

**THE FIRST PRIVATIZATION: SELLING SOEs AND PRIVATIZING PUBLIC
MONOPOLIES IN FASCIST ITALY (1922-1925)**

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Abstract:

Italy's first Fascist government applied a large-scale privatization policy between 1922 and 1925. The government privatized the state monopoly of match sale, eliminated the State monopoly on life insurances, sold most of the State-owned telephone networks and services to private firms, reprivatized the largest metal machinery producer, and awarded concessions to private firms to build and operate motorways. These interventions represent one of the earliest and most decisive privatization episodes in the Western world. While ideological considerations may have had a certain influence, privatization was used mainly as a political tool to build confidence among industrialists and to increase support for the government and the *Partito Nazionale Fascista*. Privatization also contributed to balancing the budget, which was the core objective of Fascist economic policy in its first phase.

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1. Introduction

For a long time, the conventional wisdom on the history of privatization has been that the first privatization policies were implemented in the mid-1970s in Chile and in the early 1980s in the United Kingdom (Bortolotti and Milella, 2008). However, some scholars identify the partial sale of State-owned enterprises in Germany under Adenauer's government (1959-1965) as the first privatization program (Megginson, 2005).¹ Others go back further; recently published works document and analyze the Nazis' large-scale privatization policy, implemented by Hitler's government in pre-war Germany between 1934 and 1937 (Bel 2006, 2010). More recent studies (Bel 2009) have also explored another major privatization policy of the first half of the twentieth century, applied in Puerto Rico in 1948-1950, under the island's first ever democratically-elected government.

Interestingly, the question of privatization (still termed denationalization) was frequently discussed in the early 1920s. In France in 1923, the privatization of the public monopolies on tobacco and matches was debated as a means of alleviating the problem of the public debt created by World War I, though the Commission created by the French government to study the issue eventually decided against privatization.² In the USSR as well the creation of mixed enterprises and the awarding of concessions to private firms was considered. In December 1922, the government member Lev Kamenev read a report (prepared by Lenin) at the 10th Pan-Russian Congress of Soviets in Moscow which explained that more than 500 applications for concessions and mixed commercial organizations had been received in 1922, of which 25 had been granted and 250 were

¹ Other scholars argue that the denationalization of steel in the UK in 1953 was the first privatization operation (Burk, 1988).

² *The Economist*, 21 April 1923, pp. 842-843.

under examination. Commenting on the new economic policy, Kamenev added: ‘Our aim is to put at the disposal of private capital only those branches of industry which we have not concentrated in the hands of the State....As for private capital, it disposes of what it can obtain from denationalisation and concessions’.³

The most important public debates on privatization in the early 1920s were sparked by the proposals to privatize railways in Switzerland, Germany, Belgium and Italy. In 1921, a Swiss committee of financial and technical experts proposed the lease of the State railways to a private concern, as a way of securing the government a revenue that was high enough to pay the railway loans.⁴ The issue was discussed at length; *The Economist* reported that “many people are demanding some form of denationalisation of the Federal Railways”.⁵ In Germany, the government set up a committee in 1920 to study the financial state of the railways. The committee concluded that it was impossible to raise the fees charged for State services in line with the increase in costs. The minister suggested converting the State construction and repair workshops into independent organizations under commercial leadership: “This proposed denationalisation accords with the recommendation of both Socialisation Commissions.”⁶ Privatization met with strong opposition in Germany, as the unions were against it, and was not implemented.⁷

Though plans to privatize the railways came to nothing in Switzerland and Germany, they met with success in Belgium. The Belgian government had partially denationalized the *Compagnie des Chemins de Fer du Katanga* (Katanga Railways) in the Congo by selling shares to Belgian investors in 1919, but had retained control over its management. The main reason for the partial sale of the railways in the Congo was financial, that is, the urgent necessity to stabilize the national currency

³ *The Economist*, 3 February 1923, p. 212.

⁴ *The Economist*, 30 April 1921, p. 875.

⁵ *The Economist*, 31 December 1921, p. 1159.

⁶ *The Economist*, 13 November 1920, p. 866.

⁷ *The Economist*, 9 June 1923, p. 1298.

(CCUS, 1952). Later, in 1926, the government partially denationalized the Belgian railway, while once again retaining control over the firm (Neville, 1950).

In Italy, the debate on the privatization of the railways was particularly intense. In a speech given in November 1921, Benito Mussolini, still in opposition, announced his intention to return the railways to the private sector,⁸ with full transfer of ownership and control. After Mussolini's accession to government on October 28, 1922, the plans for railway privatization began to make progress. In April 1923, the Council of Ministers discussed the issue and decided to begin by leasing the management of regional lines in the north and in Sicily to private firms. A Royal Decree was prepared, but its publication in the *Gazzetta Ufficiale* was withdrawn at the last moment because of the strong opposition from the Fascist railwaymen's union. The government did not immediately abandon its plan to privatize the railways, but the measure was never implemented.

The failure of the Fascist government to privatize the railways was an exception rather than the general rule regarding privatization in Italy, because a wide-ranging privatization policy was indeed put into practice between 1922 and 1925. Mussolini's government privatized the State monopoly on match sale, and suppressed the state monopoly of life insurance; it sold most State-owned telephone networks and services to private firms, reprivatized the metal machinery firm Ansaldo and awarded concessions for tolled motorways to private firms. All these operations conform neatly to the several types of privatization identified in recent academic literature (Brada, 1996; Megginson and Netter, 2001), such as privatization by sale of State property, privatization by restitution, privatization by eliminating State monopolies without transfer of property, and externalization by means of concessions of services previously delivered by the government (Vickers and Yarrow, 1988).

