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Contexts and Debates

The economy of liberal Italy: A roundtable discussion with Brian A'Hearn, Nick Carter, Giovanni Federico and Vera Zamagni on Stefano Fenoaltea's *The Reinterpretation of Italian Economic History: From Unification to the Great War*. Cambridge: Cambridge University Press, 2011[1]

Introduction

The Reinterpretation of Italian Economic History: From Unification to the Great War is the first major study of the liberal Italian economy to appear in English for more than 20 years.[2] It is also the first based on new statistical reconstructions of industrial and aggregate development for the period. Above all, the book represents the culmination of over four decades of 'painstaking, meticulous, sophisticated and innovative research by one of Italy's finest economic historians' (Toniolo 2007, 130).

In late 2011, *Modern Italy* invited three leading economic historians – Vera Zamagni, Giovanni Federico and Brian A'Hearn – to participate in a 'virtual' roundtable discussion of Fenoaltea's methodology and arguments. The online discussion, chaired by reviews editor Nick Carter, took place over six weeks between late January and early March 2012. This is an edited version of that discussion.

Synopsis

Many previous accounts of the Italian economy after unification suggest only very slow economic growth until the industry-led economic boom of the Giolittian era; robust industrial growth in the 1880s had earlier failed to kick-start the economy because of a concomitant deep and prolonged agricultural depression. (Indeed, some economic historians have claimed that the agricultural crisis of the 1880s precipitated a general crisis in the Italian economy.) In contrast, Fenoaltea argues that the Italian economy grew relatively steadily between 1861 and 1913, with above-average growth from the late 1870s to the late 1880s, little or no growth for the next 10 years and then another period of above-trend expansion (stronger than that of the 1880s) from circa 1900 until 1913. Significantly, he rejects the interpretation of the 1880s as a crisis decade for Italian agriculture and the wider Italian economy: the 1880s were, in fact, 'years of prosperity' (Fenoaltea 2011, 6).

Fenoaltea links cyclical growth in the Italian economy to the industrial cycle, the latter determined (as he has long argued) 'by the cycle in the production of investment goods, and traceable to the varying supply of foreign [primarily British] capital' (Fenoaltea 2005, 298). Although he accepts that the Italian economy after 1861 'emerged from the broad ranks of the still traditional, stagnant economies . . . a considerable achievement' (Fenoaltea 2011, 2), nevertheless, 'its development remained weak, partial, [and] disappointing not only next to what was eventually achieved [after 1945], but to what was expected at the time' (Fenoaltea 2011, 2). Fenoaltea holds the Italian state largely responsible for this. Successive governments in the 1860s and 1870s, he argues, wasted enormous amounts of money developing a national rail network that did nothing to stimulate the wider economy (a fact not helped by the state's 'incomprehensible' decision to tax rather than subsidise rail freight). More damaging was the 'clear harm . . . wrought by Italy's import duties' (Fenoaltea 2011, 243), specifically those on cotton and steel (introduced in 1878) and grain (1887). The cotton tariff boosted domestic production, but the industry was a throwback to the 'first' industrial revolution, with limited potential for long-term sustainable growth. The steel tariff caused the domestic engineering sector 'serious harm' (Fenoaltea 2011, 149), forcing up production costs and pricing Italian engineering products out of export markets. Most deleterious in its effects on long-term growth, though, was the 1887 tariff on grain:

> The grain duty forced those who would work in Italy to consume grain far more costly than that available on the world market. In an international context it was the equivalent of a punitive tax on production in Italy alone; it naturally diverted elsewhere those processing activities that are forever searching for low-cost locations, it diverted elsewhere investment and employment, capital and labour . . . . There is every reason to believe that the duty on grain was the greatest single cause of the Italian diaspora, of Italy's disappointing growth between Unification and the Great War. (Fenoaltea 2011, 164–165)

According to Fenoaltea, liberal Italy's 'development failure' was to have tragic and long-lasting consequences for the nation and its people. Italy's disastrous showing in the First World War, its inability to make its voice heard at the subsequent Peace Conference, the rise of Fascism, and the 'ultimate tragedy' of the Nazi alliance in the Second World War, were all directly linked to Italy's 'limited economic development', 1861–1913 (Fenoaltea 2011, 2).

Discussion

NC: To start with, I think it would be sensible to say something about the statistical data that underpins the work. What have been the limitations of the quantitative evidence up to now, and how and why do the new production series used or constructed by Fenoaltea improve on earlier estimates?

