

# THE INFLUENCES OF MACRO-ENVIRONMENT AND WORK AND FIRM ORGANIZATION CHANGES. AN ANALYSIS OF ITALIAN PRODUCTIVE DECENTRALIZATION IN THE 1970S\*

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**Abstract:** The article focuses on the restructuring proces of productive decentralization of firms which took place in Italy in the 1970s, during which at country level and globally the formerly stable registered trends of fast economic growth, high capital accumulation and falling income inequalities became subverted, leading to a regime of slow growth, lower capital accumulation and growing income inequalities which currently prevails. Based mainly on the analysis of Italian literature, the paper aims to show how this restructuring process was first relevantly affected by changes in macroeconomic environment and then it significantly influenced the evolution of the very same macro-environment in which Italian firms operated. This reciprocal influence between firm restructuring and macroeconomic environment change therefore led to self-enhancing trends which, it can be argued, are still affecting, although partially, Italian economy even today. Thus it is argued that in the case of Italy, the productive decentralization process can be considered to be one of the most relevant factors supporting change in the macroeconomic trends occurring since the end of the 1970s. The conducted analysis can be also considered a useful case study of the reciprocal inter-linkages between firms' restructuring processes and the macroeconomic environment evolution, which can take place in any economic system.

**Keywords:** Italian economy, macroeconomics, firms restructuring, labour market.

*To determine the laws which regulate the distribution of income, is the principal problem in Political Economy*

David Ricardo, 1821, *Principles*, p. 5

## 1. Introduction

In former works the author has already addressed the matter of Piketty's [2014] work results and the problem of their interpretation on the basis of different theoretical approaches available in economics [Valente 2016]. The comparison of data collected and presented by Piketty about income inequalities and his own calculations of GDP growth rate based

on data from the Maddison database, suggests an overall better fit of an integrated Classical-Keynesian theoretical approach to the explanation of income distribution, economic growth and capital accumulation determination, rather than one based on mainstream theory.

This is a relevant element for management specialists because in the Classical-Keynesian framework of analysis, differently from the

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mainstream approach, income distribution which is assumed in both approaches to be one of the main forces driving capital accumulation (and thus economic growth), is considered to be strongly affected not only by economic forces but by the historical, social and political contexts appearing in a given country in a given moment in time as well (cf. e.g. [Garegnani 1983]). Through their effects on income distribution, these forces therefore, exert direct and indirect influences on both the short and long-term determinants of an economy's evolution, as, among others, investments, aggregate demand, unemployment, wages, capital accumulation and economic growth rate, and support the affirmation of self-reinforcing tendencies rather than the counterbalancing ones. Although less formalized on such a front than the mainstream micro-founded approach, even the Classical-Keynesian approach, as any sound approach to the explanation of evolution of an economy at aggregate level, cannot overlook the mechanisms justifying the affirmation of trends assumed in theory and registered in practice on the basis of single enterprises behavior and their freewill choices in an uncoordinated and independent context as that characterizing any market economy.

From this point of view it is interesting to note that the breaking point registered in all of the considered time series is clearly occurring in correspondence with the beginning or the end of the 1970s when relevant firm reorganization processes and changes were taking place in most of the Western countries in answer to the economic distress derived from both oil shocks and country specific internal conditions. Those firm and industrial reorganization processes, which were at the beginning different in each country and supported by different economic policies implemented in that period, can be considered to be a significant historical and economic factor affecting the dynamic of the relevant macroeconomic variables later registered in different economies and at a global level.

This article will thus focus on a particular case of such firm and overall industrial reorganization, namely the productive decentralization process which took place in Italy during the 1970s. It will try to draw, on one hand, a direct linkage between the overall environmental factors surrounding firms which were derived from both more general tendencies registered on a global scale, and country-specific factors and strategies adopted by Italian firms to cope with them. On the other hand, the work will address the influences that the adoption of such firm and industrial reorganization strategy had on the macroeconomic environment leading to a self-reinforcing spiral of relative advantages in production reorganization

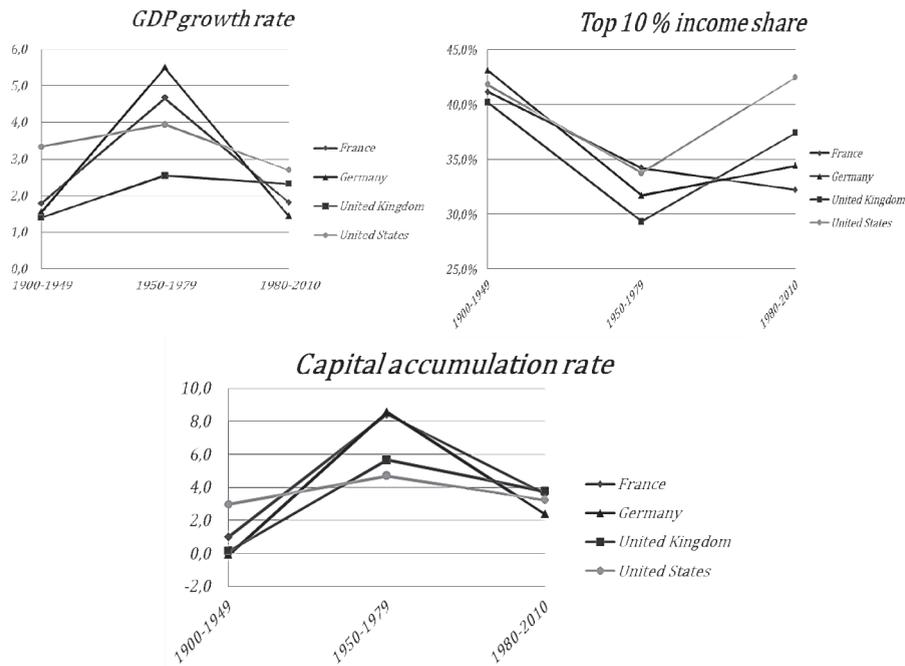
at firm level and changes in the aggregate context surrounding the firms.

Although being country specific, as any analysis based on a Classical approach open to actual historical, social and political forces influences has to be, the analyzed phenomenon and proposed theoretical instruments of analysis can be, however, suggestive and allow proposing some exemplificative elements that, after further development on both the empirical and theoretical side behind the aim of the article, could be a starting point to interpret the connection between the macro-environment evolution and the strategies adopted by firms in a wider set of concrete situations. The case of Italian productive decentralization can be, indeed, considered as an early example of firms' profit recovery strategy in a turbulent context of sinking demand, rising costs and increased concurrency through the transition from Fordistic production methods to much less capital intensive and elastic ones, recurring to externalization, outsourcing, flexible workforce management policies and delocalization (on a regional instead of an international level). According to the author, thus, the proposed theoretical instruments of analysis can be considered to be a useful example of how it is possible to link firm's reorganization process to the overall macroeconomic evolution of a given economy, providing some insight into the reciprocal influences both phenomena exert one on the other.

## **2. Some preliminary notes on different theoretical approaches to the evolution of economies and historical evidence from different countries**

Before delving into the analysis of the concrete case of the Italian productive decentralization process, it is worth presenting some of the reasons which lead the author to choose such a historically distant case and to draw attention to the connection between firm's restructuring process and the macro-environment which were registered in the analyzed period, and which are mainly twofold.

Firstly, it is worth noting that as already signaled in the introduction and clearly illustrated in Figure 1, the 1970s were a turning point in time series of all the main macroeconomic variables describing the evolution of an economy as already considered in the author's former works [Valente 2016], namely income inequalities level, average GDP growth rate and the physical capital accumulation rate. The data graphically presented in Figure 1 for the main market economies are moreover consistent with the general tendencies registered in the whole set of developed countries.



**Fig. 1.** Economic growth, income inequalities and capital accumulation in the 20th and 21st century

Source: own study on the basis of Piketty [2014] and the Maddison project datasets (cf. [Valente 2016]).

The decomposition of capital to GDP ratio evolution reveals moreover that the growth of values of assets like land and housing in periods of high inequalities is the main component leading to the growth of “capital” to GDP ratio in those periods, supporting the idea that it is the financial value of assets which grows faster rather than production when income and wealth are less evenly distributed [Galbraith 2014; Homburg 2014]. As already stressed in the literature, this can suggest that the clearly attested tendencies of the relative growth of intangible assets price in comparison to physical assets (cf. [Galbraith 2014; Homburg 2014 with Mikula, Pietruszka-Ortyl, 2010]) could have their roots in the events taking place in this period as well, being due to the lower profitability to invest in physical assets, to which income inequalities and falling economic growth rate are leading, while the total availability of wealth rises due to increased disparities in its distribution (cf. [Garegnani 2011; Piketty 2014; 2015]).

