

An Analysis of the Reasons for the Prosperity and Development of Italian Economy in 1950s and Early 1960s

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Abstract. Europe was in ruins after the end of World War II in 1945. Italy, on the other hand, pulled itself out of the hole and achieved the pinnacle of its economic development in just two decades, which is known as an economic miracle. The purpose of this article is to explore the reasons why Italy was able to turn the situation around and make its economy flourish when almost all European countries were in development difficulties after the second World War. Based on the analysis of the economic development in the 1950s and early 1960s, combined with the economic development measures adopted at that time, it is concluded that Italy's success depends on two factors: internal and external. The internal factor refers to prioritising the growth of domestic small and medium-sized businesses. The development of the real economy created a sound basis for Italy's future economic take-off throughout the economic winter. The external factor was aid from the Marshall Plan. With the aid money, Italy was almost restored to its pre-war status for a short time. It was the combination of both internal and external factors that produced Italy's economic golden age.

Keywords: Italy, Social Economy, Small and Medium Enterprises, Marshall Plan, World War II.

1. Introduction

After World War II, Italy was in ruins, but within a few years it was growing fast. The decade from 1950 to 1963 witnessed the most rapid growth, which was called the golden age of Italian economy [1]. First of all, Italy is a traditional colonial power, although it still lags behind the United States, Britain and the Soviet Union, it is also among the best in the world. The defeat of France in World War II made Italy the sixth largest industrial power in the world. Italy suffered less damage in World War II because of its wartime conservatism. After the war, it vigorously developed small and medium-sized firms and received assistance from the Marshall Plan of the United States, so it bucked the trend. After world War II, Italy's economy grew rapidly, and maintained a high-speed growth for nearly 20 years, creating a remarkable economic miracle. Even during the period of relative economic slowdown from 1964 to 1973, Italy's economic growth rate reached 5% [2]. Admittedly, with the in-depth development of small and medium-sized enterprises, disadvantages will gradually appear. However, the government can rely on the establishment of a strong policy support system to solve the problem. Just as the former president of the United States John F. Kennedy said, the improvement of a country's economy, industry and quality of life after the war has indeed become a phenomenon. A country once in ruins, plagued by unemployment and inflation, is now an exporter of capital. It has achieved an unparalleled speed in creating jobs and opening up new industries in the Western world [3]. This article discusses the current situation of economic development in Italy from 1950s to early 1960s, the measures to promote economic prosperity, the reasons for the measures taken and the impact on the national economy after the measures taken, as well as some disadvantages of these measures and the solutions to the disadvantages.

2. The Italian economic development during 1950s and early 1960s

Italy's golden period of rapid economic growth occurred between the 1950s and the early 1960s. From 1950 to 1963, The Italian economy experienced unprecedented growth, especially from 1958 to 1963, which was called the Italian Economic Miracle [4]. In 1945, World War II ended. From this point on, Italy began its post-war economic reconstruction. By the 1950s, the Italian economy had gradually recovered from the post-war situation and began to develop rapidly. From 1953 to 1959,

Italy's GDP grew by 5.6% annually [4]. From 1960 to 1963, it continued to rise to 7.9%, with a peak of 8.3% in 1961 [4]. Even during the period of 1964-1973 when the economy was slowing down, Italy's average annual value-added was still 4.9%, which was still among the top capitalist countries in Europe [4]. Italy has done well in manufacturing as well. Its share of the capitalist world's industrial production climbed year after year, from 2.3 percent in 1950 to 3.2 percent in 1960 [31]. Furthermore, its industrial output grew at a rate of more than 10% annually, second only to Japan and West Germany [5]. Compared with other European countries, Italy did not lose much in World War II. Italy's industrial system suffered only about 12%-14% of losses during the war [31]. In terms of destruction, much of it is in the industrially underdeveloped central and southern regions. The loss of the northern industry was no more than 5%, and the main machinery industry hardly suffered any damage [5]. It is not hard to guess that this part of the economy can recover and develop quickly, provided that money and demand are pushed forward. In Europe, however, the opposite is true. Post-war Europe was short of supply, not demand. That is one reason why Italy's economy quickly outperformed the rest of Europe in the postwar period.