GF: Fenoaltea's work on industrial production data is outstanding. In countries like the United States or Germany, scholars can rely on good statistical sources and even there the task is difficult. This is not the case for Italy, at least not until the eve of World War One. The nineteenth-century statistical sources are not as bad as sometimes claimed, but they are certainly very incomplete, and in some cases unreliable. Yet Fenoaltea has been able to estimate (sometimes crudely) yearly series for all industrial sectors from 1861 to 1913 and

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now he is producing regional and provincial estimates. It took him most of his productive life and the quality of the work is unsurpassed.

BA'H: Fenoaltea has been working on the estimates that underlie the book for many years. As far as I know, they have all been published previously. You are right, though, that the new estimates of industrial value added are the very foundation of the book and need to be discussed. It seems to me that there is either a very long and technical (series of) answer(s) to your question, or a very short one. I will try the short one.

Fenoaltea's annual estimates of national industrial value added (VA) are impressive, reliable, and better than what went before for three reasons. First, they are the fruit of a painstaking effort over many years to find primary source information on a large number of individual industries. Second, Fenoaltea has been thoughtful and careful in his assumptions about the likely data for those industries on which no direct evidence is available, rather than assuming they moved in the same way as the observed series. Third, Fenoaltea has been clever in many small or technical ways, for example regarding 'double deflation' of output and input series, or adjusting for quality differences in cotton textiles.

The census-year estimates of regional industrial VA, and the related figures on 'relative industrialisation', are valuable because they go back to 1871 (while previously we had only widely accepted 1911 estimates and some disputed figures for *c.*1890), and because they are transparent in their construction. However, they assume that labour productivity was everywhere the same, in a given industry and year, and this is something that some people will want to challenge. Emanuele Felice (2007) in his estimates of regional GDP assumes instead that labour productivity is proportional to regional wages, about which we have some information, for example.

Fenoaltea is in the process of building a new set of regional industrial VA estimates, partly constructed from direct information on production or productive capacity. I am not sure why this more recent generation is not in the book.

VZ: The reconstruction Fenoaltea has done of the statistical basis of the Italian industrialisation effort from unification to 1913 goes back to Alexander Gerschenkron's pioneering work of half a century ago (Gerschenkron 1962). Fenoaltea got involved in the refinement of that exercise and ever since he has produced increasingly sophisticated estimates based on new sources, refined methods of estimation of the technical aspects of each industry and improved proxies for all the sectors where output estimates were entirely missing. Because of his work, the Bank of Italy was able to launch in the 1990s a research project aimed at revising Italy's historical national income statistics. At first, four entirely recalculated benchmark years were produced (1891, 1911, 1938, 1951), with Fenoaltea responsible for the industrial estimates, Giovanni [Federico] the agricultural ones and myself those for services (Rey 1992, 2000). More recently, the Bank of Italy, on the occasion of the 150th anniversary of Italian unification, has produced a totally revised yearly series (Baffigi 2011), in which Fenoaltea's 1861–1913 series for industrial valued added is the key pillar. Therefore, his work will remain a landmark for all those concerned with the economic evolution of liberal Italy.

Differences of views arise in the use of Fenoaltea's new data bank. Limiting myself for the moment to the purely statistical aspects, I have three criticisms. First, Fenoaltea uses 1911 VA for the entire period. There were many important technological changes between 1861 and 1913. I have always considered it necessary to have shorter spans of time for long-run estimates, chained together. Second, the regional and provincial estimates derive from a top-down disaggregation of national totals based on census occupation figures. In the book, there is a partial correction of this approach for textiles and utilities (in fact, Fenoaltea did this several years ago (Fenoaltea 2004)). This correction was necessary because of the widely differing census definitions of people occupied in industry over time and across regions. However, I have never been prepared to accept that in the construction industry, or in engineering, or in metalworking or in the foodstuffs industry, productivity could be equal across regions, either in terms of productivity per hour worked or in terms of hours worked per year. Obviously, this approach unduly favours backward areas. Third, Fenoaltea has tried to anticipate the work done by the research team of the Bank of Italy (at the time not fully published), in terms of producing a yearly estimate of Gross National Product (GNP), 1861–1913. On top of his industrial VA series, Fenoaltea has used a preliminary estimate by Giovanni of agricultural valued added (Federico 2003a) and has produced a preliminary estimate of services, plus an estimate of the expenditure side. This aspect of his work will have to be compared with the Bank of Italy's results.

