication *Civiltà delle macchine* (Civilization of machines) where poets, authors, and artists would portray factory life—from warehouses to machinery-- in all its forms. Luraghi's story illustrated a rather original career path, and highlights that link between the public sector and the world of private entrepreneurship constantly pursued by IRI as a fertile exchange of competencies. As we'll see in the next section, the choices made by Luraghi in the 1970s reveal how IRI's governance was changing, with the headquarters sounding a stronger voice on the firms it

controlled and with increasing difficulties encountered by IRI's top management when it also had to respond to the political parties.

3. The turning point of 1956

If we can talk about improvisation and knowing architecture when we discuss IRI's origins and consolidation in the Thirties, the topic no longer has much sense when we look in the Fifties at post-Fascist Italy with its multitude of political parties. It was in this period that some clear lines of thought take on a real importance following the confusion of the immediate postwar period.

The first of these was "nationalism", a philosophy that in the 1950s can't be associated with a single political party but, rather, represented a strong ideological and political orientation of Italian life. In fact, in the most dramatic moments of modern Italy, from the Risorgimento (the movement that brought about the nation's political unification) to World War I and the Resistance movement that started in September 1943, entrepreneurs and managers in Italy have often been caught up in a strong nationalistic spirit. An excellent example are the Italian "samurai", men such as Oscar Sinigaglia who gave a speech at a rally in Rome of the Christian Democrats in May 1948 entitled "Rifare l'Italia" (Remaking Italy). Sinigaglia, like Beneduce, was convinced that a market economy was much more efficient than a nationalized one. Still, he believed that if private enterprise showed itself to be unable to resolve the problem that lay at the root of Italian industry (that of the future of steel), then it was right that the State should intervene and take over the role of entrepreneur.

This view of national interests firmed up into a growing focus on the Southern regions of Italy. A real attempt was made to unite the country economically so as to work out a solution to the grave problems of territorial disequilibrium that had historically characterized the country and which appeared to have worsened in the postwar reconstruction period. The movement to develop Italy's "Meridione" (South) became a priority shared by all managers at the time, overcoming political and philosophical lines, leading many to call for the transformation of IRI into an agency for Italy's economic development. In 1957, for example, a law (number 634) was passed, establishing that at least 40% of State-owned enterprises' investments were to be in the Mezzogiorno (Italy's southern regions).

This was the basis on which State-owned firms such as IRI were focused in their second round. The vision was a brainchild of the Christian Democrat (DC) party, the nation's largest party for almost half a century after WWII. In reality the DC was a

federation of different political groups and, among them, were some that were more left-leaning than others. These groups pushed for State intervention in promoting economic development, concentrating most of their energies on overcoming the historical gap between North and South. As early as the late 40s, the left-leaning faction of the DC (one of their leaders, Ezio Vanoni-- Minister of Finance-- had longstanding ties with Pasquale Saraceno) concentrated its attentions on the companies that made up IRI.

Nevertheless, the real changeover with State owned firms can be found in the actions of Amintore Fanfani, Secretary General of the Christian Democrat Party following Alcide DeGasperi's death in 1954. Fanfani found himself face to face with the DC's biggest competitor, the strong and well-organized Communist Party. In the first postwar Parliamentary elections in 1948, a fear of Stalin assured the DC's triumphal win and gave the Christian Democrats an absolute majority. But just five years later, the DC lost 10% of its seats.

Fanfani saw that State owned firms could be a tool for realizing economic reform and, thus, growing public consensus, especially in the South. At the same time, public firms also offered a necessary source of financial autonomy for building up a political party for the masses (i.e., an organization made up of full-time professional politicians with strong ties to the social aspects) and were seen as the only means for challenging the Italian Communist party. State enterprise allowed the Christian Democrat party to overcome its sub-alternity to the big private entrepreneurs and to the Catholic Church, a position where it risked appearing as too conservative.

In the second half of the 1950s that "benign neglect" of the political system that characterized De Gasperi's centrist government disappeared. This was unfortunate because it was during the DeGasperi period that the firms of IRI enjoyed their greatest autonomy.

The turning point (or perhaps it might be more appropriate to call it the "trap") took place at the end of 1956 when the Ministry for State Shareholdings (with its precisely defined chain of command) was created. Slowly but surely, at the top of this chain (though not visible in any organizational chart) a "silent" partner appeared: representatives of the political parties making up the government coalition.

