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# When Political Rights Do Not Translate into Economic Power: The Rise and Fall of the Slovenian Minority's Economy in Italy (1954–2020)

Igor Guardiancich 

Scienze Politiche, Giuridiche e Studi Internazionali, Università degli studi di Padova, Italy

Email: [igor.guardiancich@unipd.it](mailto:igor.guardiancich@unipd.it)

## Abstract

Lack of economic data based on ethnicity makes the study of minority economies in linguistically or ethnically mixed regions problematic. Yet, there is much to learn from these hard cases of economic development in terms of the policies that guarantee ethnic or linguistic survival and reproduction. The present article investigates the long-term economic development of the Slovenian minority in Italy between 1954 and 2020. It does so by applying the theoretical framework by new institutional economists Daron Acemoglu, Simon Johnson, and James Robinson (2005), which looks at the dynamic role of political and economic institutions for the generation of economic growth. The parable of this community's economy shows that political power and economic success can be flimsy and ephemeral. Strategic, long-term economic planning and, especially, contingent planning against foreseeable risks, both of which require the systematic collection of accurate data and the coordination of representative organizations, are key to successful reproduction and sustained growth.

**Keywords:** Italy; Slovenia; minority economy; new institutional economics; political institutions

Even though ethnic or linguistic minorities are a popular subject, the functioning of their economies is largely underresearched. The absence of economic data based on ethnicity makes the study of minorities in linguistically or ethnically mixed regions problematic. At the same time, studies of regional economies are an imperfect substitute as, with few exceptions, minorities do not have control of the regional political and economic institutions.

Yet, if one ventures in the complex task of discerning what constitutes a minority economy within the majority one, this provides useful lessons on the importance of different educational, employment, and developmental policies for ethnic or linguistic survival and reproduction.

The present article investigates the long-term economic development of the Slovenian minority in Italy between 1954 and 2020. It does so by applying the theoretical framework developed by new institutional economists Daron Acemoglu, Simon Johnson, and James Robinson (2005), which looks at the dynamic role of political and economic institutions for the generation of economic growth.

The article individuates three developmental periods separated by two structural breaks in the political (formal and informal) institutions governing the relations between the Italian majority and Slovenian minority in Friuli-Venezia Giulia: a first period of sustained growth, from 1954 until the early 1990s, helped by the strong backing of the Socialist Federal Republic of Yugoslavia; a second period, that started with Yugoslav's breakup in 1991, during which the gradual political détente between the Slovenians and the Italians was accompanied by the collapse of the minority's

economic structures; and a third period of relative political stability that followed the Italian parliament's approval in 2001 of the Protection Act<sup>1</sup> for the Slovenian minority, who were marred by the loss of economic independence.

The parable of the Slovenian economy in Italy indicates that political power and economic success can be transient. Above and beyond individual policies, the article shows that strategic and, especially, contingent planning of the entirety of a minority's economy is key to achieve long-term growth. To this end, increased availability and systematic collection of accurate data is as necessary to the community's planners as it is for those researching minority economies. Effective coordination of representative economic and political organizations is the other *conditio sine qua non*.

This research relies on many sources. Considering that existing studies cover the Slovenian economy in Italy only until the early 2000s, secondary literature has been supplemented with primary sources (not exclusively) from the two Slovenian business associations in Italy (Slovensko deželno gospodarsko združenje, SDGZ, i.e., the Slovenian Regional Economic Association, and Kmečka zveza, i.e., the Agricultural Organization) as well as with 30 semistructured interviews with Slovenian entrepreneurs, officials, and politicians that took place in 2018–2020. The interviews contained 22 discussion points divided into four thematic areas: the role of the interviewee; history of the Slovenian economy in Italy; the current state of minority entrepreneurship; and future economic sustainability. The interview material was instrumental to work out the operational details of the Slovenian minority's organized economy as well as to understand the implications of the shift to its current, fragmented configuration. Igor Guardiancich (2022) provides the unabridged account.

The article is structured as follows: First, we review the literature on minority economies, including on the Slovenian economy in Italy. Subsequently, we introduce the theoretical framework. Then, we trace the rise and fall of the minority's economy from 1954 until 2020. And finally, we conclude.

## Literature Review

There are relatively few studies explicitly addressing the issue of minority economies (Weller 2004). Michele Gazzola (2016) argues that linguistic equality is an insufficiently researched field of study, as most authors only write about the linguistic abilities of migrants. His findings emphasize that multilingualism gives economic benefits at the individual and the aggregate levels, with a positive impact on GDP growth. He also stresses that the hegemony of some languages create significant transfers of resources between countries and may distort competition.

Jonathan Wheatley (2007) addresses the causes and effects of the economic exclusion of minorities and enumerates the most effective policies in combating economic discrimination. The author goes around the absence of economic data based on ethnicity by using NUTS (Nomenclature of Territorial Units for Statistics) data on regions where an ethnic minority represents more than 35 percent of the total population. This shows that regional minorities are not systematically in a worse economic position than the majority population. While some regions with a subnational identity, for example, Åland Islands, Catalonia, and the Basque Country, are richer than the rest of the country, Galicia and Wales are poorer. In the case of Scotland, economic development is similar to the British average. In mixed regions where ethnic minorities are compactly populated, the situation is grimmer. With the exception of South Tyrol, whose economic development exceeds the Italian average, and Transylvania, which compares well with other Romanian regions, ethnic minorities are economically less developed than the majority population. As the Slovenian minority does not represent more than a third of the population in any part of Friuli-Venezia Giulia, NUTS data are scarcely useful.

Most authors agree that the economic integration of minorities is important because their economic development benefits all, encourages the participation in public life, hastens democratic consolidation, and reduces the chances of interethnic conflicts. Factors that cause marginalization

either depend on the legal, economic, and social status of minorities or are conditioned by identity and practice (Saarikivi and Marten 2012). At the same time, several policies may reduce discrimination (Wheatley 2007).

The institutional design is crucial, as minorities are conditioned by citizenship laws, minority language laws, territorial organization, and electoral law. Territorial autonomy plays a major role, for example in South Tyrol (Pallaver 2014). The autonomy enjoyed by the German minority means that it sovereignly manages financial resources and negotiates independently with the European Union (EU), on issues such as the Common Agricultural Policy.

Education policy affects employment opportunities and economic development (Bertuletti 2016). If members of minorities leave secondary school or university with lower educational attainments than their majority peers, this thwarts their long-term earning potential.

Employment quotas can reduce disparities between members of minorities and majorities. The South Tyrolian 1972 quota system has helped the German- and Ladino-speaking populations (Benedikter 2008). Yet, employment practices that systematically favor the minority may be counterproductive: they may hinder equal opportunities and promote discrimination.

Trade between the minority and its home country is often a source of prosperity (Wheatley 2007). However, it is not always a guarantee for it, especially if the home country is less developed than the host country and when economic asymmetric shocks occur. At the same time, minorities are economically disadvantaged if they are concentrated in the host country's peripheral regions. Low levels of industrialization and underdeveloped infrastructure are obstacles to integration into the national and global economy.

