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Fascist Politics and Autarkic Economy in a
Compared Perspective:
the Istituto per la Ricostruzione Industriale
(I.R.I.) and the Instituto Nacional de Industria
(I.N.I.), 1933-1959

Alessandra Vannini

Thesis submitted for assessment with a view to
obtaining the degree of Doctor of History and Civilization
of the European University Institute

Florence, 21 March 2017

European University Institute
Department of History and Civilization

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Examining Board

Prof. Giovanni Federico, Università di Pisa (EUI Supervisor)
Prof. Youssef Cassis, European University Institute
Prof. Elena San Román López, Universidad Complutense de Madrid
Prof. Franco Amatori, Università Bocconi

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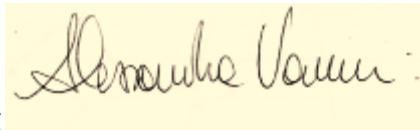
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Thesis Summary

The research project is centred on Spanish economic policies from 1937 to 1959, which guided the creation and development of the *Instituto Nacional de Industria* (the Spanish State-owned company, I.N.I. hereafter). Particular attention will be paid to the similarities, or differences, between these policies and those of Fascist Italy during the 1930s until the 1950s, especially as referred to the *Istituto per la Ricostruzione Industriale* (the Italian State-owned company, I.R.I. hereafter).

I aim to capture the analogies between the two public entities, I.N.I. and I.R.I., through the analysis of their financial ratios, statutes, sector investment and production.

If it is true that, in Italy, different economic policies were applied all along from the thirties to the fifties, some of them were autarkic. I.R.I. can be seen as a reflection of the regime's will, mirroring, mirroring the evolution of Italian economic policies.

Since the different roles of the I.R.I. and its adaptation to the decision-making process of the Italian regime have not been considered by the literature that dealt with the I.N.I., especially with respect to the classification of the autarkic models that the I.R.I. was called to apply, my research attempts to identify which of the I.R.I. roles were copied by the I.N.I., and in particular whether it was the 'war autarkic' model, adopted by the I.R.I. between 1939 and 1943. Particular attention will also be dedicated to explaining why the creation of the I.N.I. was inspired by the Italian model of the I.R.I.

The ultimate purpose of my project will be to provide a new insight on the economic policies of the First Francoism by discussing whether postwar policy in Spain was a continuity of the 'war autarkic' policy of the Civil War, and not just a 'normal autarkic' policy.

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Introduction

The historiographical contributions have shown that the interventionist policy in the economy of Franco's regime had two roots: on the one hand, the laws and ideas of governments before the Civil War, and on the other hand, the policies of the Axis, and more concretely, those of Fascist Italy. Indeed, the latter seems to have provided the model not only for economic policies, but also to solve more concrete problems of the new government in Spain.

The debate over the autarkic policy of Franco's regime¹ is important to understand the economic policies of First Francoism, from 1939 to 1959. During this period, I.N.I. – the state-owned company created to materialise Francoist autarkic economic policies – played an important role to foster the Spanish economy. Due to the crucial position played by I.N.I., it is necessary to analyse the role and business activities² that it carried out during this period through its 'mirror', namely I.R.I. –

¹ For the debate on the autarkic policies, see Chapter 2 - Autarky: Francoism and Fascist autarkic policies. BARCIELA, C., (ed.), *Autarquía y mercado negro*, Barcelona, Crítica, 2003, page 95 and ss., BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., *La España de Franco (1939-1975). Economía*, Madrid, Síntesis, 2001, IRANZO, J.E., "El sector público como impulsor de la reconstrucción (1939-1959)", in ELARDE FUERTES, J., (coord.), *1900-2000. Historia de un esfuerzo colectivo*, Madrid, Fundación BSCH-Planeta, 2000, vol. 1, GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, Edicions Universitat de Barcelona, 2000, SAN ROMÁN, E., *Ejército e industria: el nacimiento del INI*, Barcelona, Editorial Crítica, 1999, CATALÁN, J., 1995, BIESCAS, J.A., TUÑÓN DE LARA, M., "España bajo la dictadura franquista (1939-1975)" in TUÑÓN DE LARA, M., (dir.), *Historia de España*, Barcelona, 1994, vol. X, BALLESTERO, A., *Juan Antonio Suanzes 1891-1977. La política industrial de la posguerra*, León, LID, 1993, CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990, NADAL J., CARRERAS, A., SUDRIA' C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, GARCÍA DELGADO, J.L., "Estancamiento industrial e intervencionismo", in FONTANA, J. (ed.), 1986, VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, PRADOS DE LA ESCOSURA, "El crecimiento económico moderno en España", in *Papeles de economía española*, n. 20, 1984, ROS HOMBRAVELLA, J., CLAVERA, J., *Capitalismo español: De la autarquía a la estabilización. 1939-1959*, Madrid, Cuadernos para el Diálogo, 1978, DONGES, J.B., *La industrialización en España. Políticas, logros y perspectivas*, Barcelona, Oikos-Tau, 1976, BOYER, M., "La empresa pública en la estrategia industrial española: el INI", in *Información Comercial Española*, n. 500, 1975, VELARDE FUERTES, J., *Política económica de la Dictadura*, Madrid, Guadiana de Publicaciones, 1968.

