Italian Capitalism between the Private and Public Sectors, 1933–1993

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Three dates mark events that have left a permanent imprint on relations between the private and public sectors in Italy: 1933, 1962, and 1993. The first corresponds to the creation of the Institute for Industrial Reconstruction (IRI), a public holding company assigned the task of rehabilitating and managing the industrial enterprises that previously had been controlled by mixed banks, which themselves passed under state control. Under the banking law of 1936, these banks were no longer able to carry out medium- to long-term credit brokerage or hold significant shares of industrial enterprises. The second date, 1962, marks the nationalization of the electrical energy industry and the end of a long period of a type of private capitalism in Italy based on the enormous financial power of the large electrical energy groups. Finally, in 1993 the privatization of state-owned companies and, above all, of the major banks controlled by IRI (Banca Commerciale and Credito Italiano), together with a new banking law, signaled the return of the universal bank among the protagonists in the Italian economy and a turning point in the structure of Italian capitalism.

The articulation of economic power and the dialectic between the public and private sectors were defined between 1933 and 1937-39. The large Italian industrial and financial groups survived the founding phase of IRI without significant damage and remained firmly in control. The new configuration did not present any clear competition between the public and private sectors, because the industrial branches in which state-controlled companies were dominant were also those in which the private groups were weaker, if not completely absent, and vice versa. This general equilibrium was absent only in the financial sector, where nearly the entire credit system was under the direct control of the state through IRI or the Treasury [Toniolo, 1980, p. 268].

Within these large groups, the role of electrical energy companies stood out distinctly. Edison, the largest Italian enterprise by capital invested, controlled the production and distribution of electrical energy in the most highly industrialized areas of the country (the regions of Lombardy, Liguria, and northern Emilia). Moreover, Edison had already begun to implement a policy of investment diversification which, before World War II, included the

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machine and iron and steel industries and beginning in the 1950s was extended to the chemical industry.

Among the nebulous haze of electrical energy companies, some were larger and more luminous stars. The SADE group, headed by Volpi and Cini, essentially controlled the northeastern part of the peninsula, but also had branches extending far down along the Adriatic Coast. SADE also had consolidated interests outside the electrical energy sector in the fields of textiles, machinery, real estate, and hotels and tourism. The next most important group was the finance company La Centrale (merging the interests of the Pirelli and Orlando families and their respective industrial empires), which controlled electrical energy enterprises in central Italy (part of Liguria, Tuscany, and Lazio) and, until 1958, the telephone concession operating in the same area, TETI [Segreto, 1993; Petri and Reberschak, 1993; Conti, 1993].

The leading position in the manufacturing industry was occupied by the FIAT group, whose diversification was particularly precocious. As far back as the 1920s and 1930s, its range of activities included machinery, iron and steel works, glass, transport, and real estate. FIAT also took initiatives when problems of control and ownership structure seemed to raise little concern among the other great families of Italian capitalism: the creation of IFI, the financial "holding safe" of the Agnelli family, which held the majority stake of FIAT, gave further evidence of the modernity and perspicacity of the automotive entrepreneur [Castronovo, 1975].

Montecatini "was" the Italian chemical industry. Founded as a simple mining company in 1866, it was progressively transformed into a chemical giant between 1910 and World War II by Guido Donegani, partly according to industrial logic, but also strongly indebted to the support (and therefore the demands) of the Fascist state. During the postwar period, Montecatini launched itself with renewed verve toward the new frontier of modern chemistry, as defined by petrochemistry, which found its maximum level of expression in the company's plant in Brindisi, where construction was begun in 1959 [Bottiglieri, 1990].

Many of these industrial and financial interests had found a delicate point of convergence in the Società per le Strade Ferrate del Meridione (Southern Railway Company), known as Bastogi (after the name of its founder, financier Pietro Bastogi), a finance company founded in Florence in 1861 which had for some forty years (until 1905) managed most of the Italian railway system. After 1905, it was converted into an electrical energy holding company. Its portfolio of shareholdings in electrical energy enterprises (Edison, Società Meridionale di Elettricità, SME, Sarda, SADE, Ligure-Toscana, etc.) had gradually made Bastogi an essential instrument for control of the electrical energy sector. It is not accidental that during the 1920s and the early 1930s, Banca Commerciale, Credito Italiano, Pirelli, and Edison all tried to attain a majority stake, attracted by the strategic role in Italy's industrial and financial equilibrium that control of the old Florentine financial holding would have guaranteed.