As is clearly demonstrated in the literature, the 1970s can therefore be considered as a turning point of political tendencies registered during the 20th century in most of the western countries and at a global level [Piketty 2014; Kunkel 2014].

Secondly, it has to be pointed out that former analysis stressed how the evolution of the previously described three sets of data during the whole of the 20th century constitutes a significant problem for the empirical confirmation of the validity of the assumptions of the

mainstream theory. The dynamic of those variables, instead, seem to be more in line with the Classical-Keynesian theoretical approach to the explanation of the interlinked evolution of income distribution, GDP growth rate and capital accumulation. This can be considered as a factor which gives rise to a second set of reasons, according to which it is worth both to draw attention to the particular situation registered in the 1970s in different countries and to analyse the specific historical, political, social and economic phenomena which took place in each of them. While the former analysis confirmed that GDP growth rate and capital accumulation can be mainly explained recurring to a Post-Keynesian or Kaleckian framework of analysis in which initial shocks affecting aggregate demand in the short-run can exert, through variously conceived and modelled acceleration mechanisms, relevant and long-lasting effects on investment, capital accumulation and GDP growth rate, leading to the affirmation of long-run path-dependency tendencies of all the named variables from their own and others variables levels registered in the past, one of the main forces driving such mechanisms has to be sought in the factors influencing income distribution (cf. e.g. [Kalecki 1956; 1968; Garegnani 1962; 1982; 1992; Bhaduri, Marglin 1990; Onaran, Stockhammer 2001a; 2001b; Petri 2003; 2011; Onaran, Galanis 2012; Lavoie, Stockhammer 2012]). Thus, the possibility to consider as appropriate the proposed theoretical explanation has to rely significantly on the analysis

of forces influencing income distribution and offsetting counterbalancing forces, which according to the mainstream, or rather neoclassical, theoretical approach to the determination of productive factors remuneration, could be assumed to contrast the functioning of such mechanisms.

On this side, the Classical theory derived elements of the proposed theoretical interpretation of the long-term evolution of the considered variables becomes relevant and, with it, the soundness of the analysis of the more general economic, social, political and historical framework in which those events took place becomes crucial. As shown in the scheme below, in Classical theory, indeed, although being influenced by economic factors, income distribution, wages and profit rate are relevantly affected by historical, political and social factors as well.

In this area we have, then, that an element often recalled in different papers and publications of post-Keynesian authors, based either on variously named mechanisms of Smith's or Marx's industrial reserve army function of the unemployed or the validity of Okun's law or Phillips curve, is that they assume a reasonable, and often verified in practice, negative dependence on union's bargaining power and wages rises from rises in unemployment [Bhaduri, Marglin 1990; Onaran, Stockhammer 2001a; 2001b; Onaran, Galanis 2012; Lavoie, Stockhammer 2012]. In short, then, a basic element of the transmission of short-term shocks affecting aggregate demand, partially reinforcing the recalled acceleration mechanisms and independently justifying path-dependency, is that wages tend to fall or rise less when recession hits and higher unemployment is registered. Through being both assumed and demonstrated to be one of the factors supporting a higher average profit rate, capital accumulation and economic growth due to its positive effect on aggregate demand and firms sales and production possibilities, the wage dynamic can be pointed out to be one of the main factors which has to be analysed [Garegnani 1962; Onaran, Stockhammer 2001a, 2001b; Onaran, Galanis 2012]. The fact that in the 1970s relevant industrial and firm restructuring process were taking place, turns out then to be one of the most relevant phenomena which could affect unemployment, wages and the overall labour market evolution in different countries and can be shown as one of the most fruitful areas in which a sound analysis of the reasons why initial shocks linked with the oil crises led to the overall and long-lasting change of the trends formerly registered in the main market economies since the end of the second world war, can be based on. The present analysis will try to draw a theoretical connection of how productive

decentralization process affected the long-term evolution of the Italian labour market and the whole economy in subsequent decades, giving rise to a relative comparative advantage for firms to develop and adopt strategies relying upon:

1. Price rises – which were at first not inconsistent with export-oriented strategies, since they were offset by the systematic exchange rate depreciation policies adopted by the Italian authorities while a fluctuating exchange rate regime was in place.
2. The adoption of labour-intensive productive techniques.
3. The containment of labour costs and wage rises.
4. The parceling of the productive process and reduction of firm's size so as to avoid both stronger trade unions bargaining power in larger companies and the stricter limits imposed onto work organization, recourse to overtime and collective firing in firms employing more than 15 workers by the Italian law.

It will be, moreover, argued that such tendencies worsened in the long-run the problems Italian firms were facing, once the competitive devaluation of the lira was not anymore an available instrument, locking them in the further adoption of such strategies and causing an overall problem of competitiveness of both Italian companies and the economy in the long run.

### **3. The Italian situation and the general context: the forces setting up need for industrial reorganization and some basic instruments to analyse them**

As can be easily said based on whatever any of economic history, the 1970s were in many respects a remarkable conundrum of exceptional events affecting both economies and firms. Although not exhaustive, according to the available literature, the main factors considered in this analysis of the specific situation in this period in Italy were in particular:

- the appearance of the first oil shock and the rise of raw materials and energy prices, and the shrinking of effective demand due to recession in both domestic and export markets [Vianello 1975; Graziani 1998],
- the breakdown of the Bretton Woods fixed exchange rates system, the significant instability of the Italian currency and the affirmation of an economic policy mix based on: 1) tolerance for high inflation, 2) the complete recovery of wages purchasing power parity through the adoption of a trimestral 100 % indexing of the salary to inflation mechanism, 3) the systematic devaluation of the Italian currency as to neutralize the negative

effects of inflation on exports [Graziani 1998; Ricci 2004],

- the occurrence of raising labour costs due to the exceptional wave of strikes and successful trade unions claims both concerning pay and wages as well as work organization's control by workers representatives [Vianello 1975; Graziani 1998; Ricci 2004], that can be seen as directly depending upon both the former achievement of full employment, which, as stressed in the literature [De Cecco 1972; Graziani 1998; Ricci 2004], in the Italian case was expressively reached in the middle age groups in the industrialized regions among males, and the increase of bargaining power of trade unions even in the presence of stagnation of demand and production and increasing unemployment [Vianello 1975; Graziani 1998]. All this can be reconnected to the already mentioned, and further on better explained, phenomenon of labour market segmentation .

Before coming to a short presentation of all those events and their reasons, it is however worth noticing that all these factors can be clearly considered a concrete threat to the revenues and profit margins of Italian firms on the basis of an easy analytical tool, such as a particular formulation of microeconomic based unitary net profit margin function, which was re-elaborated by the author on the basis of the different profit function formulations proposed in Vianello [1975]. As a means to interpret and assess the effects such events could exert on firms, leading them to rethink the development and management strategies they previously generally adopted in a formerly fast-growing and catching up economy as the Italian one was at the time [Graziani 1998; Ricci 2004], we can easily recur to the lower proposed specification of net unitary profit function:

$$\pi_u = p_u - \frac{w_u}{dY/dN} - \frac{p_{u,i}}{dY/dI} - \frac{k}{Y}.$$

Where the net unitary profit [ $\pi_u$ ] is expressed as a function of the difference between unitary price [ $p_u$ ], on one hand, and the sum of variable unitary labour [ $w_u$ ] and unitary input [ $p_{u,i}$ ] costs divided by those factors productivity [respectively,  $dY/dN$  and  $dY/dI$ ] and the reduction of unitary fix costs (mainly capital) per unit of product [ $k/Y$ ], which can be expressed as the ratio of fixed costs [ $k$ ] to sales [ $Y$ ]. The above presented functions, then, stress how profit both at firm as well as at aggregate level is positively dependent on price rises, increases in the inputs (both labour and raw materials) productivity and increases of production volume, while it depends negatively on wages, raw material and fixed costs rises. It is,

then, worth focusing briefly on how the effects of the previously recalled phenomena characterizing the situation registered in the Italian economy in the 1970s on firms' profit can be analysed, mainly considering their influences on the above mentioned variables affecting it.