Political parties have always played an important role in Italy, mediating and adapting relations between the State (seen as a universalistic and bureaucratic body) and civil society (perceived as weak and fragmented). Consensus was vital lifeblood for political parties but the "IRI system" had its origins in times of a dictatorship where there was no

political competition and firms were pretty much left without interference with the exception of some major choices (which might seem a bit paradoxical).

Naturally things changed after the war when, as we've seen, competition could be felt and the political parties started to understand how the complex network of State owned firms could be used as a weapon. But the Italian case also had some additional complications. The largest political opposition group was the Italian Communist Party (PCI). It was able to fight to obtain a strong position but, given its international ties, it was impossible to imagine the PCI as a serious contender to the Christian Democrats and their allies (which, in the early 60s, also included the Socialist Party). Thus, a one way spoils system came to be, whereby a coalition of parties was able to acquire enormous economic power without fear of being punished in future elections even if they hadn't done a good job of managing the power they detained. Competition between various members of the government alliance was rampant; everyone would attempt to secure as many positions in State owned enterprises as possible on the basis of their weight (as well as veto power) in the coalition. By distributing favors and resources so as to foster further consensus, they were able to obtain even more power. In this prospective, the system of state shareholdings had to grow as much as possible, regardless of the economic outcome. The serious financial difficulties that the firms of IRI faced meant that they were in great need of help from the government as well as the Parliament-- both of which were controlled by political parties. Thereby IRI's concerns slipped into ever stronger "dangerous liaisons" with the political system.

This was a phase in which political continuity started to become an important factor in appointments for State owned firms. In 1956, for example, Salvino Sernesi (1898-1964) was named Managing Director of IRI. Sernesi had been a military official during World War I and then, with his training as an accountant, in the Thirties was appointed a consultant for the liquidation and merger process of Banca Nazionale del Lavoro, after which he served as a manager of some foreign branches. It was BNL's new president, Imbriani Longo, special Commissioner at IRI for a brief period between July 1947 and February 1948, who appointed Sernesi to the role of Managing Director (1947-1954) of the nation's new television network, RAI.

With his close ties to the Catholic Church (he was a high ranking member of UCID, the association of Catholic executives), Sernesi oversaw the reorganization of IRI as well as its ties with the financial holdings and controlled firms; he was especially involved in the new

airline (Alitalia) as well as in the merger of the companies operating in the telephone sector, which brought about a centralization of services.

The ability of politics to influence corporate leaders can be seen in the long presidency of Giuseppe Petrilli (1913-1999), who was at the helm of IRI for almost two decades, from 1960 until 1979. A staunch European federalist, a scholar of social issues, Petrilli was connected to Amintore Fanfani who insisted on his appointment as head of IRI.

Petrilli was president of IRI as the concern entered a completely new phase. As such, he inaugurated a governance model that was definitely more concentrated than in the past. Emblematic of this change was the story of AlfaSud. As mentioned earlier, in 1966 Giuseppe Luraghi started the operation of a new plant in Southern Italy (Pomigliano d'Arco, near Naples) as a strategic decision for the auto manufacturer. But in 1973 Petrilli (as president of IRI) made an attempt to force the adoption of a new program which completely negated the original strategic choice. The new program called for the transfer of the assembly of seventy thousand vehicles from the plant at Pomigliano d'Arco to another in the nearby town of Avellino with the clear intention of redistributing employment in the South in response to political pressures received from the Christian Democrats of the Campania region. Luraghi was opposed to this new program and opted to resign. The story of what then happened in the industrial plant of Pomigliano d'Arco is well known.

4. The difficulty of “economicità”

The mix of politics and economics that characterized IRI from 1960 on wasn't always subjected to negative criticism from scholars or other economic actors. For example, in her essay focusing on a group of IRI executives, Ada Collidà (trade union activist and scholar) declared that the latter were forced to practice a form of entrepreneurship that was different from the creative destruction of Schumpeterian memory. According to Collidà, their first task was to assure the stability and the progressive extension of affluence across the nation. But probably the scholar who best defined IRI's philosophy was Pasquale Saraceno. He maintained that the only appropriate choice for a company that refers to IRI is “economicità” (economic health or fitness). The emphasis was not maximizing profits but, rather, concentrating on economic goals established within a framework of social and political constraints. After all, the law stated that these kinds of constraints were to be considered “improper financial burdens” for which Parliament would have to compensate with indemnities from a specially created fund. For Saraceno the structure of State shareholdings shouldn't be seen as a hierarchy but, instead, as a continuous exchange and

confrontation between political goals and public entrepreneurship. In fact, until the end of the Sixties, it's possible to affirm that IRI was operated in this manner, so much so that the "IRI Formula" was studied and copied by advanced nations such as Sweden and Great Britain.