3. The way to promote Italy's economic prosperity

3.1 Implement the European recovery plan

After World War II, the United States implemented the European Recovery Plan, also known as the Marshall Plan, for war-torn Western Europe. At the heart of the plan is a series of economic aid packages for individual countries. Italy is one of the biggest beneficiaries of the plan. From 1947 to 1951, Italy received a total of us \$1.2 billion in aid funds from the United States [6]. This aid accounted for 5% of Italy's national income and more than 10% of the total Marshall Plan funds [3]. That is far higher than in any other country. With the support of the United States, Italy's economy began to recover gradually and for a short time reached light-speed growth.

3.2 Developing small and medium-sized enterprises

The key to the basis for the rapid expansion of the Italian economy is small and medium-sized businesses [7]. After World War II, Italy did not follow the path of financial industry derivative development like Britain and the United States, but began to develop the real economy mainly based on manufacturing. It maximises its own advantages and aggressively grows small and medium-sized businesses. Italy quickly became a world manufacturing power and an important manufacturing production base in Europe, thanks to the stimulus of the Korean and Vietnam wars, as well as the foundation of the European Community. In Europe and the United States, its refrigerators, vehicles, and fashion items were favourably received.

3.3 Reform the political and economic system

Following World War II, Italy underwent significant political and economic transformations. It began by abolishing the monarchy and devolving power to the provinces. Simultaneously, the government's intervention in the market economy has been bolstered, and a new free economic system has emerged [8]. This has unleashed the country's economic vitality and development potential. In addition, Italy also established a peaceful and neutral diplomatic line, which also created a good international environment for its economic development. It is under the joint push of these factors that Italy has created a remarkable economic miracle.

4. Reasons for Italy's economic development measures

4.1 The war stunted economic development

Years of war have shaken the Italian economy. During World War II, The Italian government of Benito Mussolini formed the Axis Group with Nazi Germany and Japan. During The administration of Mussolini, the national budget deficit of Italy was as high as 87 billion lire, and the government revenue was only 36% of the fiscal expenditure [9]. Black markets were rampant in various places,

and military supplies were greatly affected [9]. In September 1943, Italy surrendered to the Allies. According to statistics, the country's industrial equipment was seriously damaged after the war, 1/3 of the country's wealth was destroyed, industrial production and national income fell by more than half, and tens of millions of people lost their employment [10]. Moreover, a large part of the Italian population even needed to be rationed by the Allies. By 1946, the United Nations Relief Agency had provided Italy with food, fuel and other necessities worth about \$450 million [8]. However, despite this, Italy's post-war economic situation, though poor, was still better than that of other major European countries because it did not participate deeply in the later part of the war.

4.2 The wartime economy was crying out for change

The Second World War destroyed almost all the countries that fought in it, and each country needed to take drastic measures to transform its wartime economy into a peacetime economy. After World War II, Italy confronted three categories of issues: industrial recovery, postwar reconstruction, and deep-seated structural issues. There is no doubt that in The second World War industry was most affected by the war. Preliminary estimates suggest that 30-40% of Italy's industrial production capacity has been destroyed, although this figure drops to 8-9% in Roselaar's report [10]. However, the effective destruction of Italian industrial equipment during World War II was actually quite limited and far less exaggerated than might be expected [11]. Despite the fact that the war affected Italian industry, industrial investment continued until 1943. Consequently, industrial investment programmes were almost invariably completed even throughout the war. And, despite the war damage, industrial production was still 1.5 times higher than in 1938 [10].

4.3 The war reparations were huge

In February 1947, allied forces signed the Peace Treaty with Italy in Paris. The treaty included adjustments in the Italian-French border areas to the benefit of France and changes in the Italian-Yugoslav border to the benefit of Yugoslavia. The deal mandated that Italy pay \$100 million to the Soviet Union, \$5 million to Albania, \$105 million to Greece, \$125 million to Yugoslavia, and \$25 million to Ethiopia in terms of war reparations [3]. The war reparations added to Italy's already struggling economy.