The transition from socialism to a market economy has been traumatic. The downsizing of the public sector and the closure of unviable industries triggered deep economic recessions and worrying unemployment levels. These changes had a strong impact on members of national minorities (Galbreath 2005). Europeanization has offered a helping hand through the disbursement of structural funds for regional development and the creation of a single European market by removing border restrictions to the free movement of people and goods (Crepaz 2014).

Finally, the availability of accurate data is as crucial as it is rare and helps detecting and analyzing existing problems, thereby reducing the uncertainty in which individuals and organizations operate (North 2005). Lack of data has been often cited as an obstacle for the strategic development of several current members of the EU in the aftermath of the Second World War (Eichengreen 2007).

### *The Economy of the Slovenian Minority in Italy*

Compared to the historiography of the Slovenians in Italy, which is well documented (Bajc 2004; Wohinz and Pirjevec 2000; Pirjevec 1985; 2008; Pirjevec, Klabjan, and Bajc 2006), the literature on their economy is scarce and mostly preceding Slovenia's accession to the EU.

A small number of studies provide a general overview (Cupin 1982; Waltritsch 1982; SKGZ 1985; Jazbec 1996; Gulič 2005; Brezigar 2017). Giulio Sapelli's (1990) economic history of Trieste is a valuable addition, as it cursorily looks at the minority from the Italian viewpoint.

The most comprehensive work is Milan Pahor's (1998) monograph, which covers 150 years of economic history, from 1848 to 1998, investigating most branches of Slovenian entrepreneurship, such as crafts and banking. It emphasizes the role played by the organized economy in the postwar period, leading the reader through the most important events for the minority's economy: from the gradual opening of the border between Italy and Yugoslavia to the demise of the banks Tržaška kreditna banka (TKB) in Trieste and Kraška banka (KB) in Gorizia.

Maksimiljan Gulič (2005) presented a less extensive, but methodologically different and therefore complementary, study at the Program Conference of the two main political organizations of the Slovenian community in Italy, the left-leaning, former pro-Yugoslav umbrella organization the Slovenian Cultural and Economic Association (Slovenska kulturno-gospodarska zveza, SKGZ) and the Catholic counterpart, the Council of Slovenian Organisations (Svet slovenskih organizacij,

SSO), which were discussing the minority's future after the 1990s crisis. In it, Gulič analyzes a survey conducted among Slovenian companies in Trieste and Gorizia. The questionnaire covered many characteristics of Slovenian companies, their expectations and plans regarding future activities (partly related to Slovenia's EU accession), and membership in trade unions, Slovenian organizations, etc.

In 2017, the Slovene Research Institute (Slovenski raziskovalni inštitut, SLORI) published an edited book, covering topics important for the existence and development of the minority. Among the contributions, the analysis by Sara Brežigar (2017) focused on the state of the minority's economy and its financing. The author notes that, after the demise of the organized economy, the Slovenian community's entrepreneurship is so integrated with the Italian one that it is undistinguishable, with three exceptions. First, agriculture and agritourism is in the hands of Slovenian farmers, who have specialized in top-quality products. Second, Slovenians still own large portions of the land around urban centers, thus having easy access to mortgage loans. Third, knowledge of the Slovenian language represents an advantage when doing business with ex-Yugoslav republics, although English is playing an increasingly important role as the new *lingua franca*.

Several specific economic topics have also attracted attention among scholars. The liquidation of the TKB has been the subject of much research, which, however, often relies on theories that cannot be falsified. The demise of TKB is understood by the authors as a consequence of both Slovenian and Italian intrigues (Jazbec 1996; Pellarini 2006). Vojmir Tavčar's (2011) contribution addresses the topic more academically, trying to prove that many mistakes have originated within the bank.

## Theoretical Framework

The few interesting studies on minority economies indirectly rely on a large literature on the long-term economic success of particular communities. This article adopts the theoretical framework developed by Acemoglu, Johnson, and Robinson (2005), which emphasizes the importance of political and economic institutions for the success of a given society—the first factor underscored by Jonathan Wheatley (2007).

Neoclassical theories of economic growth somewhat neglect institutions and explain differences in growth rates by focusing on different pathways that lead to the accumulation of production factors. These depend on initial endowments in terms of capital, labor, land, and social habits, such as the organization of production and investment in innovation. Although these factors are of key importance, they are not the causes of economic growth: these factors are economic growth.

As part of the “new institutional economy,” Douglas North offers a widely used definition for institutions: “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” and consequently “structure incentives in human exchange, whether political, social, or economic” (1990, 3). Acemoglu, Johnson, and Robinson (2005) distinguish between two typologies of institutions: economic and political.<sup>2</sup>

Economic institutions, such as property rights or the presence of markets, set incentives and constraints for economic actors and condition economic outcomes. Without guaranteed property rights, individuals do not invest in physical or human capital and do not adopt the most efficient technologies. Without fully open markets (e.g., in socialist countries), the allocation of resources may be inefficient, and the distribution of profits, revenues, and remaining control rights is uncertain. In the case of the Slovenian minority in Italy, the damage inflicted by the systematic expropriation of land is a glaring example.

Political institutions, like economic institutions, set limits and incentives for key actors, but this time in the political sphere. In the context of minority realities, political institutions play a key role in protecting the minority from the majority, as they grant political privileges (legal or *de jure* political power) that otherwise minority communities would not obtain on their own. The differences between political institutions in a single polity can be huge. Suffice it to compare the

privileges enjoyed by the German minority in South Tyrol to the more modest protection of the Slovenian community in Friuli-Venezia Giulia (Benedikter 2008).

The ability of a particular community to solve its problems through collective action (Olson 1965) and the rational distribution of the means of production have a key influence on its actual, de facto political power. If a certain group of people acts as a community and not just as a sum of individuals, they have a greater chance of successfully resisting the authorities even if they do not enjoy legislative privileges. It is hard to imagine a better example than the partisan uprising against fascist oppression (Pirjevec 2020). Furthermore, the actual strength of a community depends crucially on the economic resources at its disposal. These determine both the ability to exploit existing political institutions for the benefit of the community and the capacity to improve its situation in relation to other, antagonistic groups. In the case of minorities, knowledge of a second language is a lever for building higher quality, and therefore economically more successful, human capital.

This preamble is necessary because it clarifies that economic growth and consequent distribution of resources are endogenous—that is, dependent on human decisions about the institutions that govern the economy (on intentionality, see North 2005). Economic institutions also depend on the relationship between (de jure and de facto) political forces of the interest groups that make up a community. This balance is determined by the laws embedded in political institutions and access to existing economic resources. Figure 1 schematically shows the links between the independent (political institutions, distribution of economic resources, and therefore legal and actual political power), intervening (economic institutions), and dependent variables (economic growth) as well as the impact on the next interaction (at time  $t+1$ ).

