Reopening the Doors: U. S. Private Investments in Italy and the International Economic Integration Policy of the Italian Government, 1945-1965

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Several studies appeared during the 1980s on the American contribution to European economic reconstruction after World War II and on the importance of the Marshall Plan [75, 41, 28]. As this work has shown, American aid to Western Europe consisted of both goods (at first, primarily raw materials and foodstuffs and later, machinery) and loans. Most of the loans came directly from the Economic Cooperation Agency (ECA)--the operative arm of the Marshall Plan--or from the Export-Import Bank, though interest-free dollars also flowed into Europe through the UNRRA and GARIOA programs.

All these sources of aid represent public investments; the early level of private American investment in the European economic recovery was extremely low, primarily because of the excellent condition of the U.S. economy after 1945. The opportunity for international U.S. investment kept the internal demand for capital very high [77, p. 285; 41, p. 93]. U.S. foreign direct investment grew to $11.8 billion worldwide during 1946-51, increasing by about $4.6 billion in the period; the starting figure, $7.2 billion, was insignificant, slightly lower than the total for 1928, $7.5 billion [29, p. 105; 59, pp. 529-32]. As was the case prior to World War II, the majority of these investments were concentrated in oil companies and especially in petroleum refining. According to the national Advisory Council on International Monetary and Financial Policies, almost two-thirds of the net outflow of private U.S. direct investments abroad in the first three years following the end of the conflict were destined for the oil industry; during 1946-50, foreign investment by U.S. oil companies grew by 143% [77, pp. 301, 314-24].

The American government, which had no direct interest in determining or controlling the volume of private capital sent abroad [19], nonetheless was not averse to supporting public intervention with private aid. Under the Economic Cooperation Act of April 1948, which officially initiated the Marshall Plan, guaranteed loans backed by the ECA could be given (within certain limits and according to specific regulations) to private investors and to American firms in participating countries. New legislation of May 1949, which modified many sections of the 1948 law, specified that, in order to be eligible for a guarantee, an investment had to be approved by both the ECA and the interested country, and its nature judged to be in accord with the general objectives of the Marshall Plan and with the specific goals for that country. The law foresaw $10 million in guarantees

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for projects in its initial target, the media and publishing sector, with $150 million estimated as sufficient to cover the transfer of dollars as earnings, profits, or compensation for the sale of all or part of the original investments. In fact, there were very few requests (and they were for amounts far below the ceiling established) in the first two years following the law's enactment. The guarantee offered to industrial plants was sought just once, for an investment in Great Britain; and by the end of 1948 only twelve requests (eleven of which had already been approved by the ECA) were awaiting approval from the targeted countries, for a total amount of $5 million [66, 68].

Italy and the Marshall Plan

Among all the countries participating in the Marshall Plan, Italy was in a particularly difficult situation. Industrial production in 1947 was well below the level of 1938, and unemployment was widespread, intractable, and at dangerously high levels from both political and social points of view. The prospect of the end of UNRRA funds had provoked desperate appeals to the Americans, satisfied only in part by the approval of a $100 million loan from the Export-Import Bank. Diplomatic chargés and the designated Italian financial representatives worked on these negotiations throughout 1946 and the first months of 1947 [63, 27, 78]. The beginning of the Marshall Plan marked a clear-cut turning point for the whole economy, despite the emergence of several problems. Issues concerning the use of the counterpart funds and the choice of economic policy for employing the American aid most advantageously required long and substantial discussions among the Italian government, the political parties that supported it, and the various levels at which the ECA operated (in Rome, Paris, and Washington) [3, pp. 31-63; 18, pp. 121ff].

In the first months of the Marshall Plan, the Italian government tried to finalize a program to facilitate private foreign investment in Italy. The premises were established in 1947 during the tense maneuvers to stabilize the Italian lira at a level more consistent with real conditions in the Italian economy and, in particular, with the volume of its monetary reserves, according to the agreements on collateral set forth in the peace treaty. The end of the double exchange rate on the dollar (100 lire, plus 125 lire on exports) was declared on August 1, 1947, with the establishment of a new exchange rate at 350 lire. This first devaluation of the lira was not deemed sufficient, however, given that a dollar could be changed on the black market for 600 lire. In response to an American request for stricter controls on monetary regulation, the exchange rate was brought to a little under 590 lire per dollar by executive decree at the end of November 1947 [3, 27, p. 277; 25, p. 434].