5. The impact of the economic development measures on Italy

5.1 A new political and economic system was initially established

With American financial support and the initial establishment of a new political and economic system, Italy had already recovered to its pre-war level by 1950. And the outbreak of the Korean War in 1950 gave a further boost to Italian exports. From 1951 to 1963, the Italian economy entered a period of high growth. Early in the postwar period, Italian Prime Minister Gasbelli abolished price control and rationing system, relaxed foreign exchange control, and allowed private export trade [12]. In addition, in August 1950, Italy established the South Foundation to promote economic development in the south of the country, which developed a 10-year implementation master plan from 1950 to 1960 [12]. In addition, the Agricultural Reform Act, which promoted land reform and agricultural transformation, was implemented in the same year, and the agricultural sector was revitalized by this new law. At the same time, Italy's diplomatic compromise and following of the United States enabled it to obtain a large amount of assistance from the Marshall Plan. During the years from 1948 to 1952, when the Marshall Plan was in place, the United States provided Italy with \$1.47 billion in aid, or nearly 11% of the entire Marshall Plan aid monies. The proportion of aid to national income in Italy is 5%, which is higher than that in Britain (3%), France (4%) and West Germany (2.5%) [7]. At the same time, Italy immediately after the war established a free market and open line in favor of the United States. Italy published a number of rules and regulations aimed at fostering domestic economic development in order to secure the execution of the free economic system.

5.2 Industrial development is gradually reviving

From 1951 to 1963, Italy established a new liberal economic system, which became the first golden age of Italy's post-war economy. During this period the rate of economic growth was higher than at any time in Italy's own history. Italy's total industrial output value was seven times that of pre-World War I in 1962, and the share of industrial workers in overall employment climbed from 29.4% in 1951 to 37.4% in 1962 [13]. The advancement of industry also resulted in an increase in national wealth. Italy's national net income climbed at a 5.8% annual rate on average throughout this period, trailing only West Germany in Europe [13]. Prior to World War II, Italy's economy experienced a long era of slow growth and was regarded as a classic illustration of capitalism's slow development. Under the fascist autocratic rule, the closed autarky economic policy severely suppressed the economic vitality of the Italian folk. Today, the Italian government has set up a new liberal economic system, unleashing the country's economic dynamism. On the one hand, it has relaxed foreign trade control and actively participated in regional economic integration on the other hand. Italy was a founding member of the European Coal and Steel Consortium in 1951. As a result of a vigorous foreign economic policy, by 1957, 99% of private trade between Italy and members of the European coal and steel consortium had been liberalised. Its exports increased by 12.3% yearly in the 12 years following 1950. [2]. In addition, adjusting the economy through national macro-control is also one of the reasons for Italy's rapid development. After the war, Italy invested heavily in railways, roads and infrastructure with treasury funds in order to further enhance its capital strength through the development of state-controlled enterprises. At the same time, Italy employed governmental funds to help the more poor southern areas, which hastened their economic growth. Relying on the favorable export environment, Italy's traditional sectors represented by clothing and textile industry and new industries represented by tourism and automobile manufacturing industry developed rapidly in the decade after 1951. Because of the enormous economic divide between Italy's north and south, a considerable number of employees from the south have relocated to the north, boosting the international competitiveness of Italian products. According to statistics, from 1955 to 1971, about 9 million people migrated from Italy [3], which brought huge demand for consumption and transportation and other infrastructure.