It was in fact around Bastogi that the new general structure of Italian capitalism was defined between 1935 and 1939. The controlling syndicates established in those years redesigned the company structure, giving it the form of a "half-public and half-private centaur." Such diverse shareholders as the Bank of Italy, IRI, Banca Toscana, Monte dei Paschi, Banco di Napoli, La Centrale, FIAT, SADE, Pirelli, Edison, le Generali e Ras, Italcable, and the Institute for Religious Work (Istituto per le Opere Religiose – IOR – the financial instrument of the Vatican) found themselves united [Piluso, 1991, pp. 331-335; Segreto, 1993, pp. 110-115].

The public presence was predominant mainly in the iron and steel industry, where the enterprises of IRI (controlled since 1937 by a sectorial holding company, Finsider) produced 77% of the cast iron and 45% of the steel for shipbuilding and shipping companies, where another sectorial holding company, Finmare, had been established. The state was also present in the telecommunications sector through STET (founded in 1934), which was at the head of three telephone companies (Stipel, Telve, and Timo) and accounted for 52% of telephone subscribers in Italy [Avagliano, 1980; Cianci, 1977; Bottiglieri, 1987].

The essential structure of Italian capitalism was not greatly modified by the world conflict that followed. Yet, in the ten to fifteen years after World War II, some elements that were important in the earlier context took on a different weight, as new protagonists came into the limelight. The 1950s were decisive years for public enterprise. In fact, its destiny and very nature were decided between 1947-48 and 1957. The creation in 1947 of Finmeccanica, a holding company for the many state-controlled firms of the engineering industry sector, of Finelettrica in 1952 for the part of the electricity sector already in the hands of IRI, and of ENI in 1953 for the oil industry confirmed the validity of the organizational choices of the 1930s [Bottiglieri, 1994; Doria, 1987; Maugeri, 1994; Perrone, 1994]. All these were holding companies that operated through firms working under private law, but their roles in the Italian economy were quite varied.

Whereas the Finsider group played a decisive role in the Italian steel industry and in its relationships within the European Coal and Steel Community [Ranieri, 1993], Finmeccanica did not the state's overall strategy for the engineering sector, which comprised too many different subsectors with very different problems, from the car industry to the heavy machinery sector, from the defense industry to the shipbuilding industry. It was preoccupied with managing a deep crisis that induced a large labor force reduction. Indeed, shipbuilding was finally separated from the rest of Finmeccanica in 1967 and passed under the control of a new state holding, Italcantieri, which in 1984 merged with other shipyards under state control to form Fincantieri [Fanfani, 1988]. Also very different were the attitudes of the two holdings in the power sector. Finelettrica did not differentiate its strategy from the private companies in the electrical sector, but ENI respresented in some ways the strongest challange to the power of the large international oil companies, the Seven

Sisters, creating several problems in the political and economic relationships between Italy and the United States during the 1950s [Maugeri, 1994; Yergin, 1991; Segreto, 1995].

The turning point occurred in 1956, when the Ministry of State Shareholdings was established. The government officially assumed the power of direction and control over state enterprises. At the same time, strategic lines of action were specified that later would have significant influence on public enterprise. The criteria for economic viability were defined by law with much greater elasticity and a much more extensive range: the objective was to achieve not a "greater profit, but a greater economic success": this was considered the definitive form assumed by the mixed economy in Italy [Saraceno, 1975; Barca and Trento, 1997, pp. 209-214].

Furthermore, in 1957 Parliament decreed that public enterprises would have to direct 60% of new investments and 40% of all investments to Southern Italy. If the founding of IRI in 1933 could be considered a sort of large-scale rescue action for Northern industries, the new legislation guiding public enterprise investments set the conditions not only for a recalibrating of previous choices, but also for a major correction in the course taken in the field of industrial policy. This would have very serious consequences for Southern Italy during the industrial crisis and restructuring of later decades (that is, during the downsizing of the state's role in industry) [Bruno, 1995, pp. 402-404; Barca and Trento, 1997, p. 213].