Static and dynamic elements coexist in this theoretical framework. Two factors ensure stability. Political institutions are resilient and often require major upheavals to bring about institutional change. In the history of the minority, the Second World War and the fall of the Berlin Wall dealt a fatal blow, respectively, to fascist rule and Yugoslavia, thereby transforming the political institutions in which the Slovenian minority in Italy was involved. The distribution of economic resources can also induce stability. In a community, richer groups enjoy greater de facto political power, which allows them to shape economic and political institutions that favor their interests and maintain their prosperity. Even in this case, shocks, for example, in technological innovation or in the international environment, lead to changes in political power and all other institutions affected by it. There have been plenty such economic upheavals in the history of the Slovenian minority: the

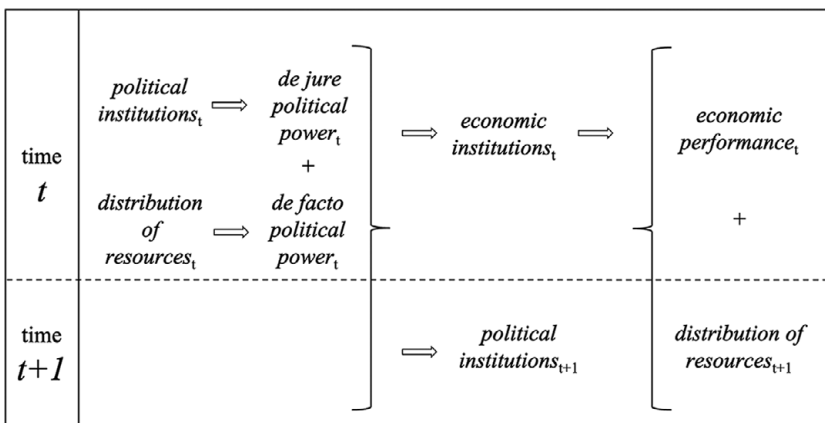


Figure 1. Theoretical framework.

Source: Acemoglu, Johnson, and Robinson (2005, 392).

trade agreements between Italy and Yugoslavia, the collapse of the Tržaška kreditna banka, Slovenia's accession to the EU, and so on.

The theoretical framework above is employed as a heuristic device to analyze the evolution of the Slovenian economy in Italy. The political situation in the region changed frequently and abruptly over the past 70 years and, therefore, its institutions as well. With them, the political power of the minority ebbed and flowed without ever securing a solid foundation that would ensure economic growth and prosperity in the long run.

### The Parable of the Slovenian Minority in Italy

The Slovenian community in Italy has been inhabiting what is now Friuli-Venezia Giulia since the 6th century AD. It is concentrated in the Tržaška and Goriška provinces, that is, around the urban centers of Trieste and Gorizia, and scattered in the mountainous areas of the Videmska (Udine) province.<sup>3</sup> Its numerosity is not easily assessed (unofficial estimates indicate circa sixty thousand ethnic Slovenians) because Italian censuses have not included information on ethnicity since 1971 and because the minority never accepted the official figures as they may have been used against it (Jagodić 2017).

The mistrust between Slovenians and Italians dates from 1848, the year of the uprisings against the Austrian empire. The economically more advantaged and urbanized Italians wanted to maintain their privileged positions against the ever more assertive, but less developed and peripheral, Slavs. The clashes intensified after the First World War, when victorious Italy annexed a number of north-eastern territories, and erupted with full force during fascism, through the suppression and forced Italianization of ethnic Slovenians (Pirjevec 2008).

The contemporary tale of the Slovenian economy in Italy thus started after the demise of fascist imperialistic aspirations and the end of the Second World War, which represented a structural break leading to the adoption of a new political and economic institutional framework in Italy. During the period 1945–1954, when the borders between Yugoslavia and Italy were not entirely settled, the Slovenian minority found itself in an environment characterized by the rule of law and democracy (which was a great improvement compared to fascism). Yet, the political climate was only relatively favorable due to a legacy of mutual mistrust and continuous frictions between the two states (Sapelli 1990). With the 1954 London memorandum, the Italian state guaranteed the protection of the Slovenian minority's rights, limitedly to the part of the Free Territory of Trieste (FTT) adjudicated to Italy. This political milestone set the stage for the reconstruction of the minority's political, economic, and cultural organizations suppressed by the Italian authorities during the two decades of fascist rule.

As for the economic resources of the community, the postwar situation was catastrophic. There was almost no capital left because the fascist regime obliterated most Slovenian financial intermediaries. Only a few savings and loan banks survived, such as the smaller Kmečka banka in Gorizia (Waltritsch 1982). The establishment of a stronger player, Tržaška kreditna banka in Trieste, had to wait until 1959 due to Allied and, later, Italian opposition to the rise of Slav capitalism (Cupin 1982).

The Slovenian workforce was decimated. The postwar generation was the first to be allowed to attend classes taught in Slovenian. The few able to work had very low educational attainments. There were many farmers (for whom there was not a single agricultural school), workers, small craftsmen, and small traders. The intelligentsia was limited to a few professionals (doctors, lawyers), and there were almost no scientists and technicians. The entire minority workforce had to be retrained and, at the same time, discrimination in employment had to be tackled, especially in the public and in the financial sectors (Brezigar 2017). Such unfavorable conditions led to the mass emigration of the few educated and technically qualified young Slovenians (Purini 1995).

The expropriation of land in Brda (around Gorizia) and the Karst (surmounting Trieste), which was predominantly owned by Slovenians, was a painful postwar chapter. The authorities needed the land for building industries, infrastructure, and the construction of settlements to host Istrian and

Dalmatian refugees. The principle was that Slovenians must also contribute to the scientific progress of the region. The probable truth was that Italian authorities tried to dilute the Slovenian presence, where it was most concentrated (Spetič 2006).

### Rise (1954–1991)

Tensions between Italy and Yugoslavia eased after 1954, the year of the definitive partition of the Free Territory of Trieste. During the following 20 years, the political institutions governing cross-border relations and, hence, the minority's organizations consisted of a number of agreements regulating trade and the movement of people between the two countries. In 1975, the Osimo Treaty finally settled the border, calculated reparations for (part of) the Italian refugees that left Yugoslavia, and discussed the future statuses of the Slovenian minority in Italy and the Italian one in Yugoslavia.

Starting in 1954, when the control over the bulk of Yugoslav property in Italy was handed over to the Slovenian minority, the situation regarding the access to economic resources changed abruptly. Economic success was the product of three concomitant developments.

First, the left-wing, Yugoslav-oriented part of the minority that gravitated around the umbrella organization Slovenska kulturno-gospodarska zveza organized efficiently into what has been often termed a state within a state or, more dramatically, the fifth column of Yugoslavia. The minority itself called it *družbeno* or *organizirano gospodarstvo*, that is, the social or organized economy. It adopted a system of fiduciary ownership—unbeknownst to Italian tax authorities—which comprised two major banks (Kmečka banka and Tržaška kreditna banka), a financial holding (Società anonima finanziaria per i traffici internazionali, SAFTI) representing over one hundred small- and medium-sized companies in manufacturing and services, some involved in military technology, a number of real estate holdings (Dom, Società impianti sportive, and Alpe), and a lucrative publishing company, that is, Založba tržaškega tiska (ZTT) in Trieste. On the operational front, the organized economy relied on sophisticated economic reporting, carried out by the Economic Committee of the SKGZ. Its reports, of which the five-year economic plan (1986–1990) is the most detailed (SKGZ 1985), not only thoroughly analyzed the minority's overall economic situation but also strategically delineated future employment, housing, research, and spatial as well as developmental policies for all major sectors in which the minority was involved.