5.3 Small and medium-sized enterprises rise rapidly

Small and medium-sized businesses have made a significant contribution to Italy's economic miracle. With 99.87 percent of small and medium-sized businesses employing fewer than 500 people, Italy is known as the kingdom of small and medium-sized businesses [14]. Small and medium-sized businesses have a long history in Italy, dating back to before World War II. At that time, parts of northeast and central Italy already had a good manufacturing base. Because of the high population density in this area, many rural residents had to engage in sideline, gradually developed house construction, clothing, furniture and other handicraft industries. The value of small and medium-sized businesses has long been recognised by the Italian government. Prior to World War II, in 1922, Italy issued the first rule in its history focused at safeguarding and fostering small business development, and formed the Central Committee of Small Industries within the State Department of Industry and Commerce as a dedicated policy implementation organization. [15]. There was a significant disparity in industrial equipment between small and medium-sized firms and large enterprises in the Italian industrial sector in the early post-World War II period. The Italian government has undertaken significant legislative changes in order to foster the growth of small and medium-sized businesses. For example, in 1956, the Handicraft Law was formally promulgated. A three-level handicraft committee from central to local level was established [12]. A comprehensive evaluation of the state of small and medium-sized enterprises nationally was undertaken by the Handicraft Industry Committee, and particular policies were developed based on the survey results. In supporting policies for small and medium-sized firms, the Italian government has always adhered to the principle of special care for backward regions, providing not only financial support, but also a large number of preferential taxes. In the 1950s, Italy's government sought to modernise on a massive scale by

developing large, state-controlled companies, but they never did. Only later did the government gradually shift its focus to supporting small and medium-sized firms. Following this, the original large number of home factories began to purchase equipment, the construction of plants, quickly toward the transformation of regular small and medium-sized enterprises. From 1951 to 1963, the Italian government successively promulgated four laws aimed at encouraging the growth of small and medium-sized businesses. For example, law no. 949 of 1952 provided 707 billion lire in concessional loans to small and medium enterprises. Law no. 634, enacted in 1959, provided special concessional loans to the southern region, greatly promoting the industrial development process in the southern Region of Italy [14]. Thanks to strong policy support, the contribution of small and medium-sized firms in the Italian economic miracle is absolutely dominant. In terms of imports and exports, these SMEs are particularly active. Small and medium-sized businesses dominate industries such as textiles, food and furniture, and their export growth during the economic miracle has been staggering. For example, between 1958 and 1963, textile exports climbed by 151.4%, while furniture exports increased by 102.7% [16]. The number of small and medium-sized businesses in Italy exceeds the Community average, and they represent the backbone of the country's economic recovery. They have demonstrated their ability to ensure that their exports are extremely competitive.

6. Analysis of the disadvantages of economic development measures

Rapid growth between 1951 and 1963 transformed Italy from an agricultural backwater into one of Europe's leading industrial nations. However, there is always a crisis behind the boom. The boom hit its Waterloo in 1964. Italy's booming economy is underpinned by small and medium-sized firms, but small firms tend to be less risk-averse. The financial crisis of 2008 brought a large number of Italy's smes to the brink of bankruptcy. Since then the European debt crisis has destroyed many more, and now COVID-19 is once again exposing Italy's SMEs to serious breaches of discipline. Italy faces its worst recession since the second World war. GDP will shrink by 15% in the first half of 2020 and 8% for the whole year [1]. Youth unemployment in Italy is high because of a prolonged economic downturn. Youth unemployment in Italy has fluctuated around 30% for a long time [17]. In 2021, Italy's youth unemployment rate stood at 29.8%. Ultimately, it is Italy's own economic model that holds the country back. The majority of Italian businesses are traditional family businesses with profound technological knowledge but little scale, low risk tolerance, and little economic return. Moreover, Italy's overall welfare benefits are relatively high, and there are too many people who are unwilling to produce, which is a great burden to the country. This, combined with the problem of legacy debt, results in rising government debt. The economy is in trouble. In addition, in the Italian corporate structure after world War II, there has always been a dual agency. That is, on the one hand, there are enterprises with excellent technology and equipment, and on the other hand, there are a large number of enterprises with poor technology and equipment and low production efficiency [18]. Laggards are generally seen as a drag on the economy as a whole. In Italy, however, such a situation has allowed big companies to grow rapidly without having to pay expensive wages. However, after 1964, with the rapid rise of labor costs, the competitiveness of many Italian enterprises declined significantly [19]. This crisis did not happen overnight, but in a progressive fashion. This picture is vividly reflected in the economic growth figures. From 1960 to 1963, Italy's GDP grew by 11.7%, 8.2%, 6.2% and 5.6% respectively, showing a gradual decline [20]. In 1964, economic growth was only 2.8%, and in 1965 it fell to 1.3% [20]. The economic crisis of 1964-65 was Italy's first major economic challenge since the war. Domestic unemployment worsened significantly, and in 1964, national fixed capital investment fell by 5.8%, the first decline since world War II [21]. The crisis has also had a big impact on Italy's domestic politics.