The dynamism of public enterprise also infected the private sector in the decade that followed and to the end of reconstruction, and both sectors were protagonists of the "economic miracle." However, the boundaries within which the two worlds moved became less distinct. New investments in the oil sector occurred almost exclusively in the public realm, because a specific law had given ENI the monopoly on oil exploration in Po Valley, then considered one of the richest areas in hydrocarbons [Maugeri, 1994, pp. 67-83; Segreto, 1996, pp. 299-309]. Between the end of the 1950s and the early 1960s, the public presence was extended to the textile industry, which was going through a period of general crisis, particularly in some of the Southern enterprises and among the old industry leaders [Bruno, 1995, pp. 405-406], while new holdings were set up in 1958 for the mining sector (EGAM)[1] and for all the establishments controlled by the State in the spa sector (EAGAT). The long growth phase of the Italian economy (in spite of a slowdown in the mid-1960s) and the guarantee of state support were the bases of these decisions, which lacked a fundamental requirement: a coherent strategy of intervention free from political influences and constraints [Castronovo, 1995, pp. 409-446].

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[1] EGAM actually began its activities only in 1971, when the Ministry of Public Holding transferred to it a series of companies. In four years EGAM took over control of more than a hundred firms with more than 33,000 employees and began also to build a steel plant in Sicily. Its chairman was arrested in 1975 for fraud, and the holding was declared bankrupt in 1976 [Camera dei Deputati, 1976, p. 187; Osti, 1991, pp. 268-270].

The public sector's economic activity in the 1960s was also characterized by more coordinated programs such as the reorganization of the engineering sector with the establishment of a new holding company, EFIM, in 1962. EFIM controlled 114 companies, from the financial sector to aerospace, from defense to aluminum, from transportation to glass [Tordi and Bemporad, 1995, pp. 21-22]. New investments (very costly and with deferred returns) were also undertaken in the iron and steel industry by Finsider, mainly in the South (the opening of an iron and steel manufacturing center in Taranto) [Balconi, 1991, pp. 129-154], as well as the construction of the Autostrada del Sole, the highway that has connected Milan to Reggio Calabria since 1969.

All of these elements delineated the unique situation of the Italian economy, as compared to that of other European countries: the economic cycle was increasingly conditioned by public investments, whose rate of growth in the late 1960s and early 1970s was more than 50%, while the investments made by private enterprises were rapidly shrinking [Bruno, 1995, pp. 414-418]. In addition, the very high level of technical and professional competence among the managers of state-owned companies was one of the main features of the public sector, and until the middle of the 1960s those managers were probably better in general than their counterparts in the private sector.

The world of private industry saw its new frontier mainly in the chemical sector. Like Montecatini, Edison also began to diversify its interests in the chemical field during the 1950s. But the public enterprises, primarily through ENI, also directed part of their investments toward the chemical sector, making the chemical industry perhaps the most important arena for clashes between public and private sectors [Bottiglieri, 1990, pp. 349-355; Sapelli, 1994, pp. 534-542].

The strong growth of the economy in the 1950s and Italy's progressive integration into the international economy meant that insufficient attention was paid to problems that Italian private industry could no longer ignore: a lack of coordination and strategic initiatives. The end of the mixed bank in the 1930s had deprived Italian capitalism of the driving engine and coordination that had accompanied the country during its first phase of intense industrialization. Bastogi did not seem able to carry out a similar function. After the war, its ownership structure had been progressively simplified, although for a few years it still maintained both public and private interests. IRI pulled out of the controlling syndicate of Bastogi in 1954, but to compensate for the loss of a public shareholder, Donato Menichella, governor of the Bank of Italy, assumed the role of arbitrator for the interpretation and application of the pool agreement among the shareholders. From that moment until the mid-1960s, Bastogi was controlled by a block syndicate in which preeminent and financially equal positions were held by Italmobiliare, owned by Carlo Pesenti (the largest producer of cement in Italy, which had joined Bastogi at the beginning of the decade), IOR, and the insurance company Assicurazioni Generali. Immediately after these came the "historical" group of shareholders, consisting of Edison, Sviluppo (part of the SADE group), Montecatini, Pirelli, FIAT, and Ras.

Managerial problems and an inability to propose innovative and wide-reaching strategic choices significantly reduced Bastogi's role in the financial equilibrium of Italian capitalism [Piluso, 1991, pp. 386-391].