This was the era in which a first rate head of External Relations such as Franco Schepis would write "A foreign visitor arrives in Italy with an Alitalia flight? Alitalia is a company of the IRI group. In Genoa the tourist disembarks from a beautiful oceanliner such as the Michelangelo, the Raffaello, the Cristoforo Colombo or the Leonardo da Vinci? All of them are owned by IRI. While visiting, the tourist rents a fast and elegant automobile like an Alfa Romeo? It's produced by IRI. To exit the city of Genoa, he takes Italy's first elevated highway? The road was made with steel and cement from IRI companies; the overpass is also owned and managed by IRI as is Europe's most extensive highway network. If our visitor stops for lunch at an Autogrill highway rest-stop, it's also owned by IRI. Maybe his lunch will include products made by Motta or Alemagna? They're companies in the IRI group. After lunch he might need to telephone someone in his city, using the Continent's first integrated direct dialing. Those are phone lines of SIP, another IRI company. And when the tourist arrives at his destination, he'll probably need to exchange some currency so he'll stop at one of the major banks—Banca Commerciale Italiana, Banco di Roma, or Credito Italiano; they, too, are part of IRI".

Saraceno's intellectual elaboration is fascinating: what Schepis writes about is a multi-sectorial group guiding Italy's modernization and best described by the slogan "IRI: a formula for advancement". It's an ambitious project, able to overcome the longstanding divide between public and private, between economics and politics. IRI was a firm that went beyond the firm.

But after 1970 all of this couldn't stand up to a comparison with reality. The objectives for industrial development and social stability taken on by IRI firms beginning with the postwar reconstruction and actively promoted during the era of Italy's "economic miracle" had become excessively all-encompassing. This can be seen with brutal clarity in Finsider's progressive and dramatic accumulation of debt; the company had been forced to construct plants far bigger than what the market needed and Finsider had also taken over the problematic steel operations of Fiat. Another IRI concern, Fincantieri, was in a similar situation. Created in 1959 as a spin-off of Finmeccanica, by the late Sixties it was forced to take over the private Piaggio Shipyards that was in dire straits. Further proof was the failed AlfaSud project which was burdened under the weight of noble requests for favoring growth

in the South and by less noble requests from the political forces. In a similar way, there was little economic sense in creating a fifth steel polo in the Calabrian town of Gioia Tauro. Plans for the plant were made late and exclusively for political reasons—local politicians protested that their region had been forgotten by the State.

The confused path of plans for developing the public steel sector (pursued in the Sixties and Seventies by Mario Marchesi and Alberto Capanna) is probably the most emblematic of IRI's downward parabola. Mario Marchesi (1904-1988) was an engineer trained in the tradition of Agostino Rocca's school of productive rationalization. In the postwar period Marchesi was a key figure in Finsider's technical staff and actively involved in the realization of the Sinigaglia Plan. He was also one of the authors behind the success of the Cornigliano steel mill, an entirely new plant which tripled its sales and profits in just a few years thanks to a productive structure based on the American model, not only from the way products were made but also from the organization of the plant with its precise division of tasks, the creation of a form of collaboration between line and staff, and the groundbreaking introduction of the *job evaluation* which signaled a new way of human resource management. Marchesi was also one of the most convinced members of the group involved in constructing a new factory in Taranto for manufacturing integrated cycle steel. The plant was intended as Italy's fourth "polo" for steel and, based in the Southern part of the nation, became a fundamental component for the region's industrial development. But the attempt to rationalize the entire public sector of steel manufacture inspired by the "Cornigliano model" failed. Its failure can be attributed to various causes: difficult industrial relations, internal opposition within the IRI ranks, and a growing pressure to answer to political demands that over time would distort the objectives of State industry.