Second, the core of this system hinged on the reopening of trade between the capitalist and socialist blocs in the mid-50s. So-called autonomous accounts, a type of clearing account allowing for the international exchange of goods and services in the framework of agreed lists, was the economic institution that strictly regulated all financial transactions between the two countries. The abovementioned banks and a number of import-export companies under the aegis of SAFTI became the de facto monopolists in the financial and physical exchanges taking place between Italy and Yugoslavia. (This position rent created resentment among the Catholic-oriented part of the community, represented by the umbrella organization Svet slovenskih organizacij, which was excluded from the lucrative business.) Between the 1960s and 1980s, these cross-border norms favored the minority's economic organizations. The ensuing economic growth provided the Slovenian community with enormous material wealth and, together with the available resources, real political power. Before the heightening of the Yugoslav crisis around 1988, the organized economy reached its peak: according to informal estimates, it directly employed up to 1,500 people and generated 800 million Deutschmarks in revenue (720 million euros in 2020) with an average of 17 billion lire in profit per year (some 20 million euros).

Finally, the survival of such structure amid increasing political tensions with the Italian majority relied both on the persistence of favorable legislation and on external Yugoslav protection. Not only were there multiple, fortunately failed, right-wing terrorist attacks targeting Slovenians in the 1970s, but also the anti-Yugoslav, anti-Rome Lista per Trieste, a distant precursor to Lega Nord (Northern League), ruled the political space between 1976 and 1993. As a counterpoint, the Communist Party

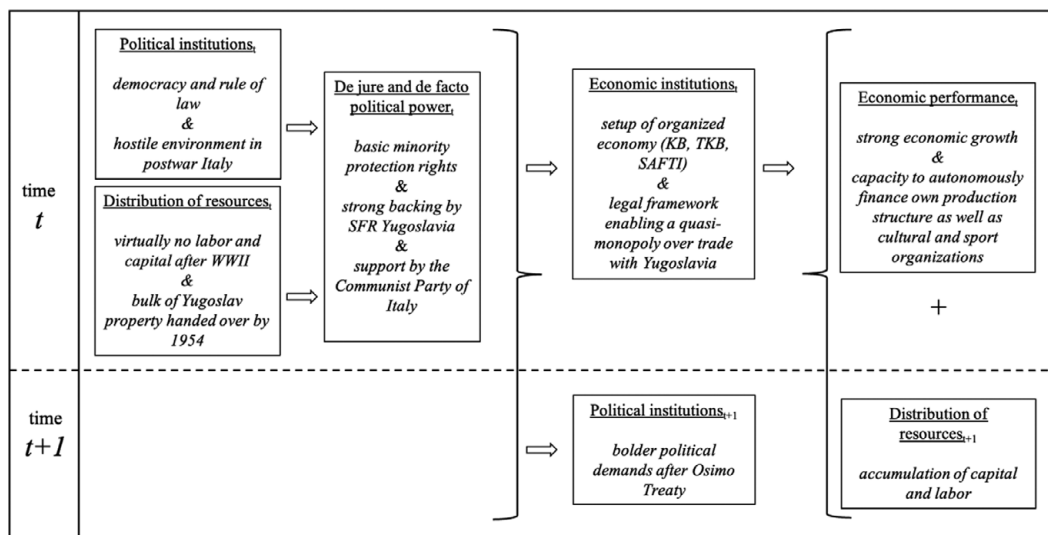


Figure 2. Rise (1954–1991).

of Italy (Partito comunista Italiano, PCI) provided limited internal support by guaranteeing the representation of Slovenians in the Italian parliament since 1963.

The role of Yugoslavia is still underresearched. Yet, several accounts point to the fact that the Socialist Federation stood behind the rights of the Slovenian minority and that its central bank backed Slovenian banks in Friuli-Venezia Giulia. Moreover, the left-wing part of the minority received from Yugoslavia millions in today's euros to finance its cultural and political organizations. Most observers believed that the minority would not have been able to build its economy successfully without such a strong external sponsor.

In terms of the theoretical framework, as shown in figure 2, until 1991, the Slovenian minority enjoyed increasing de facto political power through the accumulation of economic resources, mainly thanks to favorable cross-border legislation and through Yugoslav's help. Despite being ruled by the Yugoslav-oriented members of the minority, the organized economy engaged in strategic planning for the whole community and sponsored inclusive endeavors, such as the employment of Slovenians to prevent mass emigration or Italian assimilation as well as the financing of cultural and sport associations. These clashed with primary economic objectives, such as the reinvestment of profits and organizational strengthening of enterprises. Not only did Slovenian firms help the reconstruction of those minority-populated territories in Friuli that were most damaged during the 1976 earthquake, but also politically bold moves were at the time possible. In the early 1980s, the minority explicitly demanded that the (promised, yet unwritten) Protection Act be extended to the entire territory of Friuli-Venezia Giulia, where Slovenians live, including to the mountainous regions that had been part of Italy already since 1866, a requirement that would have been unimaginable only 15 years earlier.

### Fall (1991–2001)

In the early 1990s, some economic sectors controlled by the Slovenian minority were rapidly expanding, such as banking and foreign trade (Pahor 1998, 124). Less than a decade later, only ruins remained. The dissolution of Yugoslavia represented a structural break that recast most political and economic institutions affecting the Slovenian minority in Italy. The collapse of Yugoslav markets bankrupted the import-export sector, that is, the backbone of the minority's economy. Unencumbered by the political weight of the Socialist Federation, the Italian central bank, Banca



d'Italia, carried out, mainly in 1994, under the first center-right Berlusconi government, a number of inspections of Slovenian banks (chiefly looking for illegal shareholder agreements between Slovenian trustees).

Irregularities were found in both Kmečka banka and Tržaška kreditna banka (Tavčar 2011). The TKB board of directors pursued a questionable credit policy that was often illegal (connected to the financial restrictions during the Yugoslav breakup). Many loans were granted without adequate guarantees, and the management decided not to publish on the balance sheet guarantees for loans for which it could not comply with Banca d'Italia's requirements. The inspectors, who declared all loans to Slovenia and Croatia as nonperforming (for Kmečka banka), were relentless. At a time when Banco di Napoli was saved by the Italian Treasury, which injected 2,283 billion lire of fresh capital, the end result of the inspections was the absorption of Kmečka banka into an Italian bank and the liquidation of the much bigger Tržaška kreditna banka. The beheading of the minority's capital structure prevented the access to credit to the ailing companies of the SAFTI group, whose credit rating was downgraded to junk. By 1997, widespread bankruptcies and layoffs put an end to the organized economy.

