Sectoral specialisation and firm size in Italy before and after the stagflation.
IRI, 1962-1991

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The sectoral specialisation and the average size of the Italian firms evolved significantly after the stagflation. From the early 1980s on, in fact, the average firm size decreased and industrial sectors started to drift ever more away from the technological frontier, reversing a catching up process experienced in the previous decades. Firms' downsizing and the shift to less technological-intensive sectors appear largely associated to the early decline of the State-owned enterprise. In particular, from the late 1970s the major State-owned conglomerate, IRI, entered a long phase of turmoil up to the privatisation wave in the 1990s. In the 1950s-1970s the IRI group had operated in all the capital-intensive sectors – such as steel, ship-building, automotive, telecommunications, and electronics – fostering significantly productivity improvements via large investments. In the 1970s IRI bailed out a number of failing private firms by enlarging abnormally its perimeter as a share of total assets over the private component. At the same time, as a consequence of these bail-outs, IRI began poor-performing. Given the relative weight of IRI over the Italian manufacturing system its falling performance had a relevant impact on the whole industrial sector.

Centring upon a sample of the top 200 industrial firms (ranked by total assets), the paper provides a quantitative assessment of the IRI group by sectors over the Italian manufacturing system as a whole, from the early 1960s to the late 1980s, measuring how much, and explaining why, its weight changed over time. Thus, relying on archival sources, the paper presents empirical evidence of the widening process of IRI during the stagflation juncture, when bail-outs became rampant. Although it had intervened quite successfully in reorganising firms in the past, since the 1970s IRI appeared increasingly unable to restructure firms coping effectively with organisational inefficiencies and obsolete technologies. We argue that such a poor-performance depended on a financial structure abnormally deteriorated that entailed a tough liquidity constraint. Indeed, high debts and low equity capital restrained its very ability to invest and reorganise firms by reducing efficiency and technology gaps. The liquidity constraint was even more strong as macroeconomic policies forced IRI to preserve employment levels by investing in unrelated sectors or localising in unfitting areas. High debts and falling profitability led to the crisis of IRI. As the IRI group overlapped largely with the highest size brackets and the more capital- and technology-intensive sectors, such a crisis had a wider impact on the Italian industrial system. As a result, we argue that the decline of the largest State-owned conglomerate coincided with a major shift within the whole manufacturing sector, which adjusted to a changing environment by giving room to small and medium sized enterprises operating in less capital- and technology-intensive.

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