7. Solutions to these disadvantages

7.1 Establish an intermediary service system

Intermediary agencies serving small and medium-sized enterprises in Italy are spread across industries and regions. In addition to the Chamber of Small and Medium Business and the Federation of Handcrafts, the Italian Federation of Small and Medium Business, founded in 1946, is particularly important. At present, the organization has branches in different industries and regions, with more than 60,000 member enterprises [16]. On the one hand, the organization maintains close ties with the government, congress, parliament, political parties and other national institutions, actively participates in the political, economic and social activities of Italy, and works together with other employers' associations and trade federations in the new industrial linkage system. On the other hand, it provides services to member enterprises in various fields such as financing, vocational training, financial management, trade union organization, law, environmental protection, product export, foreign affairs reception and so on. One of the most important functions of the organization is to help member companies apply for bank loans and financial grants. According to the preferential agreement signed with the bank, the organization coordinates the loan to the enterprise, and the bank must reduce the opening fee and interest rate, and check it every six months [22]. At the same time, the organization also helps enterprises to report in accordance with the regulations for specific financial support projects of Eu and regional governments, such as enterprise expansion, r&d and training, and international operation. In particular, prior to the 1981 conference, the Organization, together with the Chamber of Commerce and seven enterprises, launched a guarantee company to help SMEs obtain loans [23]. According to the introduction, its guarantee capacity can be expanded 30 times according to the registered capital, the amount of guarantee for enterprises can account for 50% of the total amount of enterprise loans, and the guarantee premium is charged at the ratio of 0.4-0.5% [24]. Last year, it managed to help companies borrow 40 million euros. In addition, the SMEs technology innovation promotion center is also an important intermediary service organization. Most of these institutions have their own laboratories, and through the innovative combination of existing software and hardware, create new production equipment systems and products, and design new engineering processes and technological transformation schemes with good competitive advantages. They offer a variety of services to SMEs in various industries and at various levels. For example, to address the innovation needs of small and medium-sized businesses, information technology expertise and innovative technology training should be widely disseminated.

7.2 Establish policy support system

It is mainly through providing various forms of funds to support SMEs in carrying out foreign investment, technological research and development, staff training. For example, the government invested 25% to set up SIMEST (Italian foreign investment promotion corporation) to help Italian enterprises to invest and acquire enterprises abroad [23]. The company can lend up to 90 percent of its foreign investment. The loan interest rate is calculated according to 50% of the loan interest rate of commercial banks, and the operation is fast, and the reply to the application of enterprises is given within 90 days [25]. The rolling fund established by the state is not for the purpose of making profits, and it specially supports enterprises to invest and acquire enterprises or establish new enterprises in designated countries or regions outside the EU [25]. For example, 40 million euros are allocated to China, 70 million euros to Russia and Ukraine, 64 million euros to Mediterranean countries and 13 million euros to the Balkans [17]. Fund repayment period is long 8 years, continue to roll after recovery. The fund is used free of charge, but if the enterprise makes a profit from its investment project, 3% of the profit should be handed over to the fund [26]. Support vocational training. Vocational training funds are allocated to training institutions by the EU through the Regional government of Italy. Individuals and enterprises participating in the training do not need to pay the training funds, and the EU also needs to check the use of funds and the implementation of training programs [26]. Vocational training is generally conducted by intermediary agencies and individuals participate voluntarily. Italy's employee contract stipulates that enterprises should train employees