GF: On Vera's second point, as she says, Fenoaltea uses occupation from population censuses to compute the regional shares on total VA for most sectors (with the exceptions of textiles and utilities). This implies that VA per worker is equal among regions, i.e. that an ironmonger in Apulia was as productive as a worker in a large steel plant in the North. This is quite a large assumption. I suspect that Fenoaltea's figures underestimate the regional differences between Lombardy and (later) other advanced regions and the rest of the country.

Regarding Vera's last point, Fenoaltea uses a series that I labelled explicitly as provisional. The covered production accounts for about 75 per cent of agricultural output, and I do not expect that the final version, if I ever produce it, will differ much in terms of the long-run growth rate. However, the series neglects all short-term fluctuations, which I planned to add at a later stage.

VZ: Giovanni has explained in a very clear way my doubts about the use of population censuses to distribute national production by sectors to the Italian regions. Fenoaltea's approach, together with Giovanni's regional estimates of agricultural Gross Saleable Production (which he did not base on census data) (Federico 2003a), virtually eliminates the North–South gap in per capita GNP at unification. This runs counter to all other indicators: per capita exports, per capita taxes, infrastructures, education, heights, poverty, savings and banking, life expectancy.

NC: Vera criticises Fenoaltea for using 1911 VA for the entire period. Can somebody explain what the problem is here?

BA'H: There are two related issues. The first concerns relative prices. Fenoaltea's individual series are meant to represent physical quantities, like pairs of shoes, battleships, tons of steel, or kilowatt-hours of electricity. How do we aggregate such disparate quantities? By using prices to value them, of course, but then the question arises of *which* prices to use. This matters because relative prices change over time. For example, a pair of shoes might have been worth a kilo of cheese in 1861 but only half a kilo in 1911. Moreover, the choice of 1861 or 1911 prices turns out to matter not only for the *estimated* *size* of the shoe and cheese sectors, but also for the *growth rate* of their aggregate. Fast-growing sectors tend to have falling relative prices, so using early (high) prices makes them important in the overall aggregate, making it appear to grow faster. Slow-growing sectors tend to have rising relative prices, so using early (low) prices makes them seem small in the overall aggregate, also making its growth appear faster. This is a well-known problem. It can be addressed by considering short sub-periods, using an appropriate set of prices to estimate growth over each interval, then 'chaining together' these sub-period growth rates to get an overall series for the full historical period.

There is an additional issue. We care not about the total value of the shoes, cheese, or battleships, but about the *value added* in their production. Value added is the value of the final product less the value of the material inputs. For shoes, it is something like the price of a pair minus the cost of the leather. We are interested in VA because, were we to use the total value of output, we would end up double counting a lot of output. The leather used in shoe production comes from the tanning industry, and the price of shoes reflects the cost of that input. Therefore, the total value of shoes and of dressed hides double counts the leather. The same applies for steel and battleships. Another type of double counting is that most of the value of flour is the wheat, but we are interested not in that agricultural product, but in the industrial process of milling it. Therefore, we look only at the VA in milling (or, for that matter, rawhides in the tanning industry). Now, the additional problem that arises is that the VA added in a pair of shoes depends not just on the price level (which I have already discussed) but also on the production process, the quality of the shoes, etc. Luxury shoes would have a lot more value added per pair. If the industry switched from luxury to mass production between 1861 and 1911, the VA per pair at the end would be unrepresentative of that ratio at the beginning. Again, this could affect the measured growth of the sector.

The question I have is whether Fenoaltea had a feasible alternative to using 1911 VA. My understanding is that there are neither the prices nor the VA information to do anything else.

VZ: I totally agree with the excellent explanation given by Brian of my first criticism. It is an issue often discussed, but seldom treated in a coherent way, especially in international comparisons. I did raise it at the conference in memory of Angus Maddison,[3] begging the participants from many countries to converge on a common set of 'rules' to be applied; otherwise, simply by using different VA years one can get different results, on the basis of the very same original data. Where I disagree with Brian is on the fact that there is no information on prices for years before 1911. Even on VA, something could be engineered. The issue becomes particularly relevant with reference to my third criticism, concerning Fenoaltea's tentative estimation of total GNP. At 1911 prices, the share of services in GNP appears not much different in 1861 and in 1911, while at current prices, in 1861 it is much smaller than in 1911, a result that was produced for the Bank of Italy's recent research project, still unpublished.