With the monetary aspects under control, in March 1948 an executive decree was enacted to regulate the various elements (financial and legal) of private foreign investment in Italy. The objective was a rapid return to normality in Italy's international financial relations, which had previously been ruled by the highly restrictive planned monetary policies of the Fascist regime. The new law provided, first, that the income, the interest, and the return from investments in real estate or loans, as well as the dividends and interest received from investments in shares and bonds purchased or subscribed to in Italy, could be converted into the currency of origin up to 1% more than the legal annual interest of 5%; and, second, that re-exported capital deriving from a subsequent liquidation of investments also could

be converted into the currency of origin, provided that the sum did not exceed the amount of currency originally imported, that the conversion was requested not less than two years from the date of the investment, and that it did not exceed 50% of the total for each two-year period [31, 64, pp. 20-21].

The ECA mission in Rome and the American administration for quite some time considered Italian policies regarding the transfer of profits "the most liberal in Europe." Nevertheless, and despite additional improvements enacted in 1949 [38], the level of private direct American investment in Italy remained very low. In 1939 it had reached $90 million, of which $39 million still remained in 1945. Yet the value of direct investments at the end of 1951 just surpassed $71 million, meaning that net investment totaled just $32 million, $30 million of which occurred after the 1948 law came into force. These investments were distributed among about a hundred firms; five of the investments exceeded $5 million, and nine were between $2 and $5 million. The largest share was in the oil industry (especially in petroleum refining), which represented 54% of total investment; 16% was in the machinery and electrical machinery industries, and the remainder was divided among the chemical, food, and metallurgical industries and banking, insurance, and commerce. The impact of private American investment in Italy was substantially reduced, ranging from 0.2 to 0.7% of the total amount of private investment in Italy in 1949-51, whereas Marshall Plan aid was equivalent to approximately 14% of the gross investment in Italy during 1948-52 [21, 20, 43, 72, pp. 191-92].

The pattern of U.S. investment in Italy was not exceptional in absolute terms compared to U.S. activity in the rest of Europe. At the beginning of the 1950s, Europe attracted slightly less than 15% of total American investment abroad, less than 50% of the amount of money going to Canada. Paradoxically, the scarcity of dollars in Europe had convinced several American firms to open subsidiaries in the Old World. Latin American countries attracted the largest share of these investments, with approximately 37% of total U.S. direct investment abroad [73, 59, p. 532; 77, p. 310]. Thus the limited extent of U.S. investment in Italy can be explained by the overall political uncertainty in Europe perceived by potential American investors, the prospects for the American economy offered by the Korean War, and the higher returns that could be obtained by investing in the Latin American countries [5].

Evaluating the Italian Economy

Nonetheless, there were factors that kept American firms specifically away from Italy. To analyze these causes, the members of the Mutual Security Act (MSA) mission in Rome undertook a more careful examination and evaluation of the Italian economic structure. This evaluation became part of a wide-ranging program, involving the Department of State and all the European missions, carried out at the request of the American government in order to understand the reasons for the limited collaboration of American firms in the reconstruction of Western Europe.

Between 1946 and 1952 the U.S. government sponsored seven major studies which dealt with the encouragement of private investment abroad. Separate studies were being prepared at the same time for Congress in the form of memoranda and committee reports on economic cooperation. All of them analyzed the difficulties encountered by U.S. private investment abroad, and offered several proposals to

increase them, especially in underdeveloped areas. One of the last reports was drawn up by August Maffrey of the Irving Trust Co. in late 1952. It was quite important because it was published shortly after Eisenhower had been elected and because it summarized the most controversial points on the matter. The Maffrey Report took a clear position against the overly cautious attitude of the U.S. business community on the subject, reaffirming in the meantime the essential role of government guarantees to encourage private investment abroad. The document identified domestic causes in the United States (the high rate of return on internal investments) as a prime reason for the negative trend of foreign investment but also indicated the need to create favorable conditions for investments in the host countries. According to the report, American entrepreneurs assumed a "purist" attitude when confronted with decisions about investing abroad. Investments would be directed to a specific foreign country only when conditions were favorable; it was therefore up to the foreign countries to remove the obstacles that interfered with greater private American direct investment. According to Maffrey, the American government should have stimulated foreign investments by enlarging the activity of the Export-Import Bank and offering greater guarantees and fiscal incentives to the firms that invested abroad [4]. The publication of the Maffrey Report provoked criticism and irritation within financial circles, which were singled out as entirely responsible for the state of affairs; in reaction to the definition given to them by Maffrey, they became self-proclaimed "realists" and, as such, opposed new financial intervention by the American government and its agencies [12].

Even before, but especially after, the publication of the Maffrey Report, the Rome mission of the MSA prepared numerous reports to explain the reasons for the limited U.S. direct investment in Italy. The importance of these analyses lies not only in the arguments put forth, but also in the explicit comparison that can be made between them and the documents prepared during the years of the Marshall Plan.