² Business activities, or its synonym 'business operations', are all the actions carried out by the company to make profit, and in a broader sense, to achieve the objectives it sets itself. These include administration, marketing and production as well as buying and selling

the Italian state-owned company – undoubtedly the reference model for the Spanish institution.

The Italian experience probably played an important role in the debate concerning the autarkic policies and their origins. The creation of I.N.I., with the goal of self-sufficiency of the Spanish economy, and debate on its performance, was of crucial importance as far as the origins of the Spanish autarkic policies are concerned.

Both Institutions survived the change in their respective national political systems. I.N.I. and I.R.I. had particular features that enabled them to adapt to the social and economic changes of their respective environments. Both were born under authoritarian regimes and survived their collapse. As a matter of fact, both institutions continued their business activities³ under completely different political and economic systems.

In fact, I.N.I. was created in 1941 and it survived the autarkic period and Francoism, until the end of the Franco regime,⁴ and continued its existence under the democratic system until 1999 when it was closed. As for I.R.I., it was created in 1933 and it outlived the Fascist Regime and continued to exist under Italian democracy until 2002.

In this respect, both institutions transformed themselves into a fundamental instrument of the industrial policy of democracy and succeeded in adapting to various political, social and economic situations, which were completely different and even incompatible with the ones of the previous economic systems. They were

activities that are all encompassed in the Operating Activities, while Financing Activities include inflow and outflow of long term financing. Finally, Investing Activities include purchase or selling of assets, mergers and acquisitions. They are all aspects of the Business Activities of the Company, and from now on, I will refer to all of them using the term 'Activities'.

³ Business activities, or the synonym business operations, are all the actions carried out by the company with the purpose of making profit, and with a broader understanding, to achieve the objectives and goals the company set itself. They include the activities of administrative, marketing and production field, and also the buying and selling that is all included in the Operating Activities, while the Financing Activities include inflow and outflow of long term financing and, finally, the Investing Activities include purchase or sale of assets, mergers and acquisitions. They are all aspects of the Business Activities of the Company, and from now onward I will refer to all of them using the word Activities.

⁴ Franco died in 1975 and the end of his regime was in the year of 1978, when the Spanish Constitution became effective.

freed from the ‘sin’ of being a Fascist/Francoist creation, and became an expression of the policies of reconstruction and economic development for the democratic system: from 1948, in the case of Italy, and from 1975, in the case of Spain.

I.N.I.’s long lasting existence under Franco’s regime evidences its ability to adapt and respond to any kind of political or economic situation. Both the adaptability of its economic function within the society and the reformulation of its goals bring to mind the different roles of I.R.I. in the Italian national system between 1933 and the end of World War II, and during the post-war period, despite a gap of many years between these events.

During the pre-war and war periods, I.R.I. developed different roles: from 1933, when it was created, to 1936, I.R.I. could be characterized as a temporary institution created in response to the bank crises and the difficulties that Italian capitalism was facing. It started buying Company Shares⁵ from the banks and subsequently sold them to the private market. In 1937 it was transformed into a permanent institution in order to manage the companies’ shares and credits which were still owned. This transformation is an important turning point of the history of I.R.I. as it changed its statute and objectives. It is precisely this Statute that has been the reference model for the Spanish institution.

From 1937 to 1939, I.R.I. had only been called to apply the partial autarky policy to the sectors in which it owned Shares and Credits of Companies, according to the general directives of the Fascist government’s economic programs. Since 1939, this institution acted according to the wishes of the Italian government, and got involved in the autarkic policy of Italy until reaching the point of being the major actor for the war autarkic policy, which started to be carried out from 1939.

⁵ The term ‘Share’, and its plural ‘Shares’, can be used as synonyms of percentage, partake, portion but it is also used in accounting and financial technical vocabulary as the portion of ownership corresponding to a stock certificate. For this reason, the use of the word ‘Share’ in the context of this thesis may generate some confusion for the reader, due to the fact that this word will be used in several occasions along the thesis relating to accountancy and its financial meaning. For this reason, I decided that here the term ‘Share’ would only refer to technical terminology and in the other cases, I will use synonyms.