Next it is worth considering that the first specific factor negatively affecting Italian firm's profit margins and calling for methods to recover them were rising prices of raw materials, oil and energy due to the rather historical and political events which led to the OPEC decision to quadruplicate the oil price in reaction to the Yon Kippur war [Graziani 1998; Ricci 2004]. The higher raw materials costs were, moreover, much a much bigger problem for the Italian economy and Italian firms than they were for other countries, which however were significantly affected by them, due to the fact that, on the one hand, Italy was, and in many respects still is, a net importer of raw materials and lacks any relevant domestic primary or alternative source of them and, on the other hand, exports of Italian firms relatively relied much more on cost competitiveness than other countries, for example Germany [Graziani 1998; Garofali 2010]. In comparison with other countries, the steeply rising oil prices, paralleled by growing prices of other raw materials on the international markets which was already taking place before the first oil shock, led to the appearance of inflation already registered in Italy since 1972 [Graziani 1998]. This was not beneficial for any branch of the Italian economy and posed a relevant threat for external equilibrium due to the need to cover the increased imports value with either higher exports or higher net capital inflows from abroad to keep the balance of payments in equilibrium. This already critical situation for the Italian economy and firms was, furthermore, worsened by two other factors:

1. the US dollar devaluation policies adopted by Nixon since 1971, which led to a contraction of competitiveness of European goods both in domestic markets as well as in the US and third countries [Cameron 2002];
2. the fact that other European countries, and in particular Germany, which was one of the main export partners for Italy, reacted to rising oil and other raw materials price rises by adopting restrictive policies, negatively affecting imports and household disposable income, and aggregate demand as well [Graziani 1998].

Thus Italian firms and the economy faced at the same time skyrocketing growth in inputs and imports prices and sharp fall of export possibilities.

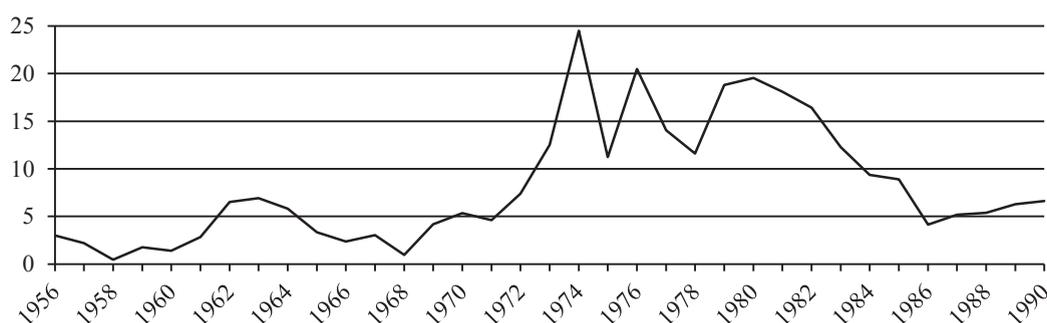
From 1974, this contraction of the external market was, moreover, paralleled by a set of restrictive policies adopted by Italian governments, reducing public expenses, introducing a new taxation system, which was negatively affecting household and consumers disposable income, and adopting credit contraction policies as increases in the legal discount rate and the introduction of stricter upper limits to lending in the banking sector [Graziani 1998]. These overall restrictive choices of economic policy were, furthermore, continued in the following years through the adoption of additional measures of the same kind, which although reducing domestic demand, did not however affect significantly inflation – which reached almost 25% in 1974 and, as shown in Figure 2, continued to stay in double figures during the entire 1970s and the first part of the 1980s – due to the specific policy mix and exchange rate policy implemented by the Italian authorities in that period and fostering the so-called “inflation-devaluation spiral” [Ricci 2004] discussed in more detail in the further parts of this article.

Summing up, even domestic demand was shrinking as can be clearly seen considering the affirmation of stagflation tendencies, the fall in GDP recorded in 1975 and the slowdown of economic growth in Italy in comparison with the former 1955-1963 period of fast-growth which characterized the country during the so-called “economic miracle” [Graziani 1998; Cameron 2002; Ricci 2004].

A second effect of the first oil shock and the political response to it adopted both at national and international level was thus considered the fall in sales opportunities and volume of production, which was negatively affecting all Italian firms and, especially those adopting higher fixed costs methods of production or located in more capital intensive branches, i.e. mainly bigger firms engaged in durable

goods production, which adopted extensively Fordistic production methods in former decades.

It is worth noting, moreover, that Italian firms, as they already did in former cases briefly presented further on in this article, at first reacted to rising costs by increasing prices. This in turn led to a fall in the competitiveness of Italian exports, which was already [Graziani 1998] or became specialized, as a consequence of the adopted strategies and policies [Vianello 1975; Ricci 2004], particularly in light industry branches and low technology-heavy productions, which were highly responsive to price changes, which called for the adoption of an exchange rate devaluation policy. The depreciation of the lira and the exit from the Bretton Woods fixed exchange system in February 1973 was, moreover, justified and deemed necessary by Italian authorities due to the fact, that as signaled in the literature, Italy was for various reasons experiencing both before, during and after the oil shock, capital outflows rather than capital inflows [Graziani 1998]. Counterbalancing the current account deficits – caused by both growing imports and export stagnation – through increases in incoming capital flows, as was attempted in response to a similar situation in the United Kingdom, was not then an available option for Italy [Graziani 1998]. This was due partially to internal factors and the policies adopted by the Italian authorities as well as to external ones. Indeed in 1976, the IMF discouraged American banks from according to Italy new loans, considering the country as particularly unstable and risky, while the progressive and widely foreseen devaluation of the Italian exchange rate against other currencies generated capital gains even for domestic investors, who were allocating their own resources on foreign markets or in foreign currency [Graziani, Meloni 1973; Pivetti 1979; Graziani 1998]. It can also be pointed out that already on previous occasions,



**Fig. 2.** Inflation in Italy in the 1956-1990 period, CPI annual variation rate in percentages

Source: own study on the basis of inflation.eu data, <http://it.inflation.eu/tassi-di-inflazione/italia/inflazione-storica/cpi-inflazione-italia.aspx>.

when in 1961-1962 production costs rises took place due to a recovery of wage share, Italian firms reacted to cost rises by increasing prices and capital outflows [Vianello 1975; Graziani 1998; Ricci 2004]. These trends were paralleled in 1963 by the adoption of economic policies supporting and reinforcing such tendencies by the Italian Central Bank and the government. Capital outflows, which under the then still operating Bretton Woods rules were illegal and strictly limited [Ricci 2004], were, then, not opposed by Italian authorities [Graziani 1998], which did not adopt any measure to actually block them at the start and then recurred, instead, to deflationary policy, demand and employment contraction so as to increase unemployment, weaken trade unions bargaining power, and counter wage rises. In the literature such a decision was contested and harshly criticised, showing that Italian authorities – both when they autonomously caused the 1964-1965 slowdown ending the till then successful Italian economy catching up process, and when facing the 1968-1969 trade unions struggle and the subsequent recession linked with the first oil shock in the 1970s – were rather committed to maintaining the balance of payment equilibrium and defending the previously prevailing income distribution than to support and stabilize the development process on a solid basis [Vianello 1975; Graziani 1998; Ricci 2004]. As stressed by various authors (cf. e.g. [Graziani, 1998 and Ricci 2004 with Eckaus 1955; Lutz 1958; 1962; Spaventa 1959; Fuà 1976; 1977]), although successful in the absolute level of income and the growth it led to, the whole Italian catching-up process was affected by a significant dual problem. The choice of recurring to deflation in 1963 and a policy mix of tolerance for high inflation rates, wages 100% index linked since 1975, and the progressive devaluation of the exchange rate since 1973 by the Italian authorities – as well as the later removal of wage indexing in the 1980s when changes in the international environment forced them to renounce one of the chosen policies mix instruments that were adopted in the seventies – did not help at all in overcoming such a problem and instead probably led to its deepening and consolidation in further decades [Graziani 1998; Ricci 2004]. This is still affecting the Italian economy nowadays, although very indirectly.