Contemporary economic analyses of privatization have so far overlooked the Fascist privatization policy in 1922-1925 Italy, which may well be the earliest case of large-scale

⁸ Mussolini, "Discorso all'Augusteo", 7 November 1921 (printed in Mussolini, 1934a, pp. 203-204)

privatization in a capitalist economy. Several studies in the 1920s (Galluppi de Gregorio, 1923; Gangemi, 1924; Perroux, 1929) and 1930s (Finer, 1935; Gangemi, 1932; Goad and Currey, 1933; Guérin, 1936; Perroux, 1933; Schneider, 1936; Welk, 1938) noted the sale of the State-owned firms and the privatization of public monopolies by the first Mussolini government. However, the modern literature on privatization totally ignores this early case of privatization, and recent Italian literature on Fascist economic policy mentions it only in passing, if at all (Bosworth, 2005; De Grand, 1982; Fausto, 2007a; Sarti, 1971; Zamagni, 1981). It is worth noting, though, that a few specific case studies provide valuable information on some of the privatization operations; for instance, the privatization of the telephones (Bottiglieri, 1990), the reprivatization of Ansaldo (Segreto, 1998), and the concession of tolled motorways to private firms (Bortolotti, 1992; Bortolotti and De Luca, 1994).

Privatization was an important policy in Italy in 1922-1925. The Fascist government was alone in transferring State ownership and services to private firms in the 1920s; no other country in the world would engage in such a policy until Nazi Germany did so between 1934 and 1937. So it is worth asking why the Fascist government departed from the mainstream approaches to State ownership in the 1920s and transferred State-owned firms and businesses to the private sector.

Answering this question requires us to analyze the objectives of the Fascists' privatization policy. To do so, we will use the theories, concepts, and tools supplied by recent literature. Theoretical developments have provided valuable hypotheses regarding politicians' motives in choosing between privatization and public ownership, and have identified various general objectives linked to privatization policies (Shleifer and Vishny, 1994; Vickers and Yarrow, 1988). Both the theoretical and the empirical literature offer interesting results regarding the use of privatization to build political support (Biais and Perotti, 2002; Perotti, 1995). Furthermore, international evidence suggests that financial motivations have also been a key factor in recent

privatizations, although the relevance of sales receipts in triggering privatization has varied between countries and over time (Bortolotti and Milella, 2008; Yarrow, 1999).

This paper intends to fill a gap in the current economic literature by tracing the course of the privatization policy in 1922-1925 Italy. Our analysis suggests that the objectives pursued by the Fascist government were largely political, focused on the desire to build support for the government in the first period of Fascist rule in Italy. Fiscal objectives may also have played a role in the decision to privatize.

From here onwards, the paper proceeds as follows. First, I examine the privatization process and its results. Then, I analyze the objectives of Fascist privatization. Finally, I draw the main conclusions.

2. PRIVATIZATION IMPLEMENTED BY THE FIRST FASCIST GOVERNMENT IN ITALY

Mussolini was appointed Prime Minister on October 28, 1922, after the March on Rome. The new government soon made clear its intention to privatize public services. The first meeting of the new Cabinet discussed the privatization of the telephone system and several other public services; the Minister of Communications proposed reprivatization in order to obtain resources and reduce Treasury spending.⁹ De' Stefani, the Minister of Finance, quickly seconded the proposal, and the transfer of public services to private firms was approved. On November 14, the government also discussed and made public its intention to abolish the regulations establishing a public monopoly over the operation of life insurance.

On December 3, 1922, legislation¹⁰ was passed delegating full powers to the government for the reform of the tax system and public administration. The government was empowered to reduce the functions of the State, reorganize the public bureaucracy, and reduce spending. The Act

⁹ *Il Corriere della Sera*, 8 November 1922, p. 1

¹⁰ Law 1601/1922, of 3 December 1922 (*Gazzetta Ufficiale*, 15 December 1922, number 293).

provided the legal framework within which the first Fascist government was to approve most of the decrees establishing the removal of public monopolies and the privatization of public services.

Privatization of the monopoly on match sales: Italy's first match factories appeared in the mid-nineteenth century, but it was only at the end of the century that the industry began to thrive when all the major factories gathered together in a single organization. On August 31, 1916, a decree¹¹ was approved establishing the State monopoly over the sale of matches for consumption inside Italy. Match producers could now sell only to the State, and the Ministry of Finance was made responsible for managing the sales to the final consumers. The minister was also given powers to regulate the price and the product characteristics. The quantity of matches required to satisfy domestic consumption was calculated and divided among the producers on the basis of their respective market shares in the period 1911-1913.

On March 11, 1923, Mussolini's government approved a Royal Decree¹² eliminating the State monopoly on match sales as of June 1, 1923, and introducing a tax on match production. The decree established that the Minister of Finance would retain the power to set the price for sale to the final customers. With this decree, the agreement established on March 3, 1923 between the State and the Consortium of Match Producers for the sale of matches in Italy and its colonies also became law. The agreement established the transfer of the sale of matches to the producers in the Consortium, reaffirmed the State's right to set the price of sale to the final consumers, and – significantly – prohibited the establishment of new factories for match production. The Minister of Finance De' Stefani (1926, p. 38) estimated the reduction in public spending due to the elimination of the match monopoly to be 65 million lire.¹³

¹¹ Decree (*Decreto Legge*) 1090/1916, of August 31 1916, regarding the monopoly on the sale of matches.

¹² Royal Decree (Reggio Decreto) 560/1923, of 11 March 1923 (*Gazzetta Ufficiale*, 27 March 1923, number 72).

¹³ By eliminating the monopoly the State would no longer receive public monopoly revenues, but the new tax on production would provide fiscal receipts to compensate for the losses. To my knowledge, Gangemi, (1924, 1932) is the only work that offers information on and analyzes this privatization. Other contemporary

Elimination of the public monopoly over life insurance: At the turn of the century, life insurance was a promising market controlled by foreign firms, which held 60% of insured capital and 70% of the premiums (Battilossi, 1999). Giolitti's pre-war government decided to create a State monopoly on life insurance policies, and legislation was passed¹⁴ on April 4, 1912 establishing that life insurance policies, of any type, came under the monopoly of the *Istituto Nazionale delle assicurazioni* (INA). The existing private insurers would keep the contracts already signed, and would continue to receive the corresponding premiums. The private insurers that were providing life insurance on December 31, 1911 were authorized to remain in operation for ten more years after the 90th day following the implementation of the Act. However, firms wishing to remain in business for ten years were obliged to transfer to the State 40% of any new contract made after the law came into effect.¹⁵

Two weeks after Mussolini's accession to power, the Cabinet approved a decree¹⁶ on November 16 to maintain temporarily article 29 of the 1912 Act concerning the insurers already operating on December 31, 1911. Six months later, on April 29 1923, a Royal Decree¹⁷ authorized private insurers to operate in the life insurance business and repealed the 1912 Act establishing the public monopoly over life insurance.¹⁸ The two Italian companies that had pressed hardest to abolish the State monopoly [*Assicurazioni Generali* (AG) and *Adratice di Sicurtà* (AS)] became thereafter a *de facto* oligopoly, together with the business still in hands of the INA.

works that reported (but did not discuss) the privatization of the match monopoly were Perroux (1929) and Guérin (1936).