Among those responsible for this failure was Alberto Capanna (1910-1995), a member of IRI's office of research studies when it was headed by Pasquale Saraceno. Under Sinagaglia's guidance, Capanna focused his attentions on the steel industry within the new European context. As Vice-Director of Finsider from 1960, he advocated adopting the Japanese model, based on plants of large capacity. In 1967 he was also among the most vocal proponents for doubling the size of the steel center in Taranto, underestimating the difficulties of industrial relations in an area that only a few years earlier was completely extraneous to the phenomenon of the giant factory. Taranto 2 was an enormous plant that was designed in 1969—at the height of the nation's politically tense "Hot Autumn"—and it started production in 1975, another moment of great crisis in Italy!

Influenced by the achievements that had been attained up to that point, Marchesi and Capanna shared an “expansionary” vision of the public steel sector, viewing it as a “key element in moving modern industry in Italy forward.” But, starting in the second part of the Sixties, the State steel industry abandoned the policy of matching production to market demands as envisioned by Sinigaglia and continued by Marchesi; in a short period Italy’s public sector became a hunting ground for political and managerial powers. As a matter of fact, in 1988 Finsider went bankrupt with liabilities equal to 13 billion euros.

Appearing an inevitable result, IRI’s demise arrived in the last decade of the 20th century. The State-owned firm closed down operations across Europe, including in Austria where it had always thrived. This step was due to the general crisis that affected most of the industry sectors where the SOEs had affirmed themselves (steel, heavy machinery, and shipyards) as well as to a completely different economic culture.

These historians are convinced, however, that the “IRI formula”-- as outlined in Schepis’ apologue and as structured on the chain of command defined in 1956—had outlived its time.

¹ A. Shonfield, *Modern Capitalism*, Oxford, 1965, 178-179.

² R. Romeo, *Breve storia della grande industria in Italia*, Bologna, 1987, p. 35

³ Saraceno, *Il sistema delle imprese a partecipazione statale nell’esperienza italiana*, Milan, 1975, pp. 8-9.

⁴ *Mezzogiorno, programmazione e impresa pubblica*, Svimez document series, P. Barucci, G. Pescatore, G. Ruffolo, G. Petrilli, D. Menichella, and P. Saraceno (editors), Rome, 1975, includes a piece by Menichella on Pasquale Saraceno and, in particular, on how the two met and came to start working together. This can now be found in Donato Menichella cit., p. 850.

⁵ According to Franco Amatori the actions of these technicians “in the firm were characterized by an accounting project to distinctly separate earnings from assets so as to clearly determine industrial costs, amortization, and general expenses. Equally important was their attention to how labor was organized, for group policies, and for coordinating and rationalizing sectors on a strategia level”, in F. Amatori, “Coorti manageriali di lungo periodo: Fiat e Finsider 1920-1960”, in S. Zaninelli, M. Taccolini (eds.), *Il lavoro come fattore produttivo e come risorsa nella storia economica italiana*, proceedings of the Società Italiana degli Storici dell’economia (Rome, 24 November 2000), Milan, 2002, pp. 593-594. On this same topic, see also F. Ricciardi, “Gestione e riorganizzazione industriale durante la crisi: da Comit a Sofindit (1930-1934)”, *Archivi e Imprese*, 18, July-December 1998.

⁶ P. Rugafiori, “Agostino Rocca”, in A. Mortara (ed.), *I protagonisti dell’intervento pubblico in Italia*, Milan, 1984, pp. 392-395. For further details about the plan for steel, in addition to the texts in Note 23, see also U. Wengenroth, “Il mito del ciclo integrale: considerazioni sulla produzione d’acciaio in Italia”, *Storia e Società*, a. VII, 1985, n. 30, pp. 907-927; additional essays can be found in AA.VV., *La siderurgia italiana dall’Unità ad oggi*, Florence, 1978.

⁷ ASIRI, Archivio II. Files from the Offices (black numbering)- PV 001, Correspondence from Beneduce to Bordoni, 6 November 1933, in the file “Corrispondenza riservatissima e personale di S.E. il Presidente.”

⁸ R. Petri, “I ceti economici dirigenti tra consenso e crisi di regime”, in A. Ventura (ed.), *La società italiana dal “consenso” alla Resistenza*, Istituto veneto per la storia della Resistenza, Venice, 1996, p. 263.

⁹ G. Osti, *L’industria di Stato dall’ascesa al degrado*, interview by R. Ranieri, Bologna, 1993, p. 115