In a certain sense, this situation resulted from the decision of the former mixed banks immediately after the end of the war to establish a medium-term credit institution that would also function as a substitute for their earlier role in relations with large private groups. It would act as an investment bank, able to offer a wide range of financial services to private enterprise, including the creation of underwriting syndicates for shares and debentures. These were the aims and the context that led to the foundation of Mediobanca in 1946, with the contribution of capital divided into equal parts among three national banks (Commerciale, Credito Italiano, and Banco di Roma) [Colajanni, 1991; Battilossi, 1991; Segreto, 1997]. The initial capacity of this new public organization to operate effectively and to acquire legitimacy was proportional to its ability to offer adequate solutions to the needs of large private groups and inversely proportional to the same lack of strategic vision (mainly limited to a few directly interested parties – its principal shareholders) that had undermined Bastogi.

The emerging strength of Mediobanca can be explained by its position as a state-owned merchant bank, united to the three largest banks in the country by ties to stock and financial markets (the three banks provided for the underwriting of shares or debentures issued by pools under Mediobanca), but also acting as a financial brain for the large private groups. The contradictory nature of this new organization – the new centaur (a name that was also applied to Bastogi: perhaps a confirmation that Italian capitalism could create only mythological monsters) – was epitomized by a secret 1958 agreement between the three founding banks and a group of Italian and foreign private industrial and financial concerns. This accord guaranteed to the private groups the possibility of joint management of Mediobanca, regardless of its existing balance of shares between public and private capital [Battilossi, 1991, pp. 646-647; Tamburini, 1992, p. 41; De Cecco and Ferri, 1996, pp. 95-119].

The role of Mediobanca became even more important and visible in the next decade after the nationalization of the electrical energy industry in 1962. This decision was essentially a political one, tied to the delicate phase of transition from the center party governments of the 1950s to the first center-left wing coalitions, which brought the Socialist party first within the majority and then to direct participation in the government [Mori, 1989; Carli, 1993, pp. 269-270; Bruno and Segreto, 1996, pp. 499-507]. After that moment, nearly the whole energy sector (production and distribution of electricity, oil exploration abroad, and exploitation of hydrocarbon deposits in Italy) was in the hands of the state. The dynamics of the movements of public enterprise (within a rather heavy investment policy that no longer found an outlet in the world of private industry or in the general trends of the economy) at the time seemed quite aggressive to Italian private capitalism. Therefore, the private sector reacted with a defensive financial move: a merger between Montecatini (leader of the Italian chemical industry and among the five largest enterprises in the sector on the world level, excluding the United States) and Edison, former leader of the electrical energy industry. Edison had already begun a process of diversification into the chemical industry in the 1950s and now had enormous cash holdings as a result of the indemnities paid for its nationalized electrical plants [Marchi and Marchionatti, 1992, pp. 25-38; Bruno and Segreto, 1996, pp. 511-515].

This complex financial operation was guided by Mediobanca, which in these activities inaugurated its new role as the financial engineer of Italian private capitalism. No longer the operational instrument of the three banks for financial services to private enterprises, Mediobanca emphasized its role as an investment bank, thus becoming a real reference point for large private groups. The apparent financial soundness of Montedison, however, was almost immediately counterbalanced by the structural limits of the group and the inability of its management to tackle them. The only way to get the industrial project implicit in the financial operation back on its feet again was, in a certain sense, the negation of the operation itself. Created as an exemplar for private enterprise hit by nationalization and as a check on public enterprise, Montedison had to yield to the most aggressive among the public economic players: ENI, headed by Eugenio Cefis after the death of the state-owned oil company's founder Enrico Mattei in 1962. Encouraged and coordinated at the highest political and ministerial levels and by the economic-financial establishment (the Bank of Italy and Mediobanca), the joint intervention of IRI and ENI created the conditions for the essential public control of the giant of the Italian chemical industry without, however, establishing the basis for a more discerning strategic vision for this sector [Marchi and Marchionatti, 1992, pp. 48-56; Tamburini, 1992, pp. 169-174; Amatori and Brioschi, 1997, pp. 127-130].