¹⁴ Act 305/1912, April 4, 1912, regarding the establishment of a monopoly of life insurance in favor of the National Insurances Institute (Gazzetta Ufficiale, April 12, 1912).

¹⁵ The National Insurances Institute acquired the insurance portfolio of 23 Italian and foreign companies, and quickly achieved control of more than 40% of the insured capital in Italy (Battilossi, 1999).

¹⁶ Decree 1639/1922, of 16 November 1922.

¹⁷ Royal Decree (Reggio Decreto) 966/1923 of 29 April 1923 (Gazzetta Ufficiale, May 14, 1923, number 112).

¹⁸ Contemporary works that noted the privatization of the public monopoly over life insurance were Gangemi (1924, 1932), Perroux, (1929), and Guérin (1936).

Privatization of State-owned telephone networks and business: By the 1907 Act the government nationalized most of the lines and networks managed by private firms, and took over the two most important private concessionaires in Italy: the *Società generali italiana dei telefoni e applicazioni elettriche*, and the *Società telefonica alta Italia* (Bottiglieri, 1990). These two companies were originally controlled by Siemens-Halske, before being taken over by the Banca Commerciale Italiana. So in 1907 the State became the main provider of telephone services, although a minor part of the sector remained in the hands of local private firms. In 1913, just over two-thirds of Italy's telephones (61,978 in all) were publicly owned, and just under a third (29,742) were private. The situation in Italy reflected that in most European countries, where the State was the sole (or at least the predominant) provider of telephone services (Calvo, 2006):

As mentioned above, the privatization of the State-owned telephone system was agreed at the first meeting of Mussolini's government. A few months later, on February 8, 1923, the government approved a Royal Decree¹⁹ establishing the general conditions under which it could award concessions for the telephone service. The most important points in the decree were: (1) the possibility of awarding new concessions to private firms (art. 2); (2) the possibility that the government might renounce its right to recover the concession after at least 15 years had elapsed (compared to 12 years in the previous legislation, art. 5); and (3) the establishment of compensation once the concession expired if the government chose not to renew it and decided instead to take control of the business itself (art. 8).

After long conversations with the interested private firms,²⁰ the government approved a new Royal Decree-Law²¹ that incorporated several modifications. The main objective of the changes

¹⁹ Royal Decree (Reggio Decreto) 399/1923, of 8 February 1923 (Gazzetta Ufficiale, March 29, 1923, number 74).

²⁰ See the *Minutes of the Ministry of Communications on the first reactions of private operators to the project of concession of the telephone system - late 1923-early 1924* (Printed in Bottiglieri, 1990, pp. 497-502).

²¹ Royal Decree-Law (Reggio Decreto-Legge) 837/1924, of 4 May 1924 (Gazzetta Ufficiale, June 5, 1924, number 132).

(arts. 2, 3 and 4) was to make privatization more appealing to private interests. For instance, the maximum period during which the government would renounce its right to recover a concession was increased to 20 years, and the financial conditions for compensation were made more favorable to private firms (in the case of recovering a concession, and also in the case of expiry or non-renewal). The taxes on profits that concessionaires had to pay to the State were also lowered.

Regarding the decision to privatize, the Italian producers of telephone equipment made a proposal to create a mixed (shared ownership) company in partnership with the State (Gangemi, 1932). However, the government decided to fully privatize the telephone sector. On September 19, 1924, the interested parties were invited to submit proposals before October 30 for six concession areas, and the successful bidders were to begin their management of the concession on July 1, 1925. These six zones were 1) Piemonte, Lombardia and Ligure; 2) Tre Venezie, Fiume and Zara; 3) Emilia, Marche, Umbria (excluding Orvieto), Abruzzi and Molise; 4) Toscana, Lazio, Sardegna, and Orvieto; 5) Southern Italy and Sicily; and 6) Interurban and international lines (Bottiglieri, 1990, pp. 88-89).²² The five regional zones were valued at 338 million lire, while the interurban and urban network was valued at 185 million lire (Bottiglieri, 1990, p. 90).

Several bids were received for the five regional zones: two for the first zone; two for the second; two for the third; four for the fourth, and three for the fifth. However, only one bid was made for the sixth one (main interurban lines and international lines), which was widely regarded as unprofitable (Bottiglieri, 1990; Sarti, 1971). The final decision was announced on January 15 1925 and the five concessions for urban and regional areas were transferred to private firms, including the ownership of the corresponding networks and equipments, for a total sum of 255.35 million lire (Barone, 1983, p. 37), against the initial proposal of 338 million lire. Because only one (unsatisfactory) proposal had been received for the interurban network, the competition was

²² When privatization was finally implemented, Ligure was moved from zone 1 to zone 4. Defining the zoning for privatization was one of the most complex tasks in the process (Barone, 1983, pp. 36-38).

declared void and the service remained in the hands of the State under the management of the new *Azienda di stato per i servizi telefonici*.²³

At the end of June 1925, before the privatization of the urban and regional networks, the State's share of subscribers was 69.9% and it obtained 90.0% of revenues generated by urban and medium distance networks. In all (taking into account the revenues from long distance and international lines as well), the State enjoyed an 87.4% share of total revenues. After privatization came into effect in July 1925, all urban and regional networks were privately owned and managed, and private firms now received 68.9% of total revenues. The government's share of the revenue fell to 31.1%.²⁴

Reprivatization of Ansaldo: Gio. Ansaldo & C. was a large producer of machinery such as boats, trains, airplanes, and naval equipment which had experienced impressive growth during World War I. In fact, it was the largest Italian company in terms of equity in 1917-1922 (Cerretano, 2004). After the war, Gio. Ansaldo embarked on an overambitious expansion program which ultimately led the firm to bankruptcy in 1921. The government decided to rescue the firm by means of the *Sezione Autonoma del Consorzio sovvenzioni su valori industriali* (CSVI, dependent on the Bank of Italy), which had been set up with the mission of rescuing banks in crisis.²⁵ Ansaldo SA was created in September 1922, with a capital of 200 million lire, subscribed by Gio. Ansaldo (199.75 million lire) and *Banca Nazionale di Credito* (0.25 million lire). Because the firm could not effectively make such a big investment, the CSVI put forward the sum needed and received Ansaldo SA shares as collateral for its funding. However, lengthy negotiations between Gio.