BA'H: Thank you, Vera, for the example of the service sector, the weight of which looks so different depending on the method used to impute VA. Fenoaltea does say that he would prefer to have current prices and is fully aware of the problems that arise from using 1911 VA. He seems to have a methodological preference for keeping things simple, transparent, and not subject to constant revision. The same thinking motivates his decision not to attempt an adjustment for regional labour productivity differences in his regional VA estimates, he says. This is a defensible position, I think, but I wonder if he is fully consistent. I suspect that some of the VA estimates for individual, narrowly defined industries rely on clever, specific and ad hoc procedures. Perhaps he would say that this is inevitable at the most basic, disaggregated level, where there is no other way to proceed, but that the procedures by which things are aggregated must be kept simple and transparent in order that other researchers can do things differently according to their views or as new information becomes known?

NC: Let us turn to Fenoaltea's interpretation of the evidence...

VZ: Stefano is right that liberal Italy did not enjoy sustained long-term growth. He argues that this was due to Italy's dependency on international investment cycles (since Italy lacked an 'inner spring' for growth) and because of poor politics. I agree on the lack of an inner spring. Italy was not a leading economy at the time and did not become a leading economy later. We have to face this fact. Italy *had* been a leading economy when it was not a unified state (under the Roman Empire and in the era of the Renaissance city-states). By the late nineteenth century, however, times had turned against Italy: geography, education, natural resources, historical legacies had all turned against it. Most importantly, though, the idea of the firm – the corporation – that prevailed in the second industrial revolution was too distant from the Italian mentality shaped across centuries. Consequently, the Italians could only copy what others were doing (and even then not always well). It is obvious that a follower is rather dependent on international cycles and this explains the strong growth, 1896–1913, because the international economy was expanding strongly. I therefore fully agree with Stefano's cycle approach.

GF: I would distinguish Fenoaltea's interpretation of the 1880s as a period of growth (a historical fact, which I agree upon) from his overall model. Fenoaltea argues that from 1861 to 1913 all cyclical fluctuations depended on imports of capital, exogenously determined by the investment decisions of British investors. When these investors decided to export capital, all peripheral countries (e.g. the United States, the dominions and Italy) had additional funds to invest and thus their economies boomed. Vice versa when the British invested at home. This is a clever model, but I am a sceptical of the need for a single unified model. Perhaps each period of fast growth had different causes – capital imports in the 1880s, world demand for Italian primary products and/or emigrant remittances in the 1900s, the export of manufactures in the first half of the 1920s and so on. Furthermore, Fenoaltea's statistical testing, although adequate for the standards of the 1980s, is now obsolete. It would be useful to re-do his statistical work (re-run his regressions) with the newly available data and above all with techniques that are more modern.

Fenoaltea does not have a well-defined model of the causes of growth. Once, many years ago, I asked him why Italy developed. He answered why it should not, given the overall growth of the European economy. I [Fenoaltea] am more interested in what caused the cyclical fluctuations (capital movements) and prevented Italy from growing faster (the wrong trade policy).

VZ: I think it is time to address the issue of protection. Fenoaltea is very rigid about it and he has never wanted to part from the classical Ricardian model. Giovanni has tried on a number of occasions to give quantitative estimates of the impact of Italian tariffs. He has convinced me that protection was mild (and not high), often not well designed and therefore rather irrelevant. I have never done any specific work on tariffs, but my arguments have been the following:

(1) Other countries (notably Germany) grew faster than Italy in the nineteenth century in the presence of pretty similar tariffs.
(2) With particular reference to agricultural tariffs, I cannot accept Fenoaltea's insistence that agricultural protection was a major factor barring growth: agricultural tariffs were high in the 1950s and 1960s, during the Italian 'economic miracle'.
(3) I believe that steel was strategic for the long-run development of the Italian economy because it was not possible to develop a large domestic engineering sector based on imports alone (maybe today it would be easier). Energy is the other strategic sector. In both cases, the Italian endowment of natural resources was extremely poor and state support crucial. This support over the long run went far beyond tariffs.

Therefore, I have tended to conclude that Italy complied with the 'mood' of the time in terms of tariffs, but causes of growth or stagnation do not lie in tariffs, which at best can be supportive of growth (something that Giovanni excludes, with some exceptions), or can be a nuisance, but never a key positive or negative factor. It is a long-running point of discussion with Stefano [Fenoaltea].