The nationalization of the electrical sector also engendered an important change in the criteria for selecting the management of the state-owned companies and the banks controlled by IRI and the Treasury. Political fidelity became the decisive factor in the choice of new managers. The political equilibrium among the government parties (with the Christian Democratic party preeminent and the Socialist party gaining in political importance) was more or less reflected in the nomination of the CEOs and board members of these firms. This situation, along with the generational change that eliminated most of the old technocrats whose abilities had enabled them to rule IRI from its birth and to resist the shift from the Fascist regime to the new democratic Italy, produced several consequences. These circumstances, together with the frustration of the managers whose professional capabilities no longer counted, contributed to the worsening performance of the state-owned firms in the following years.

In the same years as the triumph of the so-called state bourgeoisie [Scalfari and Turani, 1974], many of the private industrialists who had symbolized the Italy of the "economic boom" left the scene: the textile entrepreneur Piero Bassetti, Zanussi, Borghi and Zoppas of the household appliances sector, and some of the most important names in the food industry (Bertolli, Motta, and Alemagna).[2] Part of their enterprises ended up in public hands, especially those in the food sector, which came under the control of SME, a former electrical energy enterprise that previously had produced and distributed electricity in Southern Italy, Sardinia, and Sicily and that already had been half-owned by IRI [Sicca, 1987, pp. 16-30].

The chain of collapses in these entrepreneurial families, some of whom had not even had time to establish themselves as real industrial dynasties, can be explained by three factors. First, they were unable successfully to pass through the delicate transition from the first to the second generation;[3] second, they could not overcome the managerial limitations exacerbated by the new problems in industrial relations after the contract renewals of 1969-70. Third, the cost structure in these enterprises was no longer able to withstand competition in an increasingly open market. Moreover, the world of private industry showed all of its limitations in the investment of the immense liquidity introduced into financial circulation following the nationalization of the electrical energy industry. Essentially unprepared for the moment, which from a political point of view could no longer be postponed, private enterprises suddenly found themselves without an alternative strategy, thus showing evidence of real entrepreneurial deficiency. Many of the former electrical energy entrepreneurs, as in the case of many industrialists of the "economic boom" who disappeared from the scene in the 1970s, had not even achieved the economic dimensions and the soundness necessary to ask for a stabilizing intervention on the part of Mediobanca [Gualerni, 1994, pp. 225-228; Bruno and Segreto, 1996, pp. 530-537].

The severe international economic crisis of the 1970s and the early 1980s redefined the relations between public and private enterprise. It was no longer possible to continue the expansion of investment in public enterprises by drawing on state-guaranteed debt. Having lost all possibility of an autonomous role, public enterprises were forced to strengthen their ties with the political world, thus finding themselves committed to making a difficult recovery from indebtedness.

The international economic crisis, exacerbated by the effects of OPEC decisions, also put great pressure on the IRI group [Pontarollo, 1983, p. 32]. Calls from diverse political groups began to converge in the request that the state-controlled companies sustain employment [Bianchi, 1987; Grassini, 1981]. In 1971 a new state holding (GEPI) was formed to help maintain and increase the levels of employment in industrial firms in economic and financial difficulties at that time: it actually became a new hospital for private firms,

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[2] It has been calculated that in the twenty years after 1968, 56 of the first 100 Italian firms changed ownership [Cingolani, 1990, p. 14].

[3] As a recent study affirms, only 30% of new firms succeed in passing from the first to the second generation and among them, only 50% to the third generation [Piantoni, 1990].

whose control passed to the state [Pontarollo, 1983, pp. 50-55; Bruno and Segreto, 1996, pp. 574-578].

Ad hoc legislation, such as Law 655 of 1977 confirmed this turn of events by closely integrating the activities of public enterprises with the objectives of industrial restructuring and by subordinating the finance of public holding company programs to the approval of a political body – the Interministerial Council for Industrial Planning. Thus, the amount of financing for public holding companies went from an average of 350 million lire in 1973 to 3,200 million lire per year between 1978 and 1984, with a strong growth trend. Rather than constituting an instrument to assist in a difficult and uncertain reorganization that would have had severe consequences in terms of employment, these financial operations were an additional factor of distortion and inefficient allocation of resources, as well as a weakening of the potential of the public groups [Pent Fornengo, 1986].

Some of these problems also underlay the decision of IRI and ENI to leave Montedison between 1980 and 1981 [Marchi and Marchionatti, 1992, pp. 160-166; Tamburini, 1992, pp. 206-210; Galli, 1995, pp. 144-145]. If the chemical industry continued to be one of the sectors – if not the only one – that measured the balance of forces between public and private, clearly the return of the chemical colossus to the private sector was a point in its favor. In the next twelve years a ruthless battle was fought around Montedison (including two suicides)[4] – first within the realm of private enterprise, then between public and private enterprise, and finally again in private enterprise.