The most important document prepared between 1948 and 1952 regarding Italy was the ECA's *Country Study* of February 1949, which became an object of heated discussion among the American mission to Italy, the ECA in Washington, and the Italian government. This document affirmed that Italy was no longer capable of fully benefiting from American aid, because the productive capacity of the industrial plants was not exploited to best advantage and unemployment remained at a dangerously high level. Private contributions were not sufficient to guarantee full recovery, and therefore it was necessary to increase public investment significantly. This choice might have provoked the return of inflation, but the ECA was convinced that the government had the power to keep it under control [15, 2, pp. 47-48; 18, pp. 141-47; 49, pp. 308-11].

In the 1949 *Country Study*, as in all the official and classified reports prepared before and after that year, the units of analysis of the Italian economy was limited to macroeconomic aggregates (growth of GNP, the proportion of manufacturing in the GNP, the rate of unemployment, the rate of increase of investments in the private and public sectors) and their reaction to European Recovery Program aid. Emphasis on structural analysis was minimal and limited to four elements: excessive population, lack of raw materials, low level of per capita income, and insufficient savings [66, 67]. This approach did not change even when the MSA superceded the ECA--that is, even when the logic of military aid gained ascendency over that of civilian assistance. On the contrary, if during the first two years of the Marshall Plan the task of ECA officials in Rome had been to assure

Washington that Italy was taking advantage of American aid (even if, perhaps, not to the extent desired) in order to participate in the general economic recovery of Western Europe, there was all the more reason under the MSA, with the emphasis primarily on military concerns, that the factors stressed in the reports be linked to the question: was Italy capable of contributing its share to the Mutual Defense Assistance Program? [32, 65].

The approach of the analysis designed to understand the insufficient presence of American investors in Italy was completely different, however, and the picture of the country that resulted was substantially different. The analytic horizon was more microeconomic and had at its center the industrial firms, around which the other economic and institutional factors pivoted. The earlier, essentially Keynesian, formulation had ceded its position to another that evaluated Italy with the analytical tools of business economics.

It is too simplistic to single out a link between these different analytical approaches and the replacement of the ECA officials by those of the MSA, who had demoted the liberal and Keynesian wing of the U.S. administration and put in the limelight more conservative individuals linked to private company values. The validity of the comparison obviously has limitations, considering that many of the members of the ECA in Rome (beginning with the head of the mission, Joseph Zellerbach) came from the business world [36]. That does not, however, diminish the observation of a sort of schizophrenia particular to MSA personnel in Rome: optimistic, if not condescending, when evaluating the general economic conditions of Italy and the country's role in the Military Defense Assistance Program; and pessimistic, if not counterproductive, when explaining the scarcity of U.S. private direct investment.

The MSA Analysis of the Italian Economy

Between June 1952 and November 1953, the personnel of the MSA Rome mission prepared no less than seven documents, attempting to show Washington the factors impeding a greater flow of American direct investment into Italy. The result, beyond nuances that aroused some debate among various American officials, was a useful and very realistic summary of the Italian economy, its industrial apparatus, and its business world at the time. Italy's market was viewed as very restricted because of a low level of per capita purchasing power; public services were inadequate, particularly in the less-developed areas of southern Italy. The country lacked essential raw materials like coal, iron ore, certain nonferrous metals, cotton, and wool [21].

In addition to these factors, partly natural and partly economic, there were other institutional elements traceable to the distinctive historical features of Italian industrial capitalism, particularly under Fascism. "Several industries are uneconomic hang-overs from the Fascist period of forced industrialization." With the participation and/or approval of the government, many sectors were dominated by monopolies and oligopolies,

> which, *per se*, tend to exclude competition, restrict production, and restrain trade.... A substantial portion of Italian industry is either financed or directly controlled by the government through state or mixed trusts. A substantial portion of remaining industry is

> controlled by a relatively small number of private trusts or industrial groups, which in turn are controlled by just a few Italian families. These private interests, moreover, exert a powerful influence within the state industries and in government administration [20].

An analysis of industrial and financial concentration left no doubt about its extent: a single company (its name was not given, but it was the Edison company, the giant of the electrical sector) controlled 10% of the total value of Italian corporate stock; the automobile sector was controlled by FIAT, which was responsible for 80% of total production; 90% of chemical production was in the hands of the Montecatini company; aluminum was produced by only two enterprises, and two others (Pirelli and SAMI, the Italian branch of the French company Michelin) produced all the tires and rubber items in Italy [21].