Although existing analyses vary widely, commentators (e.g., Jazbec 1996; Pahor 1998; Spetič 2006; Tavčar 2011; Pavšič and Žiberna 2020) agree that there were several reasons for the downfall of the Slovenian economy.

These were internal and external, both economic (the almost simultaneous crisis in Italy and Yugoslavia, plus the uneconomical operations within the organized economy) and political (the disintegration of Yugoslavia, without which the minority no longer had external protection against Italian attempts at normalization, coupled with growing frictions between the minority and independent Slovenia).

On the economic front, the Socialist Federation was sinking into an ever-deepening crisis during the 1980s (the International Monetary Fund intervened already in 1983). Trading with Yugoslavia became increasingly risky after 1988 (Pellarini 2006). The outbreak of the war immediately halted all international exchange. Tourist flows dried up as did Yugoslav costumers in Gorizia and Trieste. The key economic institution that had driven the minority's economic growth, that is, the autonomous accounts, became completely uninteresting, sounding the death knell to the whole import-export sector. Due to the Yugoslav market's fragmentation, the companies of the SAFTI group were deprived of their primary outlet. The riskiness of bank loans to the former Yugoslav republics increased sharply.

At the same time, Italy experienced its worst economic crisis in the postwar period. Public debt doubled between 1980 and 1993, to 115.7 percent of the GDP. Annual inflation was at least 5 percent. International investors shunned Italy. On September 16, 1992, Black Wednesday, the lira depreciated by 7 percent against the Deutschmark and was withdrawn from the European Monetary System. Shortly afterward, the *mani pulite* (clean hands) corruption affair swept away the whole Italian domestic political class (Capussela 2019).

As far as the Slovenian minority was concerned, internal economic problems intensified due to the uneconomical functioning of the organized economy, unpreparedness to confront the challenges of the post-Yugoslav period, and an inadequate ownership structure. Boris Siega (1997) argues that a minority with limited economic resources could in no way pursue a policy similar to French dirigisme. As already mentioned, economic goals were subordinated to the two priorities of the SKGZ that were duly spelled out in its strategic plans: the creation of jobs for the Slovenian minority and redirecting about a third of net revenues to cultural and sports organizations.

Hence, maximizing employment (a goal usually set by a country) and social responsibility (at most a subordinate goal of an entrepreneur) were more important than establishing, consolidating, and adequately capitalizing as many successful and healthy companies as possible. The maintenance of firms in the mountainous areas of Friuli-Venezia Giulia and, partly, in the Goriška region, whose main *raison d'être* was the retention of Slovenian workers, who would otherwise

inevitably move elsewhere, required “soft loans” (Kornai 1986, 3). The organized economy thus financed unprofitable projects in the name of higher national ideals.

An additional flaw was excessive specialization. Even before the outbreak of the war, trade between Italy and Yugoslavia became stagnate, while Slovenia was already preparing for a market economy. Yet, most minority entrepreneurs underestimated the danger of a Yugoslav breakup and were not sufficiently aware that, in addition to import-export activities, diversification and support for other business models had become necessary. As North (2005) puts it, reducing uncertainty in the face of novel situations would have required restructuring collective beliefs. Instead, the Slovenian minority chose to disregard the possibility that a structural break may occur. Consequently, the organized economy was completely unprepared when Yugoslavia collapsed, as the minority was almost entirely dependent on trade with the Socialist Federation and its material support. In short, the fragility of the foundations, on which the minority (and local Italian) economy rested, fully revealed itself, as Sapelli (1990) had warned a few years earlier.

Similarly, the trustee ownership structure shifted from guaranteeing the existence and smooth functioning of the organized economy in a hostile Italian environment to a ballast that prevented flexible adaptation to new economic and political conditions. It attracted the attention of financial supervisors and gave the Italian authorities a justification to strike down what remained of the minority’s economic organizations. After the entry into force of the Maastricht Treaty in 1993, updated Italian rules on financial and banking operations required greater transparency in the trustee-based ownership structure (Tavčar 2011). In principle, most shareholders agreed that the appropriate solution was the creation of foundations holding the trustees’ shares. Yet everything remained on paper, mainly due to the fear of losing control over the organized economy.

In addition to economic difficulties, the two political organizations that offered external and internal support (Yugoslavia and Partito comunista Italiano, respectively) collapsed. Political attacks on the Slovenian minority intensified after the fall of the Berlin Wall. The SKGZ’s traditional reliance on the Communist Party was a double-edged sword. On the one hand, the communists were the only leftist alternative, as the Socialist Party of Italy (Partito socialista italiano, PSI) allied with the anti-Slav Lista per Trieste. On the other hand, it was difficult to expect the Italian state, ruled for decades by the Christian Democracy (Democrazia Cristiana, DC) and PSI, to grant any additional rights to the *slavocomunisti* (Slav communists) (Spetič 2006).

The party that suffered the most since the collapse of the Soviet Union was indeed the PCI. As a result, the SKGZ sought the support of the socialists and Christian Democracy, while TKB began to engage more intensively with Italian partners, in order to prove that the minority was not the fifth column of Yugoslavia. The crisis that followed the *mani pulite* corruption scandal wiped out the entire *pentapartito*—that is, the five parties that ruled Italy in the 1980s, including the DC and PSI. Shortly after, the Party of Communist Renewal (Partito della rifondazione comunista, PRC) seceded from the renewed left. The organized economy thus lost most domestic political backing.

External protection faded with the dissolution of Yugoslavia. International relations between Italy and the successor republics changed abruptly. The Italian right saw the independence of Slovenia and Croatia as an opportunity for the possible return of Istria and Dalmatia to Italy (the latter assigned to Yugoslavia after the First World War). When the Osimo Treaty was ratified with the Republic of Slovenia, the Lista per Trieste, Istrian refugee organizations, and the far-right Italian Social Movement (Movimento sociale italiano, MSI) started attacking the last Christian Democracy government of Giuliano Amato. Relations between Slovenia and Italy cooled rapidly, as Italy began to condition Slovenia’s accession to the EU, Slovenian minority rights on the return of real estate to Italian refugees that fled Yugoslavia after the Second World War, and greater protection of Italian minorities across the border. Slovenians in Italy found themselves again under the heel of Italian nationalism and chauvinism (Kosin 1998).

The attack intensified in 1994 under Silvio Berlusconi, who won the elections as leader of the coalition Pole of Freedoms (Polo della libertà), composed of the parties Forza Italia, Lega Nord, and the National Alliance (Alleanza nazionale), the successor to the far-right MSI. For the first time in

the postwar period, neofascists led by Gianfranco Fini took part in an Italian government. His party called for a radical reduction in subsidies to the Slovenian minority. The aggression was short-lived, and Fini's acolytes soon backtracked. The aggravation of relations between the two countries severely damaged Italy's reputation in the European Union—which offered some minimal protection to the minority—and jeopardized its strategic position in Central Europe. A relative thaw came in October 1994 with the Aquileia Declaration, by which Italy undertook to finalize an agreement with Slovenia and to settle the minority issue.