²³ Royal Decree-Law (Reggio Decreto-Legge) 884/1925, of 14 June 1925 (Gazzetta Ufficiale, June 17, 1925, number 139).

²⁴ I have made these computations based on data in Bottiglieri (1990, pp. 438-439, Table A/2).

²⁵ The main rescuing operations undertaken by the Autonomous Section of CVSI in 1922 and 1923 were those affecting Banca Italiana di Sconto (unsuccessful), the Nuova Ansaldo, Banco di Roma, and Banca di Credito e Valori. By the end of 1924, CSVI had an outstanding debt of around 4,000 million lire to the Bank of Italy (Lombardini, 1968; Battilossi, 1999; Canziani 2007). Einaudi (1923, p. 127) saw this rescue as a way to help the rescue of Banca di Sconto, Ansaldo's main creditor.

Ansaldo and the Ministry of Finance continued throughout 1922 regarding the payment of Ansaldo's tax debts (Segreto, 1998).

Mussolini was highly sensitive to all matters regarding military production, and once in government he provided strong support for the firm's rescue (Doria, 1988). In February 1923, an agreement was finally reached and Ansaldo was placed under public control, which implied the direct involvement of the State in the firm's management (Gangemi, 1932). Under public control (between 1922 and 1925), Ansaldo received continued financial support from the CSVI, which amounted to 300 million in the first year and a half (Gangemi 1924; Segreto, 1998). The privatization of Ansaldo took place in mid-1925, after two months of intense negotiations involving all major Italian industrialists interested in obtaining control of the firm. The first formal bid was submitted in early May by Fiat, amounting to 200 million lire for all the shares. Finally, Ansaldo was reprivatized on July 1925 following an offer made by an alliance between *Banca Nazionale di Credito* and *Credito Italiano* of 210 million lire for all shares (5% above their face value). The State received 207.5 million for its shares, with an up-front payment of 41.5 million lire, while the remaining 166 million lire were to be paid in five years at an annual interest rate of 5% (Segreto, 1998).

Concession of tolled motorways to private firms: In 1923, the Ministry of Public Works was reformed with the objective of stimulating cooperation between the State and private firms – particularly the large electricity companies – for the promotion of public works. This reform allowed the expansion of the concessions system, and provided great legal flexibility, allowing public works such as the building of the motorways to be carried out either by the State or by means of concessions to private firms (Buccella, 1927). Thus, it provided the framework for implementing a new policy for funding and managing the motorways: the concession of construction and operation to private firms, which would receive a toll paid by motorway users as the main source of income to finance the new motorways.

Indeed, from the earliest days of the Fascist government, the construction of the motorway system was based on the granting of concessions to private firms. In April 1922, Piero Puricelli, owner of a large motorway construction firm and a strong supporter of Fascism, had unsuccessfully launched a plan for the building of a motorway. However, soon after Mussolini's appointment as Prime Minister, the government worked out an agreement with a private firm created by Puricelli in December 1922, and awarded his firm the right to build and operate a motorway between Milan and the pre-Alpine lakes (Moraglio, 2002). The State provided the guarantee for the bonds issued by the concessionaire, and a subsidy to the firm. The first part of the Milano-laghi motorway was completed in September 1924 and the second in September 1925 (Bortolotti, 1992); it was the first tolled motorway in Europe.

As a rule, thereafter the State awarded concessions to private firms for the building and operation of motorways for a period of fifty years. Because of the low demand, the State provided an annual subsidy, in addition to the contributions made by local governments with an interest in the motorway. The private concessionary issued bonds guaranteed by the State and the local governments. As a result, the investment made by the private firm represented a small fraction of all the capital needed to build the motorway, and obtaining financial support from the State was usually a necessary precondition for construction (De Luca, 1992). Bortolotti (1992) considers that the promotion of the motorways involved many private interest groups that would benefit from its construction and operation. For Puricelli, the building of motorways was a way to acquire a dominant position in this new industry, as well as to establish a private company, financed by the State, for the modernization of the conventional highways. For the carmaker Fiat (the only large car producer in Italy) the motorways were a tool for developing the tiny domestic automobile market. The cement, tire, and oil refining industries pursued the same type of objective, which is, prioritizing their own development (Moraglio, 1999, 2002).

Beginning in 1923, six tolled motorways were constructed in a short space of times. Milano-laghi was followed by Milano-Bergamo, and by several others (Napoli-Pompeia, Brescia-Bergamo, Torino-Milano, Firenze-mare, Venezia-Padova, etc.). But the traffic was not enough to cover costs, and most concessions were nationalized in the 1930s to save the firms from financial collapse. Only Napoli-Pompeia, Torino-Milano and Venezia-Padova remained in private hands, the last one thanks to massive subsidies provided by local governments (Moraglio, 2002). The State kept tolls in place after taking over the motorways.

Between late 1922 and mid-1925 the bulk of the Mussolini government's privatization plans were put into practice. After July 1925, when De' Stefani was replaced by Count Volpi di Missurata as Minister of Finance, Fascist privatization came to an end and a new phase of Fascist economic policy in Italy began, characterized by tighter, more direct intervention by the government in economic affairs (De Grand, 1982; Fausto, 2007a; Gregor, 2005; Welk, 1938).

3. WHY DID THE FASCIST GOVERNMENT PRIVATIZE? AN ANALYSIS OF THE OBJECTIVES OF PRIVATIZATION

Contemporary scholars – from both Italy and abroad – noted the implementation of several privatization operations in the country in the mid 1920s. However, no full analysis of this policy has been published to date. Apart from the few specific case-studies on some of the privatization operations, no in-depth analyses have been carried out of the role played by privatization in the first phase of the Fascist economic policy, implemented between 1922 and 1925.