Controlled by a financial institution, Gemina, whose most prominent shareholders were FIAT and Mediobanca, along with some other major entrepreneurs and financiers, Montedison briefly became the owner of itself in 1985. Theorizing about the idea of a public company, then president Mario Schimberni, assisted by the atmosphere of euphoria that characterized the Italian stock market in the mid-1980s, had succeeded through a shrewd financial operation in gaining control with company money of some enterprises included among his own shareholders. The dream of the public company "made in Italy" endured for little more than a year and a half. In March 1987 the Ferruzzi group, a world leader in grain trading and the first Italian agro-industrial group, became the new majority shareholder of the company [Marchi and Marchionatti, 1992, pp. 244-247; Peruzzi, 1987, pp. 143-187; Bruno and Segreto, 1996, pp. 634-637].

Having won the battle for control and management of the company, the Ferruzzi group then had to deal with the fundamental problems of the Italian chemical industry. The sector required rationalization to overcome the large production surpluses and over-specialization in the basic chemical industry. State incentives particularly generous toward chemical enterprises had led to a

[4] In 1993 Raul Gardini, who was until 1991 the head of the Ferruzzi Group, the owner of Montedison, committed suicide, as did Gabriele Cagliari, the chief executive officer of ENI, the state holding for the oil and petrochemical industry, while in jail.

rush to invest and the opening of plants that were mostly destined to remain inactive, especially in Southern Italy. The most important decision was made in May 1988 with ENI: the establishment of a joint venture between the two companies, Enimont, which was supposed to guarantee the new Italian chemical colossus a leading position in Europe for seven product lines and co-leadership for another three [Bruno and Segreto, 1996, pp. 680-685].

This operation, which would have provided Italy with a chemical sector that was internationally competitive and brought an end to the almost thirty-year "war of the chemical industry," was undermined from the beginning by an irremediable conflict. Montedison did not bring any of its top-level production to Enimont, thus essentially recreating the situation of competition that the cooperation with ENI was designed to avoid. Conflicts between the two shareholders and managements rapidly led to a paralysis of the company. With the fading of the dream of the Ferruzzi group and Montedison of carrying out a process of integration in the Italian chemical industry under private management but with public financing, the joint venture was dissolved. The private partner was paid off with a generous grant of public money (which was then partly diverted to government parties in the form of a major kickback, representing the focal point of the most famous trial in the so-called "Clean Hands" inquiry during the 1990s) [Bruno and Segreto, 1996, pp. 664-669; Magatti, 1996; Tribunale penale di Milano, 1997]. ENI had to settle its accounts with only what it had inherited from Enimont – many obsolete facilities and a high level of debt. The result was two entities that operated in two distinctly different segments of the chemical market: Enichem for ethylene (the leading producer in Europe) and polyethylene (among the top producers on the Continent) and Montecatini for polypropylene and fluoroderivatives (the leading producer in the world) [Giorgi Ronchi, 1994].

The debt crisis of the Ferruzzi group prevented the family from continuing in the role of pivotal shareholder. The program of recovery from severe indebtedness (about 30,000 billion lire) was drawn up by Mediobanca between 1993 to 1994. In September 1994 the same merchant bank launched a merger program that should have united the chemical facilities of Montedison and Snia Bpd under a single enterprise controlled by the holding company Gemina, with FIAT and Mediobanca as the most important shareholders. The project, called SuperGemina, failed after the discovery of a large hole in the finances of Rizzoli-Corriere della Sera, a publishing subsidiary of Gemina [Bruno and Segreto, 1996, pp. 634-636].