Still, the gradual détente, which began at the end of 1994, was chiefly political. As mentioned above, the economic organizations that formed the building blocks of the organized economy—that is, Kmečka banka, Tržaška kreditna banka, and SAFTI—had no protection left against the discrediting campaign that was by then already in full swing.

The relations between the minority and the independent Republic of Slovenia were ambiguous as well. Slovenian politicians (for example, President Milan Kučan, Premier Lojze Peterle, and Minister for Foreign Affairs Dimitrij Rupel) officially committed themselves to its protection and formally protested against the alleged violations of minority rights (Kosin 1998). At the same time, the mood soured between the left-wing sections of the Slovenian minority and right-wing spring parties—the Demos coalition (Democratic Opposition of Slovenia, *Demokratična opozicija Slovenije*) led by Lojze Peterle—which had been elected to the National Assembly in April 1990 and led Slovenia to independence. Janez Janša's Slovenian Democratic Party (Slovenska demokratična stranka, SDS) was ideologically uninclined to the SKGZ and the organized economy. The transactions by SAFTI and the TKB in Slovenia represented an undesirable interference in the republic's internal affairs. A disparaging media campaign erupted, in which the minority leaders were branded as collaborators of Yugoslav's secret services (*udbomafijci*) and accused of being involved in money laundering, arms smuggling, bribery of Italian politicians, and more. Although there was no basis for these accusations, their escalation, which followed the logic of internal disputes in independent Slovenia (Tavčar 2011), had a double negative effect.

On the one hand, the Slovenian government began to distinguish between whites and reds in the minority. This deepened the split between the two umbrella organizations, that is, the left-wing SKGZ and the Catholic SSO, to the extent that a unified approach was no longer possible. The former communists were blamed for the gradual collapse of the organized economy. At the most critical moment, after the Tržaška kreditna banka went into receivership in 1996–1997, SKGZ leadership collectively resigned, and the very existence of the organization was brought under question. Under the temporary presidency of Rudi Pavšič, which was later confirmed at the regular congress, the SKGZ came back to life again.

On the other hand, such conduct in the home country showed that independent Slovenia—although TKB selflessly came to the rescue during the country's initial financial blockade—would not strenuously defend the left-wing sections of its minority, should they come under attack by the Italian authorities (Bernard 1996). It is an open question whether such weakness depended entirely on the negative attitude that Slovenian governments, including left-wing ones, had toward the individuals and companies involved in the organized economy. Yet, it is indisputable that Slovenia, also due to its small size, would have had to invest much greater political capital to protect the minority than former Yugoslavia had to, without, most probably, achieving similarly successful results.

Viewed through the lens of our theoretical framework (figure 3), the collapse of Yugoslavia and the PCI represented a structural break in the internal and external political support to the Slovenian minority, which was promptly exploited by parts of the Italian majority. The impact on Slovenian political and economic organizations was strikingly uneven.

On the political front, right-wing animosity gradually subsided, mostly because it was interfering with the accession process of Slovenia to the European Union (at a time when the Yugoslav wars were still raging on), which lent limited external support to the minority. The gradual normalization of relations between Italy and the Republic of Slovenia that started in 1994 stabilized the de jure

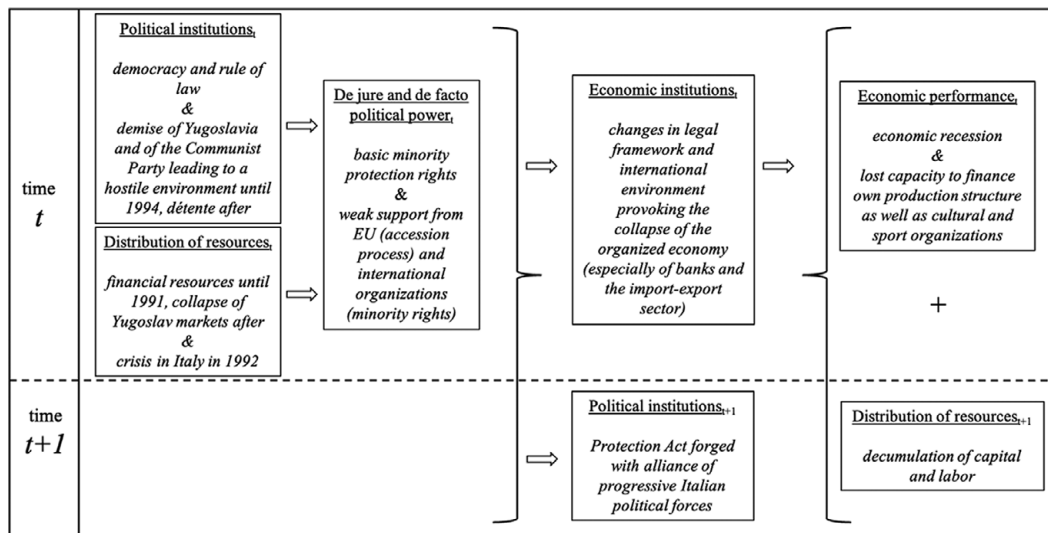


Figure 3. Fall (1991–2001).

political power enjoyed by Slovenians in Italy. However, the thaw did not apply to the organized economy, which, through the accumulation of material resources, had provided increasing de facto political power to the Slovenian minority.

This crumbled under the weight of Italian chauvinism and due to the collapse of Yugoslav markets, which deprived the key economic institution—that is, the autonomous accounts—of its purpose. As Rudi Pavšič and Marjan Žiberna (2020) write, attempts to weaken the material standing of Slovenians in Friuli-Venezia Giulia were made by Italian liberal nationalists throughout the postwar period. They achieved their goal when it became clear that, after the disintegration of Yugoslavia, there was no one left who would defend the economic organizations and interests of Slovenians in Italy. Since the second half of the 1990s, the minority lost most of the economic advantages it enjoyed since the beginning of the thaw between Italy and the Socialist Federation. The cultural and sports organizations that were financially dependent on the organized economy fell into an epochal crisis, which was resolved through heroic collective efforts (e.g., the cooperative that saved the daily *Primorski devnik*) and through the Protection Act that was passed by the Italian parliament in 2001.

### Dependence (2001–2020)

At the local level, the political détente between the Slovenian minority and Italian majority started already in the autumn of 1993, when Riccardo Illy, a coffee entrepreneur, was elected as first center-left major of Trieste in the postwar period. At the national level, Berlusconi's government was replaced by the technical government of Lamberto Dini in early 1995, which immediately gave the green light to start the accession negotiations between Slovenia and the European Union. Moreover, in 1996, the center-left coalition Olive Tree (Ulivo) came to power under the helm of Romano Prodi with the outside support of the Party of Communist Renewal. The fractious alliance governed until 2001 and was throughout the period more sympathetic toward the Slovenian community. In practical terms, for example, property rights stabilized, as land expropriations became less common.