Actually, the first Fascist manifesto, the *Programma dei Fasci di Combattimento* adopted in March 1919, demanded a series of reforms that included a heavy capital levy, a punitive tax on war profits, minimum wage rates, and workers' participation in industrial management. Indeed, the earliest Fascist programs rejected private ownership and industrial interests, consistent with the fact that most first-hour Fascists had previously been members of the radical Left in the *Partito*

Socialista Italiano. Mussolini himself had been a *massimalista* within the PSI, and was director of *Avanti* – the party newspaper – between November 1912 and October 1914, one month before his expulsion from the PSI.

However, the Fascist position on economic policy had changed dramatically by the early 1920s. In his first speech as a member of the Italian Parliament in June 1921, Mussolini said: “The State must have a police, a judiciary, an army, and a foreign policy. All other things, and I do not exclude secondary education, must go back to the private activity of individuals. If one wants to save the State, the Collectivist State must be abolished.”²⁶ Mussolini confirmed this new political orientation towards State ownership in a speech given in November 1921:

“I will give the railways and the telegraphs back to private hands, because the current state of things is outrageous and vulnerable in all its parts. The ethical State is not the monopolistic State, the bureaucratic State, but the one which reduces its functions to what is strictly necessary. We are against the economic State.”²⁷

Mussolini’s views were formally adopted as Fascist policy in the Partito Nazionale Fascista (PNF henceforth) program of December 1921. The section ‘Economic reconstruction of the country’ emphasized two of the party’s main economic objectives: 1) to return industrial companies such as the telephone system and the railways to private firms (point 8); and 2) to give up the monopoly on Postal and Telegraph services, and to allow private initiative to enter the sector and eventually replace the State service (point 9).

Throughout 1922, Mussolini repeated his intention to privatize in a series of influential speeches. To quote from his speech at Udine, in September 1922, one month before the March on Rome: “We must put an end to the Railway State, to the Postal State, to the Insurance State. We

²⁶ Mussolini, “Il Primo Discorso alla Camera”, 21 June 1921. Printed in Mussolini (1934a, p. 187) (author’s translation).

²⁷ Mussolini, “Discorso all’Augusteo”, 7 November 1921. Printed in Mussolini (1934a, pp. 203-204) (author’s translation).

must put an end to the State that wastes the money of all Italian taxpayers and worsens the exhausted finances of the Italian State.”²⁸ Indeed, this was the road taken by the Fascist government from its first days in office.

Ideology

Indeed, both Mussolini’s position on State ownership and the Fascist proposals for economic policy had undergone dramatic change between 1919 and 1921-22. Was this change due to Mussolini’s conversion to liberal ideology? Apparently not, for Mussolini was proud to affirm that “the value of Fascism lies in its pragmatic nature” (Mussolini, 1932, p. 850). Above all, he was a tactician, and was regarded as such both by contemporary analysts (Guarneri, 1953) and by modern scholars (De Felice, 1966; De Grand, 1982; Sarti, 1971). James Gregor (2005, p. 100) spells this out: “To anyone who knew anything about Mussolini, it was clear that there was little that was conservative, liberal, or politically democratic about his most fundamental convictions. Through all his phases of political apprenticeship, Mussolini had always been an elitist, as well as a singularly antidemocratic revolutionary.”

To be sure, a pro-private business ideology was firmly embedded in Mussolini’s first government, particularly in the person of De’ Stefani (De Felice, 1966; De Grand, 1982; Eatwell, 1995; Guarneri, 1953; Sarti, 1971; Zamagni, 1981). De’ Stefani was initially appointed Minister of Finance, but took over from Tangorra as Treasury Minister on the latter’s death in December 1922; the two ministries were merged and De’ Stefani was placed in charge of all economic matters. His economic credo was driven by his strong pro-private business views, which resulted in a policy oriented to promoting productivity. Among the cornerstones of this policy were the privatization of State-owned firms and the elimination of State monopolies.

²⁸ Mussolini, “Il Discorso di Udine”, 20 September 1922. Printed in Mussolini (1934a, p. 320) (author’s translation).

Nonetheless, De' Stefani's privatization did not imply a policy in favor of competition.²⁹ The clearest expression of his views on privatization and competition is found in a text De' Stefani published in 1941, when commenting on the newly coined term (Bel, 2006) 'reprivatization':

“This is another clumsy word that has come into use. Although it is difficult to pronounce, it is steadily making its way. Reprivatization should mean a return to private initiative, rather than a return to economic freedom. To avoid confusion, this distinction must not be forgotten; otherwise economic liberalism could use reprivatization as a launch pad for having its own trafficking passed through.... That it is not possible to go back to economic liberalism and, thus, to competition, seems beyond dispute.” (De' Stefani, 1941, p. 1205).

Accordingly, the removal of the match sale monopoly was accompanied by the prohibition of new firms entering the market to produce matches, thus reinforcing the private monopoly on match production and sale. Privatization of the State telephone networks and installations was done through regional monopolies, but no room was given to competition – in contrast to countries like Denmark and Sweden, where the telephone systems were totally or partially private and a liberal market approach prevailed. After privatization, the telephone sector evolved towards an oligopoly of the two largest groups, Stipel and Set. The same thing happened with the private sector for life insurance, and competition was never a concern for the Fascist government.³⁰

²⁹ Indeed, the PNF never proposed promoting competition. Massimo Rocca, an outstanding contributor to the PNF's early economic proposals, made it clear that while Fascism would promote pro-private policies, “This does not mean that the State must return to the *liberal state* of the classical economy, whose sole task was *laissez faire, laissez passer*” (Rocca, 1921, p. 5; author's translation).

³⁰ Later, the *Carta del Lavoro* also made clear the distinction between private ownership and competition: “The Charter says ‘private initiative’ but does not say ‘free initiative’....The private initiative in the Corporative State is private, but not free” (Arias, 1929, pp. 29-30, author's translation). A contrasting view was provided by Corbino (1966), who stressed that Mussolini's policy provided room for free play of market forces. A liberal interpretation of the fascist corporative economy can be found in Bachi (1937).