Although variously presented and debated in the Italian literature of the time (cf. e.g. [Eckaus 1955; Lutz 1958; 1962; Spaventa 1959; Fuà 1976; 1977]), the Italian dual scheme of development which prevailed as a result of the economic miracle can be, indeed, summed up in short [Graziani 1998] as depending on the contemporary development of: 1) a highly competitive export oriented sector dominated by big firms producing luxury and

durable goods, which were not much in line with the actual needs of the Italian internal market and Italian income levels, which, although improving, were still not able to sustain appropriately production volumes of such goods as those registered in Italy in that period; 2) the presence of a widespread lagging behind the lower productivity sector dominated by smaller firms supported by different kind of public protectionism, subsidies and even by political patronage and nepotism [Graziani 1998; Ricci 2004]. Those smaller firms were, instead, producing basic and primary consumption goods using much more labour-intensive techniques of production than those dominating in export-oriented firms, and were relying on low labour costs rather than on innovation, capital accumulation or total productivity improvement strategies as the key factor of their success, and finding their main strength in the long-lasting availability of a cheap workforce in the Italian work market [Ricci 2004]. The preference of the authorities for achieving external equilibrium and the unqualified defense of profit recovery strategies without incentivizing any reorientation of productive system can be thus considered as one of their main faults. It can be, indeed stressed, that in the worsening international context prevailing in the seventies, the achievement of reorientation from rent-seeking and scarcely competitive sectors to more competitive ones of the whole Italian productive system, needed exactly the creation of an alternative domestic sales market for the luxury and more advanced goods the export-oriented firms were producing. On the demand side, the creation of such a market could not in turn be independent from the spreading of higher wages, clearly costly in the short run but fruitful once a longer timeframe is considered, which were initially achieved through union struggle and were then at first opposed, later sterilized, and finally once again contrasted through the private firm choices and policy mix supported by Italian authorities interventions – such as in 1963 through the deflationary policy, in the 1970s through the lira devaluation and tolerance for high inflation and the affirmation of an inflation-devaluation spiral [Vianello 1975; Graziani 1998], and finally progressively cancelled in the 1980s through the removal of wage indexing while high inflation rates were still observed. On the supply side, higher average labour costs generated by wage rises and income redistribution, could have supported in the longer run a restructuration process which could have led to the affirmation of higher productivity and more innovation-heavy techniques could indeed be assumed to have been gaining a comparative advantage over low productivity and labor intensive ones, if those very changes in labor cost would have not been condemned to be completely irrelevant for firms' decisions through

the very specific economic policy mix chosen by Italian government and central bank.

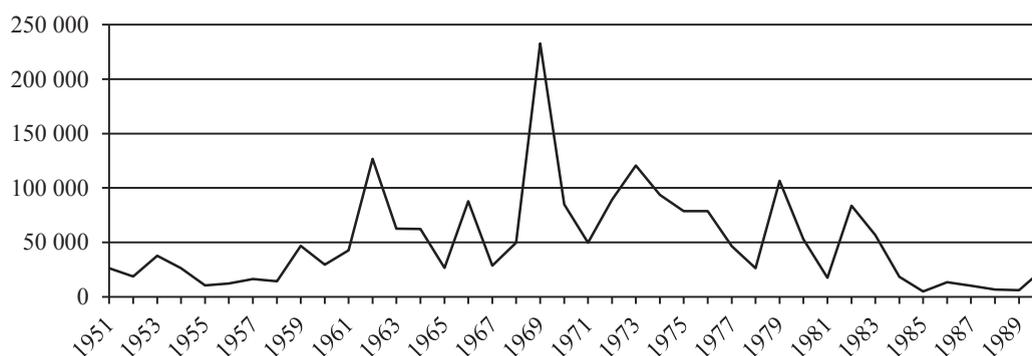
The policy mix adopted by the Italian authorities, however, relied on mechanisms defined as an inflation-devaluation spiral or a “crawling” devaluation policy [Ricci 2004] on the basis of which:

- both increased inputs costs due to the oil shock and the initial wage and salary rises – achieved after a significant wave of strikes and unions unrest in the “hot autumn” of 1969 and during the whole of the 1970s – were followed by price rises and inflation,
- inflation effects on the balance of payments were, then sterilized through the differential devaluation of the exchange rate, fine-tuned by Italian policy makers to achieve appreciation against the dollar, cheaper imports prices while at the same time supporting price competitiveness of Italian goods on foreign markets via the depreciation of the national currency against the German mark and the currencies of other European countries on which Italian exports depended much more significantly a;
- the very same price increases which affected income distribution, salaries and wage purchasing power on the domestic market, were once again annulled by the automatic increases of wages through the indexing mechanism.

Once the complete index linking of salary and disincentives to trade union commitment to fight for pay rises had been adopted since 1975, it had become clear that since adopting the flexible exchange rate regime in 1973, the Italian Central Bank and government would have supported whatever

devaluation of exchange rate needed to adapt to prices rises decided by firms, whatever strategy of profit recovery based on increased investment in innovation, technology and productivity increases should have, thus, appeared to Italian firms as completely useless and not ensuring any comparative advantage over competitors relying on price rises. Such a policy mix, indeed, gave Italian firms the possibility to effectively rely on price increase strategies with the almost complete certainty that they would not be causing external or internal loss of competitiveness. They could, moreover, rely on the fact that price rises would not have been countered by economic policy interventions or trade unions opposition, leaving them free to focus on other methods to recover initial losses of profit margin caused by the oil shocks and workers unrest in 1968 and 1969. Before coming to the actual discussion of how productive decentralization process was, the main instrument which supported the achievement of such a result [Vianello 1975; Graziani 1998; Ricci 2004], it is worth briefly present and discuss how this last factor, and more generally the conditions registered in the Italian labour market, were supporting the affirmation of such a strategy by Italian firms.

Finally, a very relevant phenomenon Italian firms were facing during the seventies was the increase of labour costs in larger firms. The phenomena was a direct effect of the vast number of strikes, demonstrations and various forms of struggle the workers organizations adopted since 1969, known in Italian history as “the hot autumn of ‘69”. As recalled in the literature [Graziani 1998], and shown in Figure 3, even when compared



**Fig. 3.** Working hours lost in the industrial sector due to strikes, 1951-1990 in thousands

Source: own study on the basis of Banca d'Italia time series (cf. [Graziani 1998, Fig. 5, p. 90]).

<sup>1</sup> As pointed out in the literature [Basevi et al. 1980; Zezza 1987; Graziani 1998; Ricci 2004], such fine-tuning of the exchange rate policy was possible due to the relative appreciation of the German mark against the US dollar so that, until the US currency did not start to appreciate after the second oil shock in 1979, devaluing against the mark and appreciating against the dollar, was a really fruitful option for Italy due to the fact that imports were mainly paid in dollars, while due the Italian foreign trade structure, dollar-priced goods were less relevant on the export side than on import side, and Italian exports were mainly paid for in West German marks or other European currencies. In short, it was then possible to get at the same time and by means of the same exchange rate policy, lower value of imports and higher value of exports in national currency terms even without a change of absolute volumes.

to periods formerly considered as characterized by sharp conflict and trade union struggles as 1962, the number of working hours lost due to strikes only in the industrial sector were astonishingly high. In 1969 over 200 million hours were lost due to strikes compared to 113 million in 1962. For the whole of the 1970s, the numbers of lost working hours in the industrial sector due to strikes remained in most cases higher than the levels registered in the economic miracle period and after 1983-1985.

Although directly causing wage rises, the 1969 and 1970s unions struggles were also aimed at gaining control and improving from their point of view the different legal and work organization norms which were considered by workers organizations as being particularly problematic on the basis of the particular way in which enterprises previously reacted to the 1961-1962 wage rises during the whole 1964-1969 period [Vianello 1975].

Before the productive decentralization process took place as a combined reaction to the joint effect of the 1969 workers struggles, the first oil shock and the end of the Bretton Woods fixed exchange rate system, Italian firms, answered the 1961-1962 wave of strikes through a production restructuration mainly realized inside the firms and without resorting to Fordistic methods of production [Vianello 1975; Graziani 1998]. Without going into too much detail about this process – only marginally linked to this article's aims – in the literature [Vianello 1975; Graziani 1998], it is shown that before the productive decentralization process, in the 1964-1969 period Italian entrepreneurs focused on recovering profit margins through a completely different and in some respects even opposite strategy, which was not at all questioning the formerly adopted methods of production nor both the vertical and horizontal integration process in larger firms. Other than by the already mentioned price rises and restrictive monetary policy adopted by the Italian Central Bank, the 1964-1969 period was, as a matter of fact, at firm level characterized by:

- a process of the concentration of both production and employment in fewer big plants [Vianello 1975],
- significant work and production reorganization, which led to significant job cuts in industrial sector and increases of productivity although stagnation in private investments was meanwhile registered [Vianello 1975; Graziani 1998; Ricci 2004],
- an intensification of work patterns and widespread recourse to overtime and work effort incentives to achieve higher volumes of production without hiring new workers [Vianello 1975; Graziani 1998],
- the replacement of marginal employees such as women, older and younger workers with middle-aged groups males, who were assumed to be – and often objectively were – better suited for the intensified work effort required by such a production process restructuration strategy [De Cecco 1972].