I think Giovanni is right to say that Fenoaltea is more interested in cycles than the causes of growth, but when Fenoaltea concludes on the 'development failure' of liberal Italy, he implicitly must have some ideas about the factors that would have allowed the economy to grow more rapidly if only Italian politics had been more rational. Italian politics has often been less than brilliant, but the *destra storica* and Giolittian eras rank among the best political periods in the history of united Italy, and even the *sinistra storica*, which made many mistakes, did not entirely misbehave. I come back to Italy's 'objective' difficulties: limited energy supplies and resources, high rates of illiteracy, poor public finance, unproductive agriculture, and deep cultural heterogeneity. In the face of these factors, tariffs really become marginal.

GF: I have written two articles with Antonio Tena (1998, 1999) and one with Kevin O'Rourke (2000), arguing that, contrary to the conventional wisdom, protection (including the duty on wheat) was comparatively low and thus not particularly damaging to welfare. We based these statements on a quantitative analysis of the data, which, however, was still partial as it referred to some benchmark years only. Now I am working on the issue with Michelangelo Vasta, using fuller data, and I think we will be able to confirm my earlier thesis. Without being too technical, we use a measure of protection called the trade restrictiveness index (TRI): this measure was 40.6 in the European Union in the early 2000s; Italy between 1861 and 1929 exceeded this level in only seven years, all in the 1890s.

BA'H: I would like to make some comments on protection, but rather than respond directly to what Vera and Giovanni have already said, I want to react to the relevant chapter ('Protection and Migration') itself. The chapter is, for me, brilliant and difficult, typical of the book and of Fenoaltea's work in general. Two things make it difficult for me. First, the writing is elegant and spare, with close logical reasoning and subtle argument throughout, which exhausts me by the sheer effort required to think hard about every clause in every sentence. Then there is the depth and range of the chapter and its appendices: clever work with data to estimate the quality of textile production; the exposition of various points of pure economic theory; detailed critiques of other authors' work; minor asides on the history of economic thought (Hume, Ricardo, Marxists, etc.); original and smart ideas like those on slavery and temporary migration; and more besides. I find it all a bit overwhelming, particularly as it is not always obvious which points are the important ones. The appendices are flawless in their explanation of the models, but I am not sure whether I really learned anything new.

On a second reading of the chapter, Fenoaltea's views on trade and protection are more nuanced than I had first thought. In Appendix 4, he says clearly that the growth model he favours 'subverts the anti-mercantilist message of the "model of trade": it fully justifies the policies aimed at developing non-agricultural exports, the luxury goods industries and the carrying trade' (Fenoaltea 2011, 270). Elsewhere he implies that having an industrial sector equals development, and that development is good. Therefore, protection of manufacturing might be desirable, especially if you initially have a less developed industrial sector than your trading partners do, or if you lack the immobile resources that industry needs.

As an aside, I would comment that Fenoaltea does not clearly articulate why industry is good. In fact, elsewhere I believe he says that it was a terrible mistake for the development strategy of the South to focus on industry, which has no inherent superiority over other economic activities. In his model, real wages are determined internationally and will be the same, regardless of whether a country's economy is all agriculture, all manufacturing, or somewhere in between. So how will workers be better off if the country has a manufacturing sector? He favours a 'Ricardian' model of trade and growth, which I think is meant to rule out models in which there are scale effects or dynamic effects such as learning by doing, so these cannot be reasons to protect industry. (Anyway, there would remain the point about internationally determined factor returns.) Manufacturing seems to be good only as a way of keeping the population at home rather than having labour emigrate. It changes the size, but not the prosperity, of the economy. My complaint here might be analogous to what Giovanni said earlier about Fenoaltea seeking to explain only the cyclical fluctuation rather than the overall pace of growth: one would like an overall model or interpretation rather than a partial one.

Returning to the effects of grain protection, one can think of a rising grain price raising nominal wages (to preserve parity with internationally determined real wages). This renders industrial exports uncompetitive, so that domestic and foreign capital, as well as labour, abandon the sector, and the country 'un-develops'. Alternatively, one can think of a rising grain price lowering real wages (at a given nominal wage). This causes labour to emigrate until its scarcity drives the productivity of labour and hence real wages back up. Either way, the size of the manufacturing sector – and with it the entire economy (since agriculture does not absorb the extra labour) – shrinks. I find this open-economy, mobile-resources approach to thinking about Italian development very intriguing. It applies equally to regional development within the economy and of course is at the root of Fenoaltea's explanation of business cycles. Fenoaltea is very consistent in applying this approach, which I think is one of the book's strengths, giving it a bit of coherence.