This event underscored Mediobanca's tendency to define programs of financial engineering that had little rationality on the industrial level. However, the failure of the project brought the highest leaders of private Italian capitalism together on at least one point: the growing need for a series of regulations for transparency in economic activity. The privatization of public enterprises and the judicial turmoil over the SuperGemina affair had in common the positive influence of external constraint on two levels. On one hand, for Italy the development of European integration meant the adoption of an increasing amount of normative and regulatory behaviors that were defined in Brussels and their progressive preponderance over national disciplines in many fields. On the other hand, the concrete activity of the new "internal European market" brought new challenges to national economies and single economic interests, both public and private [Guerrieri, Manzocchi, and Padoan, 1994]. Within this context, regulations were enacted between 1991 and 1994 governing brokerage firms, insider trading, takeover bids, and investment trusts [Cassese, 1995, pp. 186-187]. However, as a result of the external constraint some important steps were taken. First, between 1992 and 1993 decisions were made concerning the liquidation of EFIM with a government appropriation of 9,000 billion lire to guarantee the payment of debts, many of which were with foreign financial institutions (after an agreement with the European Commission) [Tordi and Bemporad, 1995]. In 1992 a law was passed for the transformation of IRI, ENI, and ENEL into joint-stock companies, and above all, the beginning of privatization in both the industrial enterprises and the large banks (Banca Commerciale and Credito Italiano) owned by IRI, the founder and still shareholder of Mediobanca, as well as the privatization of the largest medium-term credit institution, IMI [Corsetti and Rey, 1994; Macchiati, 1996; Cavazzuti, 1996].

As difficult and controversial a choice as it may be, Italy has clearly opted to move in the direction of an essential convergence and progressive integration with the rest of Europe. It is quite significant that this process has resulted in proposals to return to the economic scene the universal bank, which was the instrument that permitted Italy to enter into the small group of industrialized countries between the end of the nineteenth century and the beginning of World War I. Its decline, which lasted sixty years, corresponded to a long period of Italian capitalism in which the public and private players in the economy had alternated in the role of protagonist. But they often made their own rules (such as unsecured public financing) for a game that could be played only in their own backyard. The return of the universal bank is occurring in an era when rules are written and observed for a much larger group of players who can freely enter into the Italy's backyard [Predieri, 1996; Bruno and Segreto, 1996, pp. 509-511].

One of the tasks of these "old-new" banks will be to carry out the role of financial brain that they were forced to delegate to Mediobanca in 1946. However, it must be remembered that a simple financial solution to basic industrial problems is not necessarily a real and lasting solution. This will take time, because bankers who are able to collaborate with enterprises in defining industrial and financial strategies are not improvisers. But if they do succeed, new prospects might be opened up to Italy, and perhaps there may be room for another economic miracle.

The base for this new phase of the Italian economy is, according to several opinions, the small and medium-size firm. When, at the beginning of the 1970s, the economic crisis was deeply affecting the big private groups and paving the route for the indebtedness of the state-controlled firms, the strategy chosen by many private firms was decentralization [Barca and Magnani, 1989;

Frey, 1974; Bruno, 1995; Trigilia, 1995; Saba, 1995; Brusco and Paba, 1997]. In the long-run confrontation between public and private in Italian capitalism, many scholars consider the small and medium-size firm the very symbol of the victory of the private over the public. In reality, however, the success of the "Mittelstand" is due in part to a wide and articulated state policy in its favor. That strategy began in the late 1940s and was never abandoned. The small and middle-size firms were (and are) favored by to a long series of laws providing low-cost credit, fiscal interventions, and many incentives for industrial localization in various areas of the country.

The limits of the strength – or of the apparent victory – of the private over the public are very clear in the 1990s. Italy has succeeded in an enormous privatization process, probably the widest in the Western world [OCSE, 1995]. Nevertheless, that process has shown that some features of Italian capitalism are very deeply rooted and very difficult to modify: 1) the high concentration of economic power among a small number of groups [Bragantini, 1996]; and 2) the very low opportunity of the small and medium-size firm to open itself to external funding through access to the stock exchange. And this is a paradox, because all the previous constraints on private investment in shares by small investors seem to have disappeared, considering the increasingly low return on state bonds in the late 1990s.

If anyone thought, some years ago, that privatization would open a new phase in the history of Italian capitalism, present events will have changed his mind.[5] The conclusion of sixty years of struggle between public and private capitalism in Italy seems to have found only one winner: the family, regardless of whether its name is Agnelli or Brambilla.[6]

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[5] The discussion on the concentration of power by the new shareholders of Italian Telecom, with immense power held by FIAT, the largest industrial group of Italy, is the most classical and only the most recent example [Esposito, 1998; Panara, 1998; Marro, 1998].

[6] Brambilla is the most well-known nickname of the small entrepreneur of Northern Italy.

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