Political interests

While De' Stefani's economic policy was consistent with his ideological views on public and private ownership, Mussolini had other reasons as well to back this course of action during his first government. The main one was the desire to increase political support for Fascism. Mussolini's change of attitude towards private business was a consequence of the party's heavy defeat in the autumn 1919 national elections when, running on the basis of the interventionist program of the *Fasci di Combattimento* the PNF obtained just a few thousand votes in Milan, where Mussolini himself was the PNF candidate. After this setback, he began to adopt more pro-private stances in economic matters. His reasons were primarily tactical: he wanted to establish his party as an alternative to the mainstream parties and sought support from sectors such as middle classes, typically averse to strong State intervention in the economy (Guarneri, 1953) and strongly opposed to the socialist economic policies applied by the Russian Bolsheviks, which had caused the collapse of the Russian economy (Gregor, 2005).

Indeed, electoral support for the Fascists increased in the 1921 election, when the PNF obtained 35 seats in the national parliament out of a total of 535 seats. Support to PNF was strongest among landowners, small businessmen, and middle class professionals, and competition for votes was especially intense with the Catholic *Partito Popolari Italiano* (Linz, 1976). The PNF's electoral support was much weaker among industrial and agricultural workers, who remained loyal to the Socialist Party and to other parties of the Left or with a strong working-class base, and among big industrialists, who backed the conventional conservative parties. As regards financial support, small industries and landowners made significant contributions to the PNF before the March on Rome, but far less was forthcoming from industry (De Felice, 1964), where subsidies were sporadically given to avoid trouble in the factories.³¹ Hardly any large-scale industrialists supported the March

³¹ Funding from *Confindustria* and the *Associazione fra le società per azioni* (Association of Italian Joint Stock Companies) was large and systematic only from the 1924 election onwards (De Felice, 1964, p. 244).

on Rome (De Grand, 1982; Melograni, 1965), preferring a government headed either by Giolitti or by Salandra (with Mussolini in the Cabinet) as a way out of the political crisis (De Felice, 1975; De Grand, 1982). Eventually, however, Mussolini was appointed Prime Minister.

Mussolini's accession to power in October 1922 was the result of a compromise between Fascism and the traditional ruling class. As a result, Mussolini's government until 1925 was a coalition, in which only three out of thirteen ministers were members of the PNF and seven of the remaining ten belonged to conservative and centre parties that had been involved in the previous government, plus two members of the army and one independent.³²

With only a small fraction of the parliament belonging to the PNF, the political strength of Fascism was never enough to pursue its most favored policies. Given the allies with whom he cohabitated and the type of public opinion that supported him,³³ Mussolini was in no position to pursue an economic policy other than one that first and foremost encouraged productivity. (De Felice, 1966) In the April 1924 election, after a campaign plagued by corruption and intimidation, the national list promoted by Mussolini and the PNF won a substantial majority, with 374 elected representatives, 275 of whom belonged to the PNF (Eatwell, 1995). But the political situation was anything but stable, in spite of this convincing victory. Giacomo Matteotti, parliamentary leader of the moderate Socialists, was kidnapped and murdered after a forthright speech in Parliament in June 1924 in which he demanded that the election be declared void because of widespread coercion and electoral fraud. A Fascist squad with direct links to the government leaders was responsible for Matteotti's murder. A huge political crisis ensued during the second half of 1924 and almost brought down the first Fascist government. This was Mussolini's weakest moment throughout his

³² The complete list of the new Cabinet (ministers and undersecretaries) was published in *Il Corriere della Sera*, 31 October 1922, p 1. Political details on the composition of Mussolini's first government can be found in De Felice (1966), and Payne (1995).

³³ What is more, there were internal difficulties in the PNF during 1923, and late that year a *coup de main* was given within the party (Finer, 1935). "During the first year I had to rid myself of a hundred and fifty thousand Fascists in order to make the party a more concentrated force" (Ludwig, 1933, p. 103).

tenure as Prime Minister (Bottiglieri, 1990; *SIP*, pp. 89; De Felice, 1966, 1975; Finer, 1935; Gregor, 2005; Guarneri, 1953; Payne, 1995).

Within this framework of limited political strength, during his first years in government Mussolini sought to increase his support. So far, major industrialists had largely treated Fascism with hostility or suspicion (Lombardini, 1968; Sarti, 1971), as Mussolini himself noted in an interview a few years later: “Resistance came mainly from the upper classes, but not from the aristocracy.” (Ludwig, 1933, p. 104). The Fascists set out to obtain the support of the industrialists by means of the economic policy (De Felice, 1966; De Grand, 1982; Loucks and Hoot, 1939). Measures such as the privatization of State-owned firms and the removal of State monopolies – policies that favored private property– were used as tools to build confidence among the industrialists, and to foster an alliance between them and Fascism. Table 1 displays information on the types of operation and on the beneficiaries of the privatization measures.

Indeed, major positions in the Telecommunications sector were achieved by large electric holdings such as SIP, financial institutions (particularly Banca Commerciale and Credito Italiano) and leading industrials such as Angelli (Fiat) or Pirelli (Pirelli). It is worth noting that firm concentration quickly followed the initial concessions: by 1928, SIP was controlling three quarters of the urban and short-distance interurban networks (Castronovo, 1980, p. 177).

Table 1. Privatization measures, types of operation, and beneficiaries.