The sectors of the Second Industrial Revolution (artificial fibers, chemical products, rubber, electricity, and large segments of the mechanical industries), considered by MSA officials as the most important in the Italian industrial world, were also those where concentration was highest. "Such concentration of economic power coupled with the absence of effective competition has been an important deterrent to the development of industrial productivity and efficiency based on higher wages, lower prices, and increased output." These were exactly the elements of the economic and social model that the U.S. government was trying to introduce in Italy, as well as in the other European countries--not always with satisfactory results--through its technical assistance and productivity programs [55, 34, 36, 1, pp. 55-93; 58].

The MSA analysis of Italian industrial capitalism has received favorable treatment in the last twenty-five to thirty years in the best economic histories of the country [56, 45, 6,, pp. 1193-1255; 9, 79, 10]. In the postwar period, however, such interpretations were found primarily, if not exclusively, in left-wing Italian publications, in the works of scholars who belonged to the Socialist or Communist parties, or in those of left-wing radicals like Ernesto Rossi (a pre-eminent intellectual, who struggled all his life against monopolies and oligopolies, and who was also the author of a memorandum for the MSA mission in Rome on U.S. investments in Italy) [37, 60, 61, 62]. Another source, less overtly "suspect," was the collection of volumes of the Economic Commission of the Constituent Assembly, though left-wing parties had strong influence there [44, 26, 54, 11, 42].

There were other reasons why American firms had difficulty entering the Italian market. There was no antitrust law in Italy. Between 1950 and 1952, all attempts by the Minister of Industry to comply with a specific article of the Mutual Security Act designed to eliminate cartels and monopolistic practices under the new American aid program were in vain [55]. Moreover, the Italian government had great difficulty in securing approval for the text of the agreement signed by Italy and the United States in 1951 to facilitate American direct investment; in April 1954 the text still had not been approved [23].

American Private Investment in Italy

Nevertheless, several positive elements emerged from an initially very discouraging picture. The American companies that had invested in Italy were satisfied with the profit margins attained, gave very positive evaluations of the

quality of the Italian workers, and, despite the numerous restrictions, affirmed that it was "nearly always possible to negotiate some satisfactory conclusion." Their strategy of penetration had usually followed a stage-by-stage approach; first the opening of sales agencies, then the strengthening of them through the arrival of specialized personnel, and finally, after at least two years in Italy, the making of a longer-term direct investment of some magnitude [52].

The oil companies, which had a very strong presence in Italy, were the exception to this positive chorus. These companies (California Texas Oil, Standard Oil of New Jersey, and Socony Mobil Oil) [64, pp. 98-99] hoped that 1927 legislation could be replaced by a new law that would allow private foreign companies to search for oil deposits in Italy, especally in the Po Valley, which seemed to be rich in hydrocarbons. But the AGIP, a state-owned company, had managed to obtain exclusive rights for exploration on national territory [35, pp. 73-75]. Between 1945 and 1955 the Italian government was bombarded with requests from the American Embassy and the ECA and then the MSA missions, trying to persuade Italy to meet the U.S. oil companies halfway. The fight in parliament became a battleground within the country between the moderate right-wing parties, favoring the liberalization of the search for oil, and several sectors of the Christian Democratic Party, the Republican Party, and the left-wing parties that supported Enrico Mattei, first vice-president of the AGIP after World War II and later first chairman of the new Italian state oil company, the ENI. The willingness of the Italian government to soften the terms for oil exploration became an acid test for the United States in determining how ready the Italians really were to open the doors to foreign direct investment [76, 69, 70]. Despite several shows of goodwill by the authorities [50], the U.S. government and the American oil companies were not able to agree on objectives; as a result, they later had to contend with Mattei's ENI and its international strategy as well [35, pp. 274-92].

On the other hand, the U.S. government and the OECE's interest in answering the more general question of how to facilitate American investment abroad helped to reduce pressure on Italy. During OECE's conference held in Paris in February 1954, American government and business representatives reaffirmed that the flow of foreign investments was a voluntary act of those directly involved--that is, the firms--about which the American and host governments had little to say. If the bulk of American investments was directed toward Asia, South America, and Africa, it was because there were higher returns in these areas. The Americans also recognized several peculiarities of European economic reality, including certain ties and checks, in exchange for which they obtained a greater willingness from the European governments' representatives to liberalize the flow of capital linked to direct and portfolio investments [47].

The Italian government and the Confederazione Generale Italiana dell'Industria (the Italian Industrialists Association) had gotten together in the meantime to work on creating organizational and information structures for potential foreign investors [8, 13]. Following suggestions that had emerged at the Paris conference, the Italian government set out to prepare a new law on foreign investments; it was finally approved by the parliament in February 1956 after many months of discussions among the various ministers involved and the Bank of Italy [30, 24, pp. 254-58].