The second structural break in the political institutions governing the relations between the Italian majority and Slovenian minority in Friuli-Venezia Giulia came in 2001. Twenty-five years after the Italian parliament formally agreed to adopt a Protection Act for the Slovenian minority,

this became law in February 2001 (against the obstruction of *Alleanza nazionale*) and was followed by the respective Regional Protection Act in 2007.<sup>4</sup> Together with the Act on the Protection of Historical Minorities,<sup>5</sup> these three laws regulate the fundamental rights of the Slovenian minority in accordance with the Italian Constitution as well as European and international legislation (Vidau 2017). The aim of the legal framework is primarily to ensure the cultural autonomy of the minority by guaranteeing the public use of the Slovenian language, the functioning of a bilingual education system, and an independent organizational structure. Provisions on the minority's economy are limited to state funding, which is managed by the Autonomous region of Friuli-Venezia Giulia under the Regional Protection Act, and the recognition of minority unions and business associations.

Despite the shortcomings, the Protection Act represents the main source of *de jure* political power for the minority, and thus its implementation requires constant monitoring. In particular, if the Friuli-Venezia Giulia regional electoral law designates a Regional Council seat to a Slovenian representative, at the national level no such provision yet exists (despite being mandated by the Protection Act). Until now, the Slovenian community had to rely on the goodwill of the Italian Communist Party and its successors to be represented in the Chamber of Deputies or the Senate (a situation that will be exacerbated by the curtailment of MPs approved through a 2020 Constitutional referendum). Similarly, the Slovenian community has not yet been able to take advantage of all the opportunities offered to it, especially with regard to the penetration of its brightest cadres into the higher levels of the Italian bureaucratic and political apparatuses. Additionally, due to a reorganization of the chambers of commerce, industry, crafts, and agriculture under Matteo Renzi's center-left government in 2015, the two main Slovenian business associations (*Slovenska deželna gospodarska zveza* and *Kmečka zveza*) have all but lost their representatives at the regional level. Hence, the *de jure* political power has barely translated into *de facto* power.

Both in terms of economic resources and organizations, the current situation is very different from the times of Yugoslavia. The organized economy's success is partly to blame. While trade and other businesses were booming, Slovenian entrepreneurs did not plan any contingent measures in the event of economic, financial, and political crises.

The Slovenian community now has substantial problems with the availability of labor and capital and long-term difficulties with the management of their own land due to the many bureaucratic and legislative obstacles (a complex system of limitations to agricultural activities exists on the Karst).

While unmeritocratic staffing within the organized economy led to the suppression of the entrepreneurial spirit of the Slovenian youth, its short duration prevented the buildup of a critical mass of educated people. Two additional problems have arisen. First, the Slovenian community is shrinking, and its schools are being propped up by children from linguistically mixed households, which does not bode well for the future use of the Slovenian language or for these students' attachment to Slovenian organizations and traditions. Second, the long-term stagnation of Italy as well as the limited involvement of Slovenians in the most productive sectors of the local economy (which emerged with the exponential growth of the port of Trieste and the development of the *sistema Trieste*—that is, a diversified network of high-tech firms and research institutes as well as state-of-the-art R&D—mean that the best cadres tend to emigrate.

The suppression of the two main Slovenian banks (*Kmečka banka* and *Tržaška kreditna banka*) was recently compounded with the crisis of the financial company KB 1909 in Gorizia (the legal successor of *Kmečka banka*). According to Mitja Stefancic (2019), managerial mistakes that led to reckless and insufficiently planned investments were exacerbated by the global financial crisis in 2009–2011. Its liquidation (currently on hold) represented another blow to the Slovenian minority's capital base. For the time being, the only noteworthy financial player left is the cooperative bank *Zadružna kraška banka* (ZKB) in Trieste (Waltritsch 1998). The bank is sizeable for local standards as it manages more than a billion euros in loans and deposits. Yet, it has none of the freedoms to act as a proper investment bank as was the case with KB and TKB under the organized economy.

The lack of their own capital has been substituted by the introduction of legally guaranteed state contributions to minority organizations. Since 2015, the Protection Act systematically earmarks 10 million euros per annum to primary and secondary cultural, sport, and economic organizations within the community. Other Italian laws provide generous financing for multiple daily newspapers (e.g., *Primorski dnevnik*, *Novi Matajur*), the theater (Slovensko stalno gledališče), regional TV programming in Slovenian, and, especially, to Slovenian schools and their staff. Other sources of financing are contributions from Slovenia, regional and European structural funds, and so on.

Yet, Italian subsidies are an imperfect substitute to the minority's own resources, thereby undermining the de facto political power of the Slovenian community. First, the community is now subordinated to the legislator's goodwill. The past experiences with funding shortages provide a stern warning that nothing can be taken for granted. Second, the limited capacity of the community to autonomously manage these funds implies that there is almost no room for maneuver to allocate resources to other ends. The punctilious distribution of funds creates an insoluble conflict of interest. As each organization and each job post is now tied hands and feet to an external authority, the Slovenians in Italy have, in the words of Pavšič and Žiberna, "lost the foundations of their independence" (2020, 36).

At the level of economic organizations, with which the minority coordinates its economic interests, little has changed, at least formally. Slovenska deželna gospodarska zveza and Kmečka zveza offer excellent union, legal, and economic services to their members, as does the consultancy Servis for the whole business community and the strategically oriented, developmental agency Local Action Group Karst (Lokalna akcijska skupina Kras, LAS Kras).

However, beneath the surface, the decay of the trustee system left a gaping vacuum. The network of entrepreneurs and their political sponsors, which gathered within the SKGZ's Economy Committee, disappeared together with the organized economy. Thus, during the 1990s, the systematic and periodic analyses of the minority's economic situation as well as strategic developmental plans ceased to be published and were later substituted by less ambitious, ad hoc surveys (e.g., Gulič 2005). These are, however, hardly suitable for the complex problems facing Slovenian entrepreneurs and farmers. A notable exception to the general trend and an example of how strategic planning should be carried out is the well-researched masterplan for local rural development, produced in 2011 by LAS Kras (GAL Carso – LAS Kras 2011).

Finally, two major factors make it naive to expect that any of the existing political or economic organizations will simply take over such strategic leadership. The two umbrella organizations, the SKGZ and the SSO, never sufficiently emphasized the essential role that entrepreneurship plays in the development of the Slovenian community (the SKGZ's Economy Committee was only the formal framework through which the trustees operated). The organizations themselves require an overhaul as they are both relics of the postwar period, out-of-tune with current electoral trends. At the same time, the business associations Slovenska deželna gospodarska zveza and Kmečka zveza are ill-equipped to take the lead. Back in the days of the organized economy, the available data were easier to obtain due to the relative concentration of Slovenian entrepreneurship (and to a certain extent farming in cooperative farms). Under the current conditions of spatial and market dispersion, such analyses are much more complex and require often unavailable data, which has negative consequences for the long-term development potential of the minority.