Sector	Measure	Type of operation	Main beneficiaries	Observations
Matches	Removal of public monopoly on match sale	Agreement between the government and the Consortium of match producers	Incumbent producers. No new entries allowed	-
Life insurances	Removal of public monopoly over life insurance	Deregulation	<i>Assicurazioni Generali</i> (AG) and <i>Adriatica di Sicurtà</i> (AS)	Market quickly evolved towards an oligopoly of AG and AS, together with the National Insurances Institute (INA)
Telecommunications	Privatization of networks and equipments	Bid for Zone 1 (Piemonte & Lombardia)	Stipel: <i>Sip</i> , <i>Italgas</i> , <i>Banca Commerciale</i> , <i>Fiat</i> (Agnelli).	Under control of <i>Società Idroelettrica Piemontese</i> (SIP). SIP rescued by IRI in 1933.
		Bid for Zone 2 (Tre Venezie, Fiume & Zara)	Telve: Main telephony private firms operating in Veneto	Taken over by SIP in 1928
		Bid for Zone 3 (Emilia Romagna, Marche, Umbria, Abruzzo & Molise)	Timo: <i>Cassa di Risparmio di Rimini</i> and <i>Società adriatica telefoni</i> (Pietro Palloni)	Taken over by SIP in 1926.
		Bid for Zone 4 (Ligure, Toscana, Lazio, Sardegna)	Teti: Industrial holdings of Pirelli and Orlando, <i>Credito Italiano</i>	
		Bid for Zone 5 (Southern Italy & Sicily)	Set: <i>Credito Italiano</i> , <i>Banco di Sicilia</i> , Sella-Schneider holding, Ericsson	
Ansaldo	Reprivatization	Bid	<i>Banca Nazionale di Credito</i> and <i>Credito Italiano</i>	Rescued in 1930 and taken over by IRI in 1933.
Tollways	Concession to private groups with public subsidies	Concession Milano-laghi	Sa autostrade de Milano: Puricelli, Pirelli.	Rescued by the state in the 1933
		Concession Milano-Bergamo	Sa bergamasca: Puricelli, Antonio Pesenti, local industrial groups.	Rescued by the state in the 1938
		Concession Napoli-Pompeia	Sa autostrade meridionali: Puricelli, Pirelli, <i>Banca Commerciale</i>	
		Concession Brescia-Bergamo	Sa bresciana: Local industrial groups.	Rescued by the state in the 1939
		Concession Torino-Milano	Autostrada Torino-Milano: Benni (Confindustria), Fiat (Agnelli), <i>Snia-Viscosa</i> (Gualino), Pirelli, Lancia, <i>Italgas</i> , <i>Banca Commerciale</i> , <i>Automobil Club</i> , Puricelli.	Longest concession (125.8 km.). Only large concession to remain private.
		Concession Firenze-Mare	Sa l'Autostrada toscana: <i>Federazione Fascista Fiorentina</i>	Rescued by the state in the 1940
		Venezia-Padova	Sa autostrada di Venezia a Padova: Local governments of Padova and Venezia, and local interests.	Massive subsidies by local governments to avoid bankruptcy

Source: Author, based on references in section 2.

Regarding tollways, and besides the omnipresent Piero Puricelli, we find industrial captains and large firms linked to the automobile-related and construction-related businesses, such as Agnelli (*Fiat*), Lancia (*Lancia*), Pirelli, and Antonio Pesenti (the country's largest cement producer). We

also find financial interests such as Banca Commerciale, and local industrial groups. Finally, the reprivatization of Ansaldo implied that the group came under the control of financial interests (Banca Nazionale di Credito and Credito Italiano).

Overall, privatization was almost completely restricted to Italian industrial holdings, utilities and financial institutions. The only exception of any note was the relatively small participation of the Swedish group Ericsson in the privatization of the telephone network in zone 5 (southern Italy and Sicily).

The Matteotti crisis was the biggest challenge that the first Fascist government had to face. Confronted with the real possibility of losing power, Mussolini set up a personal dictatorship, which was supported by most of his political allies (De Felice, 1966). The speech given to parliament on January 3, 1925 is the crucial moment in this evolution, and marked the moment of real political rupture (De Felice, 1972), and the beginning of the totalitarian phase of Fascism. Following the speech of January 3, the representatives of the opposition were not allowed to return to parliament and the opposition parties and trade unions were outlawed (Payne, 1995). All this marked the end to the first phase of Fascist rule. As plainly expressed by Alfredo Rocco (1927, p. 8),³⁴ “From October 28, 1922 to January 3, 1925 Fascism did not govern Italy alone; it governed Italy in collaboration with other parties. This collaboration, initially very wide-ranging, was gradually restricted; with the January 3 speech any residual notion of coalition government was swept away, and Fascism alone controlled the State.”

On the economic front, on January 23, 1925 the *Gran Consiglio del Fascismo* (Fascism Grand Council), the PNF's highest body, announced that all the economic forces of the nation would thereafter be 'integrated into the life of the State' (Gregor, 2005, p. 106). New legislation was passed on April 3, 1926 (Welk, 1938) regarding the functioning of markets to empower the Fascist State to direct the economy, and thus introduced a trend towards strong interventionism. The two

³⁴ Rocco is widely considered the father of Fascist institutions (i.e. Salvemini, 1936).

main bases for State intervention were (1) the institutes and corporations that were created in the mid-1920s, through which the Fascist State regulated the economy (Einzig, 1933), and (2) the *Carta del Lavoro* (Chapter of Labour), declared in April 1927, which made it explicit that private enterprise was subordinate to the State whenever political interests were involved (Arias, 1929; Bottai, 1930). The corporative system was based on intervention in economic activity and its regulation. In this way, an anti-market government came to accept privatization, because it was able to retain control over private ownership through ever stronger regulation, consistently with recent theoretical approach in Shleifer and Vishny (1994).

More importantly, privatization was an instrumental measure, not a coherent long-term policy. This is clearly shown by (1) the rescue of industrial activities of two important banks, and (2) the process leading to the creation of the *Istituto per la Ricostruzione Industriale* (IRI) in 1933.

(1) Banca di Roma (BdR) and Banca Italiana di Sconto (BIS) engaged in highly aggressive territorial expansions after World War I (Bachi, 1922, p. 45; Zamagni, 1993, p. 234). Both BIS and BdR controlled a large number of subsidiaries in different industrial sectors, which were in deep trouble in the early 1920s. BIS was eventually wound up and its leading industrial holding, Ansaldo, was rescued by the government, as we saw above. As regards BdR, the bank reached an agreement at the end of November 1922 with the Italian government, involving the transfer of a very large set of industrial shareholdings, corresponding to 98 firms in 16 different sectors, to the newly created *Società Finanziaria Industriale* (SFI) (De Rosa, 1983, pp. 355-6). All transfer operations were completed by summer-autumn 1923. In that year CSVI assumed responsibility for the direct financing of the SFI (Battilossi, 1999), and received the shareholdings in SFI. According to Canziani (2007), with the rescue of BdR the Fascist government intended to avoid a second big crash of a top bank, after the collapse of BIS in 1922. Moreover, Mussolini's request to save BdR was influenced by political motivations, such as the parliamentary backing of the *Partito Popolare* and the relationships with the Vatican.