As a direct answer to such a reorganization process, we find that among the extra-pay aims of workers struggle in 1969 there were exactly the reduction of work patterns and an improvement of work environment, the limitation in the use of unjustified workers' transfers between different departments and plants of the same firm, as well as the introduction of stricter limits in the use of overtime work and piecework without trade unions' agreement [Vianello 1975]. It is also worth pointing out that a double level of negotiation between employers and worker organization was in place during the period [Graziani 1998]. While on a firm and/or plant level these aims were pursued by representatives of workers chosen directly by them from among their colleagues, a second level of struggle was carried forward by the more politically engaged trade unions representatives at regional and national level. In part not to lose influence over lower-level unions' members, these higher level union representatives engaged then in the so-called "strikes for reforms", focusing more on improvement in general working class conditions through investments in underdeveloped areas, improvement in public services, civil rights, etc. [Graziani 1998]. The results, particularly at the level of the single firm were clearly partially different in each firm and industry branch due to the specific context and the way in which they took place. It is worth noting however, that besides wage rises the 1969 season led to significant improvement in workers' rights recognized in the Workers' Rights Statute in 1970, which among others introduced the following norms:

- the limitation of unjustified transfers, which were formerly used in many cases and perceived as an instrument of punishment and blackmail rather than as a human resource management tool used to adapt work force availability to actual production needs [Vianello 1975];
- the recognition of 150 hours per year of paid leave for education and professional qualification for every worker [Graziani 1998];
- protection from unjustified individual firing in larger firms<sup>2</sup> with the introduction of worker's right to reintegration in the workplace in case

<sup>2</sup> Firms employing more than 15 workers.

firing took place for reasons recognized by work tribunals as personal harassment or discrimination for political views or engagement in union activities;<sup>3</sup>

- the removal of the so-called “salary cages” mechanism, i.e. the wage differentiation between the employees from North and South of the same industrial branch and even firm, allowing enterprises to pay wages below the national minimal contractual level to employees working in the less developed Southern Italian regions [Graziani 1998];
- in the still lasting absence of any form of minimal wage in Italy, the introduction of a national sectorial wage for workers of a given category and with equal qualification set as the minimum legal wage on a national level through the centralized periodical bargaining between entrepreneurs and workers organizations.

It is worth noting, moreover, that the strong engagement of workers and their organizations to maintain achieved improvement in working conditions in bigger firms as well to achieve higher wages was largely supported by the segmentation of the Italian labour market, which the previous firm and industrial

reorganization process implementation in 1964-1969 period supported [De Cecco 1972; Graziani 1998], and the particular effects the productive decentralization process had on it. It can be firstly pointed out that the 1964-1969 reorganization process had led to the significant expulsion of the so-called in the literature “marginal workers” meaning younger and older males and females from the work force employed in bigger firms [De Cecco 1972; Graziani 1998; Ricci 2004]. The reorganization process and work patterns’ intensification had, moreover, being caused by the 1969 complete reabsorption of unemployment in middle age groups of males in the highly industrialized Northern Italian regions,<sup>4</sup> reproducing once again the situation which had provided the basis for the wage rise struggles in 1961-1962 [De Cecco 1972, Ricci 2004]. Unemployment mainly affected the marginal workers who as stressed once again by De Cecco [1972], Graziani [1998] and Ricci [2004] were excluded from being hired in larger factories, exacerbating the signaled problem of labour market segmentation taking place in those years in Italy (cf. e.g. [De Cecco 1972; Paci 1972; Salvati 1973; Mantovani 1973; Vianello 1975; Graziani 1998; Ricci 2004]). As clearly stressed by Vianello [1975]

**Table 1.** Some macroeconomic variables in the 60’s and early 70’s in Italy

	Prices variation	Wage growth	Productivity growth	Investment growth	Unemployment rate
1961	-0.2	7.0	5.4	18.9	3.4
1962	1.5	15.3	7.9	12.1	3.0
1963	4.8	16.8	6.0	8.7	2.5
1964	4.4	11.1	6.7	-20.1	2.7
1965	0.9	7.3	---	-20.7	3.6
1966	1.4	3.9	6.3	10.4	3.9
1967	0.0	6.0	3.5	13.5	3.5
1968	0.0	4.7	3.4	10.7	3.5
1969	3.5	9.9	2.5	11.0	3.4
1970	7.9	23.9	3.8	13.2	3.1
1971	3.6	16.0	4.2	1.5	3.2
1972	3.0	12.1	8.4	-0.3	3.7
1973	25.3	21.2	12.3	17.0	3.5

Source: author’s elaboration of the basis of [Vianello 1975, Table 1, p. 123].

<sup>3</sup> It can seem nowadays obvious that such a right of non-harassment in the workplace on the basis of political or personal orientation should be enforced by central government as a sound practice supporting democracy and freedom of thought. However, although the economy was growing fast during the Italian economic miracle, until the 1970s workers’ rights, as many other legal system’s elements, still did not enjoy much improvement in comparison to former rules adopted under Fascism – which clearly were not very liberal on civil right front as those adopted by dictatorships and authoritarian regimes of any colour. Cases of firms’ internal intelligence through informers, supervisors and human resources personnel and the classification of workers on the basis of political orientation were still practiced in the Italian labour market at the time, as clearly pointed out for example by the much debated in the newspapers of the period “workers political orientation folders” case, which took place in one of the leading and most renowned Italian firms such as FIAT.

<sup>4</sup> Graziani [1998] points to a rise in employment in manufacturing in northern regions of 6.4% in 1967-1971 which, when added to the marginal workers substitution phenomena and the former achievement of full employment in those very regions and sectors at the start of the sixties, can explain the logic of the phenomenon better than unfortunately the presently unavailable data about unemployment by age group, affected also by the change in the measurement method exactly in the mid-1970s.

and shown in the table below, in such a situation rises of unemployment were no longer stopping wage rises after 1969.

Rather than focusing on work market segmentation, whose relevance he explicitly negates, Vianello [1975] points out that, differently than after 1963, the similar unemployment rates registered in Italy in 1963-1967 and 1971-1973 were the result of two different kinds of situations. The restructuring process which took place after 1963 caused absolute fall in employment and loss of work places, which in the following years effectively prevented wages from rising more than the sum of the price and productivity increases, thus allowing profit recovery and the overall stability of pre-1963 income distribution. The unemployment rate increases experienced in the early 1970s were, on the contrary, the effect of increased work force availability rather than of the absolute decrease of employed and dismissed. As a matter of fact, employment stayed substantially stable in absolute numbers in 1969-1973 so that the unemployed were mainly new workers and not former employees dismissed by firms due to the restructuring process. Wage rises and trade unions struggles continued leading wages to increase more than the sum of productivity and prices rises up to 1973. As shown by available data and further stressed in the literature [Vianello 1975; Graziani 1998; Ricci 2004], profit recovery strategies adopted by firms had to rely upon two different instruments:

- the already mentioned prices increase strategy tolerated by Italian authority by the progressive devaluation of the Italian currency and not opposed by trade unions thanks to wage indexing upon which entrepreneurs willingly agreed to cool down the strong engagement in the struggle they were facing on the side of unions and their employees, i.e. a defensive strategy aimed mainly to gain time and wait until the negotiation climate normalized by itself. This only later would, however, become a typical structural feature of the Italian economy and Italian firms' strategy to recover profits, partially due, in the author's opinion, to the problems which arose due to downsizing and reduction of average firm size caused by the productive decentralization process;
- the implementation of an overall reorientation of productive methods, process organization and localization of productive activities through a restructuring that was not taking place inside factories as in the 1963-1969 period, but outside and around them [Graziani 1998], i.e. the so-called productive decentralization, which was indeed the long-term strategy which finally led to the defeat of the workers long struggle for wage increases

and control over production, once Italy adhered to the ERM fixed exchange rate system, stopping currency devaluation and removing wage index linking, first, partially the eighties and then completely at the start of the nineties.

The next section focuses on such an Italian productive system restructuring process, and briefly consider its overall effects which can be seen to have had a significant effect on the further development of the Italian economy to this very day.

#### **4. The Italian productive decentralization process: Its features and immediate effects**

As first noted by workers unions in 1970 [Graziani, 1998] and then variously presented and analysed in the literature through the whole of the 1970s and the start of the 1980s (cf. e.g. [Frey 1973; Paci et al. 1974; Brusco 1975; 1982; Becattini 1975; 1979; Graziani 1975; 1998; Vianello 1975; Bagnasco 1977; Garofali 1978; 1981; 2010; Fuà 1983; Ricci 2004]), the Italian productive decentralization was a production and firm reorganization process mainly relying upon the outsourcing and externalization of different parts of the production process implemented by bigger firms, reverting from the former Fordistic tendency to vertical and horizontal integration which prevailed in Italy. To cope with the increased labour costs and higher union control over production organization, large and average sized firms decided to transfer the realization of almost all of the phases of productive process, which were not considered crucial for the firm's activity or did not require particularly heavy machinery or specific know-how, to external small and micro firms, and in many cases even to homeworkers, suppliers, contractors and sub-contractors [Vianello 1975; Graziani 1998]. Although detailed disaggregated data were scarcely available to the author, in the literature [Graziani 1998] it is clearly stressed how this phenomenon involved first of all the larger firms operating in labour-intensive branches of industrial production in the Northern regions, such as electric and electronic appliances, metal machinery, rubber and textile production, but later such a strategy spread to other sectors as well, leading to overall and long-lasting effects on the functioning of the national labour market, average firm size in the manufacturing sector and the territorial localization of production at regional level [Graziani 1998, Ricci 2004]. The crucial aims pursued through the implementation of such a strategy were, as attested in various sources [Vianello 1975; Graziani 1998; Ricci 2004], the containment of labour costs and the avoidance of

both worker control over production and of costs linked with the need to realize new investments, which could have been instead, an alternative means to recover profits through labor productivity rises, which the investments and increased technical change application could have been expected to support [Kalecki 1968].