Coherent and theoretically compelling – but are his arguments on protection actually right? Clearly, this is unresolved. Fenoaltea does make some effort to engage with those who hold other views (including Vera and Giovanni). It is not clear where the burden of proof should lie. I do wish Fenoaltea engaged a bit more with international evidence on these matters. He sticks fairly strictly to Italy (or to theory) in his discussion.

NC: Can we discuss the issue of the 'crisis that wasn't' in the 1880s (or at least the 1880s up to 1887)? This is, I think, one of the most important – and controversial – aspects of the book. First, Fenoaltea's interpretation has significance beyond the boundaries of economic history: it represents a fundamental challenge to how 'ordinary' (i.e. non-economic) historians of nineteenth-century Italy have understood and interpreted that decade. Second, it adds weight to those who have questioned the existence of a European-wide 'Great Depression' linked to a collapse in grain prices. It also demonstrates the divide between historians and economic historians: the former work from written sources and their analysis is (largely) qualitative; the latter focus on the numbers and their approach is (obviously) quantitative. I suspect that non-economic historians – if they are aware of Fenoaltea's arguments, or, for that matter, Giovanni's own work on the subject (Federico 2003a, 2003b) – will find it very difficult to believe that 'The general crisis of the 1880s... seems entirely invented' (Fenoaltea 2011, 118). Fenoaltea suggests there is nothing in the contemporary record that can reliably substantiate the claims of the 'pessimists'. According to Fenoaltea, Italian grain producers suffered from falling prices and land rentals (and the gloomy accounts of the period were the work of grain-producing landowners) but the rest of the economy – including the working masses – benefited. Cheaper grain, he argues, meant rising real wages, while the subsequent contraction in wheat production in Italy (which was highly land-intensive) freed up land for specialised (and labour-intensive) agricultural crops in which Italy had a comparative advantage. Now, I have to admit the quantitative evidence is very persuasive. Giovanni has shown that agricultural output and per capita calorific intake increased in the 1880s; Fenoaltea demonstrates that consumption for non-essential foodstuffs (coffee, sugar) rose, as did consumption of non-durables such as clothing. As he says elsewhere, it is unlikely that Italians would choose to go hungry in order to buy more clothes (Fenoaltea 2003, 718). I think, too, that Fenoaltea has a point when he says that rising levels of outward migration in the 1880s do not necessarily prove that standards of living in Italy were declining (as he says, migration actually hits a peak in the *boom Giolittiano* of the early 1900s). However, even if we accept that the idea of a *general* crisis in the Italian economy, 1880–1887, *is* a myth, we need, I think, to be very careful not to rely on the numbers at the expense of other evidence when considering the impact of the collapse in grain prices on the rural economy. The growing labour unrest in the Po valley in the 1880s seems to me to stem directly from this as landowners responded to falling prices by cutting back on labour and lowering wages. Similarly, falling incomes and high taxes would appear to be behind the very high levels of land expropriations among the peasantry in the South and Sardinia during the 1880s. Pellagra, a vitamin-deficiency disease that afflicted maize-dependent communities, reached its height in Italy in the 1870s and 1880s, suggesting that in the North East at least (where Pellagra was widespread) diets became more restricted; if falling grain prices meant rising real wages, why in North East Italy did this not lead to an improved diet? I am reminded of Eric Hobsbawm's observation (1987, 36) that the collapse in wheat prices across Europe was 'a splendid bonus for shoppers, but a disaster for the farmers, and farm workers'!

VZ: There is little doubt that the non-agricultural sectors were flourishing in Italy up to 1887 and industrial wages demonstrate this clearly, because they are rising (and after 1887 declining up until the second half of the 1890s). The problem is agriculture: whether or not agricultural Gross Saleable Production had some decline or simply changed composition and raised productivity (by expelling labour) is something that Giovanni can clarify, but my memory is that he downplayed the decline a lot. The downplaying of the agricultural depression that Fenoaltea derives from Giovanni is something that would require in my view more discussion, because of various uncertainties pertaining to the data. It must be made clear, though, that it is possible (as we see today) to have 'jobless' growth, with workers' protests, without an actual decline in production. In any case, it was a short-lived expansion followed by a severe and prolonged crisis lasting almost 10 years. Could we say that the crisis in Italy was merely 'postponed'?