under 30 years old, and the government gives preferential tax treatment to employees [26]. When an enterprise signs a contract with an employee, the content of vocational training shall be agreed upon. In the future, the employee shall, according to his/her own situation, request to participate in various kinds of training, which shall be arranged by the enterprise. Subsidize research and development costs. Both the Italian state and the European Union subsidize technology research and development. Italy's National Research and Development Advisory Centre is a government-funded agency that provides consulting services on development issues to companies, through which they receive research and development grants. Aizote bio-medical device company enjoys research and development subsidy treatment every year. Research and development subsidy accounts for about 5% of sales revenue in 1998, which is equivalent to 35% of the actual research and development cost of the enterprise. In 2004 the subsidy was close to 2.5%, or about €6 million, equivalent to 12% of the actual research and development expenditure. For research and development projects subsidized by the state or the EU, the government will send personnel to check the implementation and pay 5% of the project profits if they are successful [27].

7.3 Establish a legal support system

According to the relevant provisions of the EU, all EU member states must formulate their own policies and regulations on the premise of abiding by the EU rules [27]. The EU believes that only the market is the basic means of allocating resources, but does not prohibit national governments from implementing special support policies for SMEs. Under the unified institutional arrangement of the European Union, the Italian government adjusted the traditional way of supporting the development of SMEs, mainly relying on the financial policies of the European Union to support SMEs [25]. However, there is still a robust system of legal support. Lombardy, for example, has as many as five legal systems to facilitate the internationalization of SMEs. The content covers enterprises' participation in foreign shares, acquisition of foreign private enterprises or establishment of new enterprises abroad, establishment of warehouses outside the EU for commercial activities, financial support for market research and feasibility analysis of enterprises and overseas exhibition and sales [26].

7.4 Establish a research support system

Many scientific research institutions in Italy have given effective support to the technological innovation activities of SMEs from different angles and in different ways, among which the most prominent is the industrial applied research institute under the Italian Ministry of Industry and Commerce. It is the second largest scientific research institution in China and has 10 scientific research bases in the country. It is mainly engaged in the research of new technologies in environment and energy, and actively promotes the mature technological achievements to small and medium-sized enterprises to help them develop [28]. The Prato region is an important textile industrial cluster in Italy, and the state University of Florence has research institutes in the region. The research results are promoted to small and medium-sized enterprises free of charge through technical bulletin, or jointly developed technologies between universities and enterprises [29]. Specialized scientific research institutions have become the technological support for the stable development of small and medium-sized firms in each industrial cluster area, and they are interdependent and complementary to one another.

8. Conclusions

To summarise, the rise of small and medium-sized businesses, as well as the implementation of the Marshall Plan, were clearly two crucial elements in the rapid development of the Italian economy from 1950 to 1963. It was the combination of these two factors that forged Italy's economic golden age. Due to the drag of the war and the urgent need to transform the post-war economy, Italy needed some effective measures to reverse the post-war decline. The implementation of the European Recovery Plan, the expansion of small and medium-sized businesses, and the reform of the political

and economic system have all contributed to the Italian economy's prosperity and progress. The new policies influenced the establishment of Italy's new political and economic structure, the gradual recovery of industrial production, and the rapid growth of small and medium-sized businesses. Small and medium-sized businesses have undoubtedly contributed to Italy's flourishing economy, but their fast expansion has not been without its consequences. The majority of small and medium-sized businesses in Italy are typical family businesses. Although enterprise technological precipitation is deep, the economic benefit of output may be limited due to their small scale and low risk resistance capacity. However, the company can still establish intermediary service system, policy support system, legal support system and scientific research support system to minimize the drawback of small and medium-sized firms to economic development. After its glory days, Italy's economy seems at risk of stagnating or even going backwards. From May to June 1965, three banks in Italy were declared bankrupt in succession. The government adopted an inflationary policy to try to ease the economic crisis, but the result further caused the instability of the financial system. In 1966, though, the Italian economy grew by 9.5%, overtaking the gloom of the previous two years and maintaining such growth for several more years [30]. However, this subsequent growth is not seen as a continuation of the earlier miracle. After the wild swings of 1964 and 1965, it is clear that Italy's economic foundation has been shaken and that the golden age may not be repeated.

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