It has, furthermore, to be stressed than instead of relying on work humanization methods such as those that Japanese firms and other Western firms were or were about to apply at the time, the Italian restructuring process had among its main goals the achievement of an increased labour productivity to wage ratio rather through using piecework pay schemes, resorting to overtime work as well as any means – legal or illegal – to pay lower wages and to elude social responsibilities, taxes and controls (cf. [Brusco 1982]), while trying to achieve strict control and supervision over the work organization either through the adoption of paternalistic approaches to workers or through using blackmail and intimidation methods [Vianello 1975]. Instead of a conscious and well-thought-out process of strategic questioning of Fordistic methods of production assumptions, the Italian productive decentralization seems actually rather a restructuring of a Tayloristic work organization, which accidentally led to abandoning its most beneficial elements, while still sticking to the ideas and methods of profit recovery which led to the factories internal reorganization process in 1964-1969. Rather than aimed to improve labour productivity through job enrichment, greater involvement among workers and greater focus on customer satisfaction and product quality, this strategy adopted by Italian firm seems, therefore to rely once again more on reducing wages than on increasing productivity, mainly trying to recreate the workers' passive role, low wages and lack of workplace conflicts' climate to which, it can be argued, Italian entrepreneurs were used during the economic miracle [Graziani 1998; Ricci 2004].

It is worth noting first of all that the smaller firms, to which most of productive process phases were transferred during productive decentralization, were employing exactly those marginal workers who were, due to their former expulsion and continuing exclusion from employment in larger factories, more exposed to the threat of unemployment on the basis of the already described labour market segmentation phenomenon [De Cecco 1972; Brusco 1982; Graziani 1998]. The pressure on pay, as well as engagement in worker struggle, was in such sectors of the work force

much less pronounced due to the relative excess of work supply over work demand. A similar reasoning can be adopted for homeworker contractors [Vianello 1975; Brusco 1982], who were in many cases elderly, Southern immigrants, students and females, experiencing similar problems in the work market. Moreover, among smaller firms, those localized in under or lower developed areas were preferred, leading to the affirmation of the so-called Third Italy (cf. e.g. [Brusco 1982; Ricci 2004; Bianchi 2009; Garofali 2010]) i.e. areas of Northern and Central Italy, which though not being systematically affected by underdevelopment problems as the Southern regions were, had, however, still not experienced adequate industrialization processes as did those well-consolidated in the North-Western part of the country, and in particular the Genoa-Turin-Milan industrial triangle [Bianchi 2009]. Another factor specifically negatively affecting pay in such firms was the higher levels of unemployment or underemployment registered in the labour market in those regions as well as in South, where, instead, although not resorting to the typical scheme of different productive process phases disassembling and externalization presented in as the dominant feature of productive decentralization strategy, firms active in the heavy industry – mainly chemical and oil products, iron, steel and other metal works sectors – increased investment in comparison with those found in the traditional Northern regions [Graziani 1998]. It can be thus pointed out that, together with a big-to-small and externalization aspect, productive decentralization process presented as well a regional delocalization one, with productive activities getting more concentrated in peripheral regions and localities far from big cities and where workers engagement in union struggles – especially at plant or firm level – was less relevant.

The overall effect of such a process was firstly achieving a lower direct labour cost. In the literature it is clearly stated that when comparing the pay, qualifications and tasks realized in the workplace, smaller firms' employees and homeworkers were getting lower pay than larger firms' workers with the same qualification, and also having on average lower qualifications than larger firms' employees realizing identical tasks [Vianello 1975]. Thus it can be pointed out that the first result achieved by productive decentralization was to get the same work done at a lower labour cost.<sup>5</sup> As stated in the literature (e.g. [Vianello 1975; Brusco 1982; Graziani 1998]), furthermore, in smaller firms a lower level of engagement in union

<sup>5</sup> As shown in Brusco [1982], small firms could manage to pay a worker assumed as a homeworker a third of the actual pay he/she would have earned for the same work in a bigger enterprise.

struggle was observed, while it was easier to introduce overtime work – mostly paid illegally directly to the worker in cash so as to evade taxes, and the retirement schemes and health insurance fees linked to them (cf. e.g. [Vianello 1975; Brusco 1982]). At the same time, it was also easier to fire workers, while the contribution the employers had to pay per worker to general work insurance, public retirement schemes and other similar institutions were lower than those paid per worker by bigger firms [Vianello 1975; Brusco 1982; Graziani 1998]. Another relevant effect of productive decentralization process was the lowering not only of direct labour costs but of indirect ones, too. A third effect worth considering is the impact such a process had on the effectiveness of trade unions activity. Apart from the already mentioned lower engagement of the smaller firms' workers in union activities and their higher exposure to possible blackmail due to the independent factors supporting labour market segmentation, the very same Workers' Rights Statute was also introducing additional sources of this segmentation. Indeed, it was not protecting in the same way smaller firms' workers from harassment-based dismissals as was the case in big firms [Brusco 1982]. It can be also said that it was much more difficult for workers organizations to exert control over production in a decentralized scheme, as that which emerged from productive decentralization process, than in the former centralized Fordistic scheme [Vianello 1975]. Unions and workers requests in larger firms could be accepted by those firms, while they recovered costs by cutting orders or prices paid to suppliers, which in turn autonomously started to cut their costs and wages or intensified production patterns and overtime so as to increase productivity when required. As a result coordination problems inside workers organizations started to appear together with loss of effectiveness of shorter strikes formerly declared at firm, plant or even single department and basic production unit level, due to the fact of having the production process decentralized, delocalized and parceled, it was possible for firms to effectively counteract such forms of struggle by increasing their production in other plants. The same agreement between the workers in other locations and the firms was harder to achieve so that unions activities were affecting less entrepreneurs, who started to show improved resilience to the unions' requests. A third relevant effect of the decentralization process was the reduction of the overall effectiveness and engagement of workers in industrial disputes, and the improvement

of firms' resilience to them. All these factors can thus be considered to be elements positively affecting a firm's position and as an effective profit recovery strategy.

Besides exerting relevant effects of labour costs and the relative strength of workers and entrepreneurs associations in bargaining, it is worth underlining that productive decentralization had significant effects on the short and long-term evolution of labour productivity as well, and that these were different. In the first years of the decentralization process similar productivity in larger and smaller firms was registered. As noted by Vianello [1975], this was mainly due to the fact that in many cases newly opened small firms supplying larger ones received newer or similar level machines or even materially the same ones, which were transferred to a given supplier small firm from the larger one, thus decentralizing a given phase of the process together with the very same machines it used to realize it. Other authors (e.g. [Tronti 2007]), however, stressed how since 1975, the fall in annual labor productivity growth was systematically registered in comparison with other European countries. Furthermore, some one of the main final results of the decentralization process are considered to be the survival of small firm applying outdated (on the base of technology then currently available) production methods, which in Italy stayed profitable for longer for the particular division of work and segmentation of productive process sustained restructuration process [Graziani 1998]. Together with its effects on the Italian economy's sectorial specialization and on the tendency of Italian firms to look for a comparative advantage over competitors through focusing on labour-intensive and highly retail price-sensitive changes of productions, this was one of the main shortcomings of the productive decentralization process.