The new law introduced the concept of the "productive firm"; but, despite the manufacturing connotation, the term was in fact defined so broadly that only

portfolio investments were excluded. Only companies that qualified as productive could transfer abroad dividends and earnings, such as the capital deriving from future profits, without limitations. For portfolio investments, the limit of transferability of profits and dividends was set at 8%, and the re-exportation of capital could not take place until two years after the time of investment. A few years later, two measures were taken, one in February and the other in December 1958, to equalize the two types of investments. The free transfer of capital tied up in portfolio investments was also allowed, clearing the way for the total convertibility of the Italian lira for nonresidents. Abolished was the distinction between freely convertible currencies like the dollar and the Swiss franc and the currencies of the European Payments Union (EPU)--which had depended on the operational mechanism of the EPU and which expired in the same year with the birth of the European Economic Community (EEC) [64, pp. 22-25; 7, p. 153n2; 17, 69].

Conclusion

An analysis of the course of U.S. direct investments in Italy in the 1950s shows that, in reality, the situation had progressively improved, much to the surprise of MSA officials. In 1950, American direct investment in Italy amounted to 3.1% of total U.S. direct investment in Europe, and to 8.4% of that destined for the six European countries that would later form the EEC. In 1958 the two percentages had risen to 6.0 and 14.82, respectively; in 1965 another small increase could be detected: to 7.02 and 15.57%. Despite the very negative analysis registered in the first half of 1950s, Italy was ultimately the European country where U.S. investments had increased the most, 520%, between 1950 and 1958; this increase resulted only in part from the very low level in absolute terms at which the country had taken off. Between 1958 and 1965 investments rose by 369%; Italy was then in fifth place among European countries as a recipient of U.S. direct investment, preceded only by Germany among the EEC countries [14, p. 273]. The Italian economy in those years was developing at a more accelerated pace: the annual rate of growth of GP was 6% between 1949 and 1962 (the highest among industrialized countries, Germany excluded); total production grew at a rate of 5.8% between 1950 and 1959 and per capita production by 5.3% (the highest level among the industrialized countries), while GNP per capita, which was 23% of its American counterpart in 1950, rose to 48% in 1970 [51, p. 120; 74, pp. 42-44]. It should be added that, in the period 1951-58, private consumption rose very little with respect to investments (35.7% for the former against 77.5% for the latter), and in the distribution of national income employees were penalized, as their share declined in comparison to that of the self-employed. A substantial increase in workers' part of the national income did not take place until the first half of the 1960s [46, pp. 223-30].

These data seem to confirm the thesis of Raymond Mikesell, who affirms that American penetration of Europe was a natural extension of domestic growth [39, p. 333]. John Dunning and Mira Wilkins show that, leaving aside the explanations linked to specific American multinational strategies, the level of per capita income was an influential factor in the decision of U.S. companies to invest abroad [14, p. 303; 77, pp. 342-50]. An indirect confirmation that the Italian case fits such a hypothesis comes from the relative decline of the importance of U.S.

investments in the oil sector and the increase in the field of manufacturing, in particular in the electronic, pharmaceutical, petrochemical, mechanical, cosmetic, and soap industries [16, 77, p. 404].

The preachings of Dayton, Zellerbach, and other MSA officials finally seemed to be paying off in the 1960s. The scene was changing for the United States, however, just when it seemed to be reaping the fruits of its labor. The process of integrating the Italian economy on the international scene was finally nearing success when the complexity of a more global interdependence between the two Atlantic shores began to reflect the first signs of the economic, monetary, and commercial uneasiness that was assailing the United States, and the position of absolute supremacy it held in the 1950s had now expired [57, pp. 179-81]. The consequences of these problems had little effect on the U.S. multinational firms operating in Europe, which was at that point paradoxically too full of dollars. The situation was used to create a market of Eurodollars and Eurobonds that protected U.S. companies from the restrictions on financial flows imposed by the American government as a result of the first difficulties with its balance of payments [77, p. 343; 53, 33, 71, pp. 167-72].

This study also raises another interesting issue. The flow of into Italy seemed to be quite unrelated to U.S. concerns about the political situation there and expecially to the role of the Italian Communist Party. The vigorous anti-Communist campaign waged by the U.S. ambassador Claire Booth Luce and the CIA's interventions on both the economic and political levels did not seem to discourage or prevent U.S. business leaders and multinationals from investing in Italy [48, 40, pp. 279-311]. This finding should oblige us to reconsider the relationships between government and business in the United States. But that is another story.

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