GF: Cereals accounted for about one-third of total Gross Saleable Production. Most cereals were grown on mixed farms, which could switch land and labour to other products. Wheat growers (and their labourers) in the Po valley were suffering, but wine growing in the South was booming thanks to exports to France (until the outbreak of the Franco-Italian trade war in 1887). Even in the Po valley, farms could increase livestock production.

My estimates do not show any systematic fall in agricultural production in the 1880s. They are partial, provisional and omit yearly fluctuations (which I planned to add to medium-term trends at a later stage of estimation) but I do not expect any major change (this is one of the reasons why I have never completed them)

I am very sceptical about anecdotal evidence. I trust more estimates and data, although imperfect, than the so-called informed opinion of contemporaries. First, they had to use the same quantitative evidence we have, without the careful work (ex-post) of historians like Fenoaltea. Second, at least some of them had their agenda, i.e. they wanted to push the policy they deemed, rightly or wrongly, the best. We might be dealing, then, with not only poorly informed but also positively biased opinion.

BA'H: I find Fenoaltea's interpretation of the 1880s entirely convincing. It was a period of rapid economic development and of rising prosperity for most Italians, with any crisis limited mostly to grain-growing agriculture. The boom was driven by investment, and an inflow of external capital played an important role in all of this. (Fenoaltea may want to go further, that foreign capital was the only cause.) As Fenoaltea himself notes, this position is now widely accepted, and I am not sure to what extent we can attribute it specifically to him.

A related point is that the 1880s boom makes the acceleration in growth from the mid-1890s look less special. I also find Fenoaltea persuasive on this point. The Giolittian 'boom' was 'just another' period of fast growth, another upswing along a trend of accelerating growth, rather than a qualitatively new stage or phase. Again, this interpretation is not something unique to Fenoaltea. Other work like Confalonieri's study of the new universal banks founded in the 1890s contributed to undermining the older Gerschenkronian interpretation of events (Confalonieri 1974–76).

VZ: I dispute the view that there is no trend break in the second half of the 1890s and I think that one of the positive factors supporting such a 'take off' was protection.

NC: Fenoaltea's own data suggests there was something different about this period of growth.

BA'H: Fenoaltea doth protest too much, perhaps. Nevertheless, I think it is a judgement call.

NC: Vera has already touched on the role of politics and the state in the development of the economy in our discussion of protectionism. Her verdict: the state was generally a positive force. I would like to pursue this issue further. Fenoaltea adopts what we might call a 'Gerschenkronian' position vis-à-vis the role of the state. (Of course, Fenoaltea studied under Gerschenkron at Harvard in the 1960s.) Like Gerschenkron, Fenoaltea does not deny the development of the Italian economy in the liberal era but – like Gerschenkron – he argues that growth should have been stronger and more robust. Gerschenkron laid the blame at the door of the Italian state: the state would have served the Italian economy better had had it done nothing, rather than intervening in the ways it did. Protectionism, an ill-conceived railway construction programme, an elite anti-industry mentality, political instability and conflict in the 1890s, and an overly conciliatory attitude towards labour militancy after 1900 were all areas in which the liberal state had 'failed' the economy. Fenoaltea's view is very similar:

> Half a century after Unification Italians in Italy would have been more numerous and more prosperous had the state not limited international trade, had it developed technical education and opened it to merit: had Italy's ruling classes been willing to promote the nation's progress even at the cost of renewing themselves. (Fenoaltea 2011, 244)

Fenoaltea, however, goes much further than Gerschenkron. State intervention (to quote from the sleeve notes) 'kept the economy weak, reduced Italy's weight in the comity of nations, and paved the way for the frustrations and adventurism that would plunge the twentieth century into world war'. These are bold claims and non-economic historians (and no doubt many economic historians!) may consider then overly reductionist and deterministic. Italy's manifest military failings in the First World War arguably owed as much if not more to the structural deficiencies of the Italian army and to poor planning (military and civilian) as to economic weakness. Fascism certainly owed a great deal to the war, but one cannot trace its rise (or its ideology) solely to failure on the battlefield and frustration with the peace settlement. Quite how Fenoaltea can argue that the Fascist–Nazi alliance in the Second World War was a 'direct consequence' of liberal Italy's 'development failure' is anyone's guess.