## 5. Productive decentralization and its long-term effects on firms and the whole economy

Although among some scholars and in Italian public opinion the small firm producing traditional handmade "Made in Italy" goods myth is somehow still widespread, in the years following productive decentralization, however the increased relevance of small firms – which clearly encounter more difficulties in financing either by credit or internal sources investments and innovation,<sup>6</sup> on which sooner

<sup>6</sup> On that point compare and contrast Vianello's [1975] theoretical considerations and Brusco's [1982] observations based on experience of firms in the Emilia-Romagna region. Although the later author shows some successful methods of coping applied by this region's firms in practice, it is worth noting that in the long run exactly theoretical assumptions of Vianello seem to hold on the basis of aggregate data [Tronti 2007].

or later a productivity increase has to depend – as well as the adherence of Italy to new forms of fixed exchange rate regimes [Graziani 1998; Ricci 2004] and the earlier adoption of labour costs containment, high inflation, reliance on external market and exports for growth strategies of development at both firm and country level [Ricci 2004] caused important problems to the whole Italian economy. It can be argued, that not wanting, as it was done in the second half of seventies and the whole eighties, to rely exclusively on public spending financed through debt, which sooner or later will take its toll in the form of high interest rates, further depressing investment, or the instability of the exchange rate and the whole economic system. (clearly the case in the 1992 Italian currency crisis, and on a less dramatic scale in the public debt crisis of 2011) once this strategy of wage containment and profit margin defence at all cost had been implemented, the only source from which Italian firms and the whole productive system and the economy could sustain their growth was exports and increasing foreign sales. It is worth stressing that the specific set of strategies adopted by Italian firms and Italian policy-makers can be considered as a factor leading to the result that internal demand – other than for luxury goods – became progressively more and more difficult to rely upon a source of growth for the whole economy and firms.

A clear statement of the mechanisms which were underway is not available in the literature without the need to present once again a wide set of empirical evidence as was done to explain the factors which led to productive decentralization and devaluation-inflation spiral strategies affirmation in Italy. However, according to the author, a short recap of some theoretical elements, and both country and period specific, as well as more general empirical facts supporting the soundness of those theories can suffice here. Indeed it can be pointed out that growing unemployment and the disruption of both the productive process and unions' power through productive decentralization led to an overall weakening of the pressure to raise wage exerted on firms [Graziani 1998]. This was confirmed by the reduction of strike hours and by the overall change of attitude toward trade union disputes which was starting from the early 1980s and fully visible in the disruption of workers unions united front and the progressive removal and weakening of wage indexing to inflation by the mid-1980s [Ricci 2004]. Therefore this can be considered to be the first relevant element of the macro-environment change profit recovery which the strategies adopted in the 1970s were supporting.

As stressed in the more theoretical and aggregate models (cf. e.g. [Keynes 1936; Kalecki 1956; 1968; Garegnani 1982, 1992; Bhaduri, Marglin 1990]), as well as in recent empirical analysis (e.g. [Onaran, Stockhammer 2001a; 2001b; Petri 2003, 2011; Onaran, Galanis 2012; Lavoie, Stockhammer 2012]) based on Classical-Keynesian approaches to the determination of economic growth and influences that income distribution has on it, it is possible to stress the existence of a positive link between income redistribution toward salaries, or wage rises, and aggregate demand increases, which, since full productive capacity utilization in firms can be considered to be rarely or never reached both in theory and practice [Garegnani 1962; 1992], lead to higher profits. As pointed out in theory and confirmed in empirical studies, in most of the cases therefore, initial wage rises can be expected to exert a positive influence on investments either through generating increased means to finance them thanks to higher sales, or through fostering the need for them so as to face those very same increased sales opportunities. It is, moreover, worth pointing out that through different channels presented in theory [Kalecki 1968], they can be expected to exert a positive effect both on technical change and innovation – organizational and technological – development and actual application in a given economic system. Moreover, increased investment in fixed capital and increased technical change adoption are two of the main factors assumed in whatever reasonable approach to economic growth and productivity determination to positively affect them both. Since economic growth and increases in aggregate demand can be assumed to support employment, and employment can be expected to support wage, and more generally, increase workers' purchasing power and incomes, this can be an element supporting the long lasting expansion of the domestic sales market, improving firms sales opportunities and, if wage rises do not exceed productivity rises generated by the very same mechanism, supporting increases in investment and technical change application, also profits. Italy, instead renounced, completely the adoption of such a strategy of development. During the whole of 1970s, indeed, income redistribution was opposed and neutralized via inflation and devaluation of the exchange rate, while in later decades it was blocked completely, first through weakening of the unions' bargaining power, and then through supporting the progressive removal of wage index-linking which started to lose its grip since the start of the eighties, and was then significantly reduced from 1984-1985 and finally completely abolished in 1992, last and not least leading to the progressive removal of limitations

to labour utilization' intensification, which in recent years in many cases crossed, according to the author, the limits of labour exploitation.<sup>7</sup> The Italian strategy to rely upon external markets and to fight against income redistribution, instead of accommodating it, can be, then, judged to be short-sighted even more in the long run than it was possible to judge it in the immediate aftermath of this strategy's application [Vianello 1975].

As stressed by Ricci [2004], it was exactly the productive decentralization and crawling devaluation strategies which generated the still present specialization of Italian firms and of the whole productive system in labour-intensive and highly retail-price-sensitive goods, while renouncing the more sophisticated and technological advanced ones. This is to say the adoption of a strategy of development which led Italian firms and the economy to clash directly with emerging and developing countries, supporting, according to the author, the paradox of a developed G7 economy which tries to base its comparative advantage in the world economy on price and cost competition as if it was a small underdeveloped economy. The linkage between the discussed strategies of currency devaluation and productive decentralization, on the one hand, and the reorientation of the Italian productive system on the other, can be explained mainly based on two different kinds of considerations. It is first of all worth noting that labour-intensive and highly price-sensitive sectors were exactly those for which the systematic devaluation of exchange rate was more beneficial in the 1970s, allowing enterprises specialized in such a production to gain market share on foreign markets and improve their position thanks to price and cost competitiveness [Ricci 2004]. Secondly, it can be stressed that exactly in those sectors the relative low complexity and high labour-intensive nature of the process allowed productive decentralization to be more effective. Small firms specialized in such types of production could stay competitive longer with much less need to realize significant investment in technology and fixed capital, due to the fact that stable and then shrinking labour costs and the possibility to intensify work patterns generated higher profit

gains than in the capital-intensive sectors such as heavy industry which, once public spending ceased, experienced significant difficulties and in many cases disappeared from the Italian productive system scene. Such a strategy of development and sectorial specialization of Italian firms and productive system started showing its shortcomings from the early 1980s onwards.

The feasibility of Italian firms and the Italian economy's development strategy based on labour-intensive production and price driven comparative advantage was first threatened by the progressive emergence of more and more developing countries, which undermined the Italian firms and the economy's traditional position as a supplier of cheap goods to richer economies (cf. e.g. [Graziani 1998]). The possibility to rely on a smart devaluation strategy while allowing for high inflation rates such as those experienced during the eighties, even though wage rise pressure stopped completely, vanished completely with the second oil shock and the concurrent change of the United States monetary policy, and of the exchange rate regime adopted by Italy and other European countries. As stressed by Graziani [1998], the United States reacted to the second oil shock with a restrictive monetary policy based on the monetarist theory and completely opposite to the one adopted during the first oil shock, focusing on fighting inflation rather than on sustaining employment as was the case in the former expansive monetary policies adopted in response to the first oil shock. The option of differentiated (high) devaluation against the currencies of West Germany and France, and the lower devaluation or appreciation against the US dollar become then impossible due to the fact that the US dollar appreciated against the mark and the French franc as well, since those currencies moved more or less in tandem against the dollar [Graziani 1998].

In 1980, Italy entered the ERM fixed exchange rate system, and although fluctuation around parity and lowering the central parity were possible and took place in Italy to avoid excessive appreciation of the real exchange rate and therefore worsening terms of trade, the overall effect was an appreciation of the Italian exchange rate [Graziani 1998] which showed

<sup>7</sup> At the time of writing, in Italy the possibility of paying the whole salary to workers through vouchers/ coupons, which can be spent only to buy food or drinks, has only recently been abolished, after having been widely abused over the previous years. The new government taking charge is, however, proposing a reintroduction of this very same mechanism, though limited to occasional workers. Moreover, in Italy were recently observed cases of the improper hiring of line workers in automotive factories as independent self-employed suppliers autonomously paying taxes, healthcare and work insurance fees as professionals realizing their own independent projects. Cases of systematic dismissals and incentives to leave work after two years of employment in distribution due to too high work patterns and the fall in workers' productivity linked with the effects on their physical and psychological health are furthermore acknowledged and implicitly admitted by firms applying them through the contemporary adoption of employees qualification programmes not linked at all with enterprise's activity but aimed at the requalification of the workers in running their own business or helping to find employment in other sectors.

explicitly its effects and caused the temporary exit of Italy from the ERM fixed exchange system and the fluctuation of the Italian lira in 1992. Although in effect the wage rises stopped, the inflation in Italy, bearing in mind it is a country without internal sources of raw materials, continued to rise during the whole of 1980s. This was due to increased costs of import and the need to counterbalance the rising deficit of the balance of payments, caused by more expensive imports and shrinking exports due to the progressive exchange rate appreciation against other European currencies and the transfer of rising cost of raw materials on sales prices through capital inflows. In order to support the latter, and to cover the significant losses of purchasing power creditors would have experienced if the interest rate had been – as in some years it actually was – systematically lower than the inflation rate, high interest rates prevailed in Italy during the whole eighties. As a result, instead of the raw material costs and wage rise pressure on inflation typical for the 1970s, a raw material cost and interest rate pressure prevailed in the 1980s. This new spiral was moreover much more problematic for firms in the new exchange rate appreciation regime [Graziani 1998; Ricci 2004]. It can be stressed that firms were losing their market share abroad, while wages were being contained, and financing investments to improve productivity become more difficult due to both higher interest rates and contracting sales possibilities both abroad and in the country. The choice to stick to a foreign-dependent strategy of development and to the downsizing of average size of firms' strategy adopted in the seventies seems, then, a tragic one in the longer perspective.