(2) The events of the late 1920s led to the government takeover of financial and industrial ownership. With the Great Depression the banking system collapsed, and almost all the main financial institutions had to be rescued in the early 1930s (Cianci, 1977). The government found itself in control of stock portfolios that gave it operational control over the major industrial corporations. In this way, the Fascist government had nationalized a large part of Italian industry (de Grand, 1995, p. 52). According to Cerretano (2008), because of deflation in Italy, the direct management of assets became cheaper than state guarantees on bond issues. As a result, the IRI was created in 1933 and had massive control over many industrial and utilities sectors: 100% of large war-related industries, 90% of shipbuilding, 80% shipping and construction of train-engines (and about 30% of railway vehicles), and smaller stakes in other sectors. Besides, all telephone services in northern and central Italy, as well as part of those in the south of the country were under IRI control. In the financial system, the three largest institutions also came under IRI control (Toniolo, 1980).

Fiscal objectives

Fiscal reform, designed primarily to balance the budget and reform the tax system, was the most powerful single driver of Fascist economic policy between 1922 and 1925. In his first speech to parliament as prime minister, Mussolini stated that “The financial problem is the crucial problem: we must balance the State budget as soon as possible.” (reprinted in Mussolini, 1934b, p. 14). De’ Stefani proved to be the right man for the task, as his policies reduced public expenditure and nominally increased tax revenues.³⁵ According to Répaci’s (1962, pp. 125 & 142) adjustments of the official budget accounts, the fiscal year 1925-1926 was the first (and last) one in which a real budget surplus (albeit modest) was achieved. The result in late 1925 of the renegotiation of the foreign debt to the US and to the United Kingdom represented a massive boost: recent evaluations

³⁵ However, it remained relatively stable as a percentage of GDP. Fausto, 2007b, p. 609, table A.2, contains detailed data on fiscal receipts and public spending for all years of Fascist rule.

by Francese and Pace (2008) estimate the reduction of the foreign debt to have been as high as 80% and indeed attribute the reduction of public debt in Italy in 1925 exclusively to this effect.

Indeed, given De' Stefani's emphasis on balancing the budget, privatization was a tool that was likely to serve this purpose as well. For the fiscal year 1925-1926, the privatization of the telephone system and the reprivatization of Ansaldo yielded a total of 462.85 million lire to the State, a figure equivalent to 2.3% of the State's fiscal receipts.³⁶ In the particular case of the telephone system, the sale of the State-owned networks and installations transferred to private hands yielded 255.35 million lire and relieved the State of the responsibility of providing the investment needed for the modernization of the system, estimated at around 200 million lire per year for a decade (Gangemi, 1932, .p. 134). De' Stefani (1926, p. 38) also stressed the reduction of public spending due to the removal of the public monopoly on match sales, estimated at 65 million lire. As for the concession of public works and private tolled motorways, the Ministry of Public Works saw it as a way of guaranteeing the construction of this important new infrastructure without an immediate impact on the budget; the budgetary effects would vary over time due to future direct expenditure and subsidies to private firms.

The privatization of State-owned businesses, the privatization and elimination of public monopolies, and the concessions to private firms for the construction and operation of the motorways were measures that suited the fiscal policy of the first Fascist government particularly well. Fiscal objectives, usually present in one way or another in privatization policies (Yarrow, 1999), appear to have been an influential factor in the Fascist privatization drive of the 1920s.

³⁶ Data on proceeds from these privatization operations are documented above. Data on fiscal receipts have been obtained from Répaci (1962, p. 142), and Fausto (2007b, p. 609).

4. CONCLUSION

Though overlooked by most of the modern economic literature, a large-scale privatization policy was applied by the first Fascist government in Italy. The State monopoly on match sales was privatized; the State monopoly on life insurance was eliminated; most State-owned telephone networks and services were sold to private firms; one large producer of metal machinery was reprivatized, and several concessions for tolled motorways were awarded to private firms.

Ideological motivations may have played a role in Fascist privatization. De' Stefani, responsible for the government's economic policy, was a convinced believer in private ownership and was ardently pro-business, although he did not believe in free markets and competition. However, ideology was not Mussolini's main reason for promoting a privatization policy such as the one applied by his first government. Fascists used privatization as a mean to improve confidence in their policies among the industrialists, and thus to increase the backing from this major sector. Achieving this support was vital to Mussolini because the industrialists had not been strong supporters of Fascism before Mussolini accession to government, and, during his first period of government between 1922 and 1925 the Fascists lacked the political strength necessary to apply their most preferred policies. Last, but not least, financial motivations also played a role. The receipts from selling public firms and taxation on privatized monopolies, as well as the expenditure saved through monopoly privatization and concessions, represented another useful tool for pursuing the key economic objective of the first phase of Fascism; that is, balancing the budget.

The privatization policy of the Fascists in Italy was probably the first to be implemented in a capitalist economy in the twentieth century. Fascist privatization was an instrumental action rather than a coherent, long-term policy. It provides an interesting illustration of how different and compatible objectives can be pursued through privatization, since it was used to pursue political objectives and to foster alliances with large-scale industrialists, as well as to obtain resources in order to balance the budget. In a striking parallelism with the Nazi privatization policy

implemented one decade later (Bel, 2010), the Fascist government also used privatization and regulation as partial substitutes. While relinquishing its power over the privatized services and the ownership of firms, the Fascist government retained control over the markets by establishing more restrictive regulations and via the creation of government-dependent institutions, which implemented market regulations.

Privatization was applied in 1920s Italy and in 1930s Germany. Nevertheless, neither the Fascist nor the Nazi economic policy implied liberalization or support for competition, or the reduction of State control over the market. Firm owners were free to organize production as they wished, but their activity in the market was subject to strong State control. Indeed, privatization by anti-market governments does not significantly reduce State intervention in the economy. The study of interwar privatization in Europe offers interesting lessons on how authoritarian and totalitarian governments implemented their policies. Future research should focus on the differences between dictatorial and democratic privatization.

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