As to the role played by the liberal state in the economy, although far from flawless, one can make a decent case in support of its economic record. For example, I think Gianni Toniolo is right to argue that good government and sensible policy-making explains 'Italy's ability to surf the long wave of international growth' from the turn of the century (Toniolo 2007, 132).

GF: I am not convinced by Fenoaltea's arguments on the 'failure' of liberal Italy. Italy did develop 1861–1913, and it started a long process of convergence to other (growing)

European economies. I am not denying that, with a perfect policy, Italy would not have developed faster and that the state made some very serious mistakes. For instance, primary education was compulsory from 1859, but local authorities had to fund it until 1912. This caused huge disparities between North and South. The state should have used its own money much earlier. However, is it realistic to expect perfect policy from any state? Looking back from our current experience, the politicians of liberal Italy seem to me rather honest and interested in the public good.

Fenoaltea's bold hypothesis that Nick refers to is, in my opinion, worthless. I like hypotheses, but they must be precise and testable.

BA'H: Fenoaltea's long-held argument that railway maintenance, rather than construction, was the important (direct) contribution to industrial production is convincing. I also find convincing his argument that the main north–south trunk lines did not make much difference in unifying Italian markets because they competed against cheap coastal shipping, as well as the corollary that it was the later 'minor' interior lines, which replaced footpaths and dirt roads, that were more important. Then there is his interesting analysis of the perverse effects of the government's construction subsidy and rate regulation policies.

There is a lot of original, clever reasoning in this piece, as well as detailed knowledge from primary sources about the operation of the railroads. I think it is very impressive, though I am not sure whether it has made much of an impact.

GF: I share Brian's appreciation of Fenoaltea's analysis of the railways. This is a hugely impressive and convincing piece of research. If I may quote myself, it tallies well with my (much later) results about the integration of the Italian market (Federico 2007). I find evidence of increasing integration before the unification (and thus before the railways) and in the 1880s, but not in the late 1860s and 1870s, when the main north–south trunks were built.

VZ: Railways might not have been so crucial to economic growth, but Italy could not do without them and the state continuously supported their development. Education had the problem indicated by Giovanni: local-level administration of primary and vocational education resulted in great disparities. There was great discussion on the issue at the beginning of the twentieth century, which ended with the 'nationalisation' of primary education. The state also started special development projects in the South in the first decade of the twentieth century, an early example in Europe of such a developmental approach, and discontinued by the war. Overall, liberal Italy moved ahead. My view is that the war came too early and distorted the process of growth on many accounts. Italian 'catch up' was not as successful as Germany's over time, but it did not enjoy the same advantages as Germany. Liberal Italy remains a crucial period for the destiny of the country. Unification was accomplished, solid fiscal and monetary foundations were laid (we must mention the creation of the Bank of Italy), infrastructures were built (and local authorities became active in the field), a new land registry was launched, land drainage (important in Italy) was resurrected, credit was promoted, education was supported. To speak of the failure of liberal Italy simply because Italian income did not grow as rapidly as German income seems to me unacceptable. Instead, to argue that the country might have done better and to identify areas where this might have happened finds me open to discussion.

BA'H: I am a little confused about how much Italian government or institutions generally are supposed to have mattered in Fenoaltea's interpretation. He is often at pains to argue that Italy faced abundant world supplies of everything except difficult-to-transport raw materials. Large international markets also existed for its potential production. Not just capital but even entrepreneurship was in elastic supply, he says, and thus Italy's potential growth was not limited by domestic poverty or income distribution or lack of technical knowledge or almost anything else. So does policy matter only to the extent that it repels or attracts international resources?

NC: Brian raises an important point. If Italy's development was linked to international financial and economic trends (specifically the international investment cycle) then how can the state be held responsible for Italy's 'development failure'? In Fenoaltea's defence, one could argue (as I think Fenoaltea has in the past) that the political environment has the potential to modify if not cause the investment cycle. Simply put, a 'pro-industry' government can extend and intensify an upward cycle by raising business expectations of a profitable return on industrial investment; an 'anti-industry' government can dampen or curtail an upward cycle or prolong and deepen a cyclical downturn. I have the feeling, though, that Fenoaltea abandoned this position some time ago.

Edited by Nick Carter

Notes

1. *The Reinterpretation of Italian Economic History* is revised and translated from the original 2006 Italian edition, published as *L'economia italiana dall'unità alla Grande Guerra*. Rome: Laterza.
2. See Toniolo (1990).
3. Maddison Memorial Conference, 6–7 November 2010, Amsterdam.

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