As pointed out, expansion on foreign markets became more and more difficult, while expansion of domestic demand could not be autonomously reached on the basis of spontaneous market forces due to the very changes comported by the strategy adopted. Finally, this very strategy and its effects led to the result that the opportunities to finance investment were also worsening due to 1) the negative effects the labour-intensive specialization and wage containment based adopted strategy had on sales opportunities end, 2) the direct effects that productive process decentralization and firms downsizing exerted on their possibility to gain sources of funding, 3) the negative effects experienced on the interest rate's side.

Once the actual strategy of development based on productive decentralization and relying on expansion on foreign markets was adopted in the 1970s, and further shocks took place outside the control of Italian firms and the Italian authorities, thus questioning the very same core by which the Italian economic

system functioned it can be thus argued to have become progressively more and more difficult. Both firms and public authorities started to face the very effects of the strategy they adopted and increasing costs and shrinking opportunities to change the Italian economy's orientation appeared as time passed, as indirectly confirmed by some other sound analysis (cf. [Tridico 2018; *Lavoro, l'economista Tridico...*]) of the main problems Italian economy is still facing. Moreover, the situation after the 1980s did not improve at all, since the Italian firms first had to face the deep Italian currency crisis of 1992 and then the restrictive policies applied to counter it and to stabilize public debt as to enter the Eurozone in 2000. On the basis of former analysis by this author [Valente, 2015], moreover since the adoption of the Euro, a new phenomenon of actual implicit exchange rate appreciation against Germany and France, almost identical to the one which took place in the eighties, has taken place not only in Italy but in other peripheral countries of the Eurozone as well. The choices allowing to overcome the current situation in Italy, according to the author, are not easy, and their definition remains beyond the scope of this article, whose aims were from the beginning not to find these solutions, but to understand how Italy has arrived at having to look for them and to show how firms' restructuration policies are deeply rooted in the overall aggregate economic, historical, social and political environment surrounding enterprises, and also how they deeply affect the evolution of those very external factors to which any firm has to adapt. Although unfortunate and not really positive in its long-term effects for the firms and the country itself, the case of Italian productive decentralization seems a good example of how those phenomena can be studied together and exert mutual influences on each other. As a final reflection, which Polish readers could, according to the author, find more useful than Italian ones in the near future, it can be considered that the very specific Italian case shows a clear example of how short-term and poorly conceived decisions can threaten both firms' and the whole economy's future prospects of development, especially when the catching-up process approaches its end and new ways to achieve sound growth and development strategies have to be conceived for both firms and public authorities.

## 6. Conclusion

This article focused on the particular situation experienced by Italy in the 1970s. This was a period in recent economic history during which a crucial worldwide turning point in time series of significant

macroeconomic variables such as income inequalities, economic growth and capital accumulation rate occurred. Referring to Italian literature the article presented an overall review of the phenomena and events which led to the change in most of the registered variables during that period, reconnecting change in economic growth, long run tendencies in income distribution and capital accumulation to the strategy of profit recovery Italian firms adopted as a reaction to the particular events during that period such as: 1) the first oil shock, 2) the breakdown of the Bretton Woods fixed exchange rate system, 3) the workers struggle in 1969. The effects of all those events on firm profits were analyzed and presented, stressing the negative impact of the increased unions involvement in disputes and oils shock on the costs' front, while the change of exchange rate regime was negatively affecting exports and at the same time opening up the possibilities to use inflation as an improper industrial policy instrument. As was argued in detail in the second section, the particular strategy Italian firms chose to recover profit margins relied upon the productive decentralization process of restructuring of Italian firms and the Italian productive system, together with the adoption of a strategy of development based on the expansion on foreign markets rather than on domestic demand. Such strategies were the particular result of the specific situation registered in Italy before and during the 1970s and were supported by the actual economic policy mix adopted by the Italian authorities of the period, i.e. wage indexing to inflation, tolerance for a high inflation rate and the systematic devaluation of the Italian currency aimed at defending Italian exports' competitiveness on foreign markets.

In the third section the actual character of the productive decentralization process and its main features were presented, together with its most immediate effects, arguing that through the process of parceling, externalization and delocalization of different productive phases formerly realized in larger firms to the smaller ones, Italian entrepreneurs achieved both direct and indirect labour costs cuts, managed to reduce the unions' involvement in industrial disputes as well as their effectiveness. In the longer run this caused, however, a reduction of productivity growth both due to 1) lower investments smaller firms were able to realize, 2) the fact that investing in new technologies and fixed assets became a subpar choice in comparison to cutting costs and increasing employees effort, 3) the fact that Italian firms concentrated more in labour- intensive sectors. The fourth section presented an assessment of the long-term effects of the particular strategy which led to adopting parallel productive decentralization and

focusing on external markets as the main source of growth opportunities both at firm and country level, underlining that those were mainly negative. The first element considered was first of all that productive decentralization and the export-oriented strategy adopted in the seventies, blocked the possibility to expand internal demand and increase wages, which as recent analyses show, is both one of the dominating profit sources for firms and one of the main factors positively affecting capital accumulation and economic growth. Secondly, it was argued that the two combined strategies led to the reduction of average firm size and the reorientation of the whole Italian productive system towards low-innovative, labour-intensive and highly reliant on prices' competitiveness sectors. Those were, then, affected by significant problems in later decades, first due to the increased competition of the emerging and developing markets, secondly due to the concurrent second oil shock, the change in the US monetary policy and the entry of Italy into the ERM fixed exchange rate system, which together led to the result that to rely only on foreign markets and labor costs containment was not a beneficial choice.

Finally it was argued that the sum of the specific strategies adopted during the seventies, their effects and the external shocks which took place in further decades blocked, through different channels, the possibility to realize investments and increase productivity so as to move away from the blind alley Italian firms and the economy had chosen when adopting productive decentralization and a wage rise containment strategy. At the end it was stressed, how the situation continued to worsen and is still partially affecting Italian firms and the economy today, confirming that the study of the relation between environmental factors influencing firm's decisions, the way they were put in practice and the analysis of the effect they have on their environment can be a very vital element of less abstract and more connected to practical factors analysis of development trends for both firms and economies.

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## **WZAJEMNE POWIĄZANIA POMIĘDZY MAKROOTOCZENIEM ORAZ ORGANIZACJĄ PRZEDSIĘBIORSTW I PRACY. ANALIZA WŁOSKIEJ DECENTRALIZACJI PRODUKTYWNEJ W LATACH 70.**

**Streszczenie:** Artykuł koncentruje się na procesie restrukturyzacji przedsiębiorstw, który miał miejsce we Włoszech w latach 70., gdy poprzednio stabilnie zarejestrowane trendy szybkiego wzrostu gospodarczego, wysokiej akumulacji kapitału oraz zmniejszających się nierówności dochodowych zostały odwrócone, prowadząc do pojawienia się obecnie dominującego reżimu spowolnionego wzrostu, niższej akumulacji kapitału oraz rosnących nierówności dochodowych. Opracowanie dowodzi, że badany proces restrukturyzacji przedsiębiorstw zależał od ewolucji makrootoczenia, w którym włoskie firmy działały, oraz że on sam na tę ewolucję wpływał, prowadząc do pojawienia się samowzmacniających się trendów, które do dziś oddziałują na włoską gospodarkę. W przypadku Włoch proces decentralizacji produktywnej może być postrzegany jako jeden z najważniejszych czynników wpływających na zmiany trendów makroekonomicznych zarejestrowanych w kraju od końca lat 70. Analiza może być przydatna jako studium przypadku wzajemnych powiązań pomiędzy procesami restrukturyzacji przedsiębiorstw i ewolucją otoczenia makroekonomicznego.

**Słowa kluczowe:** gospodarka Włoch, makroekonomia, restrukturyzacja przedsiębiorstw, rynek pracy.