Summing up, under more favorable political circumstances and pressured by the EU, the Italian parliament approved the Protection Act for Slovenians in 2001. In line with Acemoglu, Johnson, and Robinson's (2005) theoretical framework, as indicated in figure 4, the law can be seen as a structural break in the political institutions governing the relations between Italians and Slovenians in Friuli-Venezia Giulia. The act compensates the lost de facto political power enjoyed by the Slovenian minority before the dissolution of Yugoslavia by granting smaller gains in de jure political rights, thereby providing the community with a certain degree of equal participation in political decision-making. It moreover offsets the foregone resources accumulated through the organized economy by earmarking reasonably generous state contributions to minority organizations.

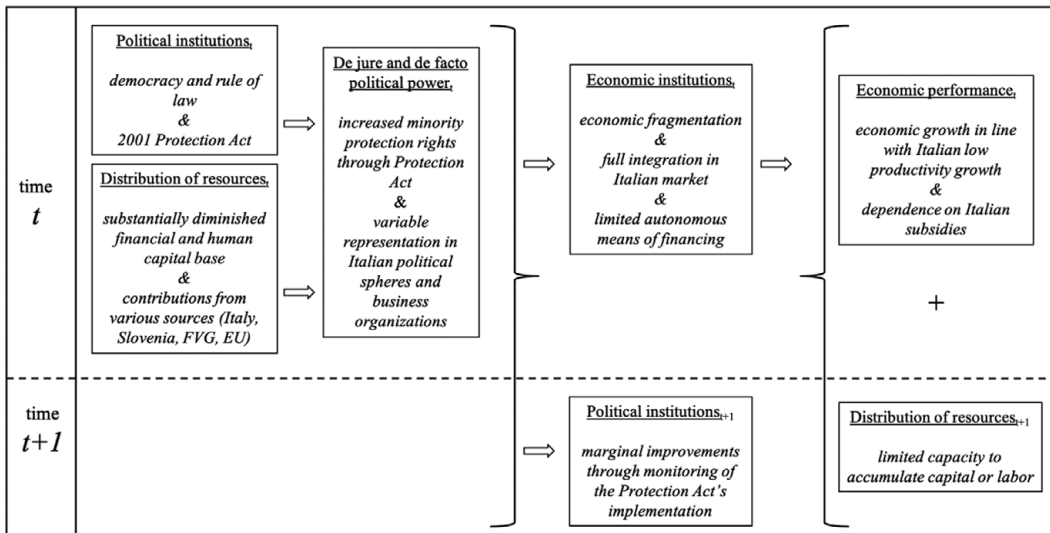


Figure 4. Dependence (2001–2020).

Yet, such *quid pro quo* hardly restores the actual political or economic power enjoyed beforehand, as it legally restricts the autonomous economic management of the minority's resources. On top of that, a coordination mechanism that would substitute the strategic planning under the organized economy has not yet emerged, further jeopardizing the community's growth potential.

## Conclusions

The literature on minority economies is undertheorized in that it often consists of lists of policies that may improve the long-term growth prospects of these communities without, however, providing a dynamic setting with which to assess the direction of change. To this end, the article applied Acemoglu, Johnson, and Robinson's (2005) theoretical framework within a diachronic research design to the development of the economy of the Slovenian minority in Italy after the Second World War.

Three periods are singled out, interspersed by two structural breaks in the political institutions governing the relations between the Italian majority and Slovenian minority in north-eastern Italy. During the four decades between the 1954 London memorandum and the disintegration of Yugoslavia in 1991, the Slovenian community enjoyed very few *de jure* political rights, owing to the lack of a protection act and to political and ethnic antagonism on behalf of the Italian (often right-leaning) majority. Yet, due to Yugoslav political protection and favorable economic legislation, the community managed to amass substantial economic resources that were strategically deployed with the precise aim to employ Slovenian workers, strengthen its cultural organizations, and use the leverage given by greater *de facto* political power to extract concessions from Italy.

The second period lasted from 1991 until 2001, year of the adoption of the Protection Act. The breakup of Yugoslavia was a killer combo for the Slovenian minority: on the one hand, the economic advantages evaporated overnight; on the other hand, the flimsy political protection afforded by independent Slovenia was no match against Italian chauvinism. If the political aggressions were quelled through the European Union's (indirect) pressures, the Italian authorities dealt a death blow to Slovenian capital, thereby severely limiting the minority's capacity to reproduce economically.

The third and final period started after the Protection Act became reality as a result of the political détente between the Italian majority and Slovenian minority. A quid pro quo was forged, whereby some de jure political rights and financial means were awarded as compensation for the loss of the organized economy. Yet, the exchange is imperfect as it lashes the Slovenian community to the mast of Italian political goodwill in the distribution of resources, thereby limiting if not annulling the minority's economic autonomy and, thus, its de facto political power. Market fragmentation and lack of strategic coordination between Slovenian political and economic organisation have further reduced the community's growth potential.

What lessons are to be learned from the Slovenian minority's parable? The article confirms and refines several of Wheatly's (2007) intuitions. Political institutions that grant sufficient economic autonomy to a minority are key. It is in the community's interest to make the most out of such autonomy in order to achieve a critical mass of resources (human, knowledge, financial) that may spur long-term growth. Hence, a minority should engage in strategic planning to avoid the pitfalls of inefficient employment or educational policies and to use the available resources with the aim of boosting the innovation and production potential of its territory. Yet, political and, hence, economic institutions are also fragile and ephemeral; thus, contingent planning is necessary.

The Slovenian minority's experience provides examples of well-thought strategic planning, which brought sizable wealth during the second half of the 20th century. At the same time, it issues a serious warning against complacency and absence of hedging against foreseeable risks, which not only precipitated the community's downfall but also created hardly surmountable obstacles to future growth. Finally, the article highlights that the availability of timely and accurate data as well as efficient coordination of representative economic and political organisations are conditions sine qua non for successful planning.

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**Disclosures.** None.

## Notes

- 1 *Legge 23 febbraio 2001, n. 38. Norme a tutela della minoranza linguistica slovena della regione Friuli – Venezia Giulia.*
- 2 In the updated version of this framework, Acemoglu and Robinson (2012) further distinguish between extractive and inclusive political and economic institutions, depending on whether they are meant to protect the elites or the whole polity. Such distinction is hardly applicable in this article, as the Italian institutional context (rule of law, property rights, etc.) is a given, and changes in the rules governing Slovenian organizations happened within this overarching structure. Even though during the Cold War years some of these rules favored only part of the minority, the rest operated in an economically inclusive if not particularly efficient environment.
- 3 Due to the specific problems of the Videmska province (not only economic but also cultural and linguistic), this article is centered on the Slovenian minority's organizations present in the Tržaška and Goriška provinces.
- 4 *Legge regionale 16 novembre 2007, n. 26. Norme regionali per la tutela della minoranza linguistica slovena.*
- 5 *Legge 15 dicembre 1999, n. 482. Norme in materia di tutela delle minoranze linguistiche storiche.*



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