

# A tale of two Fascisms: Labour productivity growth and competition policy in Italy, 1911–1951



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## Abstract

This paper presents the first quantitative assessment of labour productivity dynamics in Italy's industrial sector between 1911 and 1951 and explores their links with changes in competition policy. It relies on a newly compiled dataset and provides fresh labour productivity estimates, disaggregated by industrial branch. Its main finding is that the switch to a more interventionist industrial policy enacted by the Fascist regime circa 1926–7 caused a marked slowdown in productivity growth. Nor was the government's decision to relocate resources from the traditional to the more modern industrial branches successful in lifting productivity dynamics: our shift-share analysis shows that the contribution of (static and dynamic) structural change from old to new industries to productivity growth was negligible. Finally, we find that the increase in the levels and growth rates of concentration, induced by specific Fascist policies, were associated with lower productivity levels and growth rates. This paper thus casts a shadow on the optimist accounts of Fascist industrial policy and confirms the findings of a revisionist literature minimising the positive role played by the State in the earlier stages of Italian industrialization.

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## 1. Introduction

The evolution of labour productivity in Italy's industrial sector over the interwar era has been analysed mainly at an aggregate level. Filosa et al. (1976) found that it was generally slow throughout the 1922–1938 period. More recently, Broadberry et al. (2013) provided new evidence that labour productivity growth rates fell between 1911 and 1951 and that comparative labour

productivity levels relative to the United Kingdom also deteriorated.

However, studies on a number of other European countries over the same period have shown how disaggregated analyses are extremely important in order to understand the drivers of economic prosperity.<sup>1</sup> The “new” industries of the Second Industrial Revolution, such as chemicals, typically experienced different rates of productivity growth from the “old staples” (e.g. the food

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<sup>1</sup> See Broadberry and Fremdling (1990), Broadberry and Crafts (1990b, 1992), Broadberry (1997), Fremdling et al. (2007) and De Jong and Woltjer (2011).

industry). A disaggregated analysis is especially appealing in the case of interwar Italy. The Fascist regime, which ruled the country between 1922 and 1943, oversaw the development of a “dual economy” (Tattara and Toniolo, 1976). After an initial, more liberal phase, the regime implemented an array of policies aimed at favouring new industries over the old staples. One example was the decision to revalue the lira in 1926–7 and to increase import duties, which benefited the inward-looking new branches of the economy and penalised the export-oriented old industries. This coincided with a general retrenchment from competition in the product market. The literature has emphasized the importance of these policy shifts, but doubts persist over whether they helped or hindered productivity growth. A disaggregated analysis of Italy’s industrial labour productivity growth can help to answer this question.

In our study, we employ the recently constructed, disaggregated series of industrial value added produced by Carreras and Felice (2010) to produce benchmark estimates of labour productivity for 1911, 1921, 1927, 1938 and 1951. We then disentangle the drivers of productivity growth in the industrial sector by applying shift share analysis and panel data techniques to a newly constructed dataset. We find that labour productivity trends in Italy’s industry were driven by growth *within* each sector rather than by the shift of workers out of old industries and into new ones. The poor performance of the 1930s was not, therefore, the consequence of any large-scale misallocation of resources. What hindered growth was instead government policy. In particular, measures aimed at restricting competition and fostering industrial concentration had a detrimental effect on productivity. Our regression analysis shows that higher concentration levels at the beginning of each sub-period and a faster pace of growth of concentration were associated with lower productivity levels and growth rates. Furthermore, restricting competition was most harmful in industries closer to the technological frontier, as predicted by economic theory. The main driver of growth in interwar Italy was capital accumulation. Since Italy was a laggard country, this result confirms the view that factor accumulation is generally more important than total factor productivity growth during the catch-up process of an economy.

The paper is constructed as follows. Section 2 presents our new benchmarks of branch-level labour productivity in Italian industry between 1911 and 1951. We also employ shift-share techniques to single out the individual contribution of the three components of labour productivity growth: internal growth, static and dynamic shift effects. Section 3 provides a short account of industrial policy in post-Unification Italy, with a specific focus on

competition policy in the Fascist era. We use branch-level concentration indices to show that competition in the product market declined as of 1927, particularly in the newer industrial branches. In Section 4 we employ regression analysis to single out the drivers of industrial productivity growth, focusing, in particular, on the effects of changes in competition. Our conclusions are presented in Section 5.

## 2. Labour productivity growth dynamics and structural change

### 2.1. Output per worker growth

In order to construct new labour productivity benchmarks for Italy’s industry for the period between 1911 and 1951, we need data on value added (VA) and on the labour input.<sup>2</sup> The estimates for value added at constant (1938) prices are taken from Carreras and Felice (2010). This study has overcome many of the problems of the first-generation estimates, which have long been deemed unreliable.<sup>3</sup>

The choice of the labour input data is more controversial. For the simple headcount, one can rely on two different sources: the industrial census (IC) and the population census (PC).<sup>4</sup> Both censuses have limitations: ICs tend to underestimate employment as they exclude seasonal and part-time workers; conversely PCs tend to overestimate employment, since they measure the labour-force, which includes the unemployed. *Ceteris paribus*, labour productivity estimates based on ICs tend to overestimate “true” productivity, while those based on PCs tend to underestimate it. In this paper we mainly rely on PCs. The VA estimates employed to construct the numerator are based on the assumption that employment is best approximated by the labour-force; it would therefore be inconsistent to use the ICs.<sup>5</sup>

We construct benchmarks relative to five different years: 1911, 1921, 1927, 1938 and 1951. The VA data are

<sup>2</sup> Sources and methodology are outlined in more detail in Appendix A and in Giordano and Giugliano (2012).

<sup>3</sup> The official ISTAT (1957) and semi-official ISTAT (Fuà, 1978) data relative to the 1911–1951 period for the industrial sector overestimated Italy’s growth during World War One (Broadberry, 2005) and underestimated the impact of the Great Depression (Giugliano, 2011).

<sup>4</sup> In the period relevant to this paper, ICs were taken in 1911, 1927, 1937–9 and 1951. PCs occurred in 1911, 1921, 1931, 1936 and 1951. See Giordano and Zollino (2014) for a discussion of the alternative labour input sources.

<sup>5</sup> Using the data from ICs does not lead to radically different results from the ones we obtain in this article. Nor does using the total number of hours worked as the labour input. See Giordano and Giugliano (2012) for sources, details and results.

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