The scholars⁶ who have studied the origins and policies of I.N.I. agree with the opinion that I.R.I. was the reference model for the Spanish Institution, although each scholar uses a different sort of evidence to support their opinion. To reach this conclusion, they have carried out partial comparative investigations considering the Institutions as part and expression of ideologies, or have gone through comparison of the Statutes. These results are accepted by all the authors.

Those scholars have also referred to the differences or similarities between the performances and policies of both Institutions. The results of this type of work have created a division between two groups of scholars: Francisco Comín⁷ and Pablo Martín Aceña⁸ on the one hand, and Elena San Román⁹ and Antonio Gómez Mendoza¹⁰ on the other. While the former put forward the idea that I.N.I. took inspiration for its policies and activities alike from the Italian model, the latter believe that only the Statute Act was copied, but that I.N.I. acted in response to environmental inputs that differed from those of I.R.I.

These scholars are also divided on the method used by I.N.I. to implement the autarkic policies: for Comín, Martín Aceña,¹¹ Schwartz and Gonzalez,¹² I.N.I.'s policies were also inspired by those of I.R.I. On the other hand, San Román¹³ and Gómez Mendoza¹⁴ believe that I.N.I. used the legal formula of I.R.I. but that its activities differed from the Italian one.

In my opinion, in the debate on the origins and the policies of I.N.I., the scholars have stressed different points of view, but none of them have supported their opinion with consistent evidence. In fact, they refer to the Statute Act and to

⁶ GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, Edicions Universitat de Barcelona, 2000, SAN ROMÁN, E., *Ejército e industria: el nacimiento del INI*, Barcelona, Editorial Crítica, 1999, COMÍN COMÍN, F., MARTÍN ACEÑA, P., *El INI: 50 años de industrialización en España*, Madrid, Espasa Calpe, 1991, SCHWARTZ, P., GONZALEZ, M. J., *Una historia del Instituto Nacional de Industria (1941 - 1976)*, Madrid, Editorial Tecnos, 1978

⁷ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

⁸ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

⁹ SAN ROMÁN, E., 1999

¹⁰ GÓMEZ MENDOZA, A., (ed.), 2000

¹¹ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

¹² SCHWARTZ, P., GONZALEZ, M. J., 1978

¹³ SAN ROMÁN, E., 1999

¹⁴ GÓMEZ MENDOZA, A., (ed.), 2000

the Institution's policies only in general terms, and they have not thoroughly analysed the performance of these institutions or the activities undertaken by them. For this reason, references to the generic similarities and differences between the two institutes are logical deductions – although possibly correct – rather than views supported by irrefutable data.

The aim of my research is to demonstrate that I.R.I. was crucial for the creation of the Spanish Institution, but also that the activities of I.N.I. were quite similar to those of I.R.I., when the latter concentrated on war production, during the period from 1940 to 1943.

For these reasons, it is relevant to compare the two Institutions, considering the different roles that I.R.I. accomplished for the Italian Economy from 1933 to 1959, which differed depending on the involvement of I.R.I. in the economic policies of the Fascist Regime.

In fact, during every sub-period of I.R.I., its role and objectives changed. For instance, if from 1933 to 1936 neither Italian economic policies nor the Fascist Government were included in its goals, from 1937 onwards, they started to be partially considered, so I.R.I. was called on to apply the 'partial' autarkic policies. After 1939, the 'total' autarkic policies of the Fascist Government were implemented through I.R.I., which became a very important agent for war production in the 1940 – 1945 period, while from 1945 onwards, it worked toward reconstruction policies and to foster the national economy.

For Spain too we can identify sub-periods which, even if not contemporaneous to the Italian ones, presented similarities that have to be considered when pursuing the comparative approach. For Spain, the sub-periods are:

1. Civil War, from 1936 to 1939;
2. the isolation period of the First Francoism period, until about 1951, which meant the exclusion from the Marshall Plan,¹⁵ and

¹⁵ See DONOVAN, R., *The second victory: Marshall Plan and the postwar revival of Europe*, New York, Madison Books, 1987, AAVV, *The Marshall plan: fifty years after*, New York, Palgrave, 2001, MILLS, N., *Winning the peace: the Marshall Plan and Americas coming of age as a superpower*, Hoboken, Wiley-Blackwell, 2008, CAMPUS, M., *L'Italia, gli Stati Uniti e il piano Marshall: 1947-1951*, Roma, Laterza, 2008, RAFTOPOULOS, R.,

3. the “*bisagra*” period, from 1951 to 1959, when the Spanish economy gradually opened to international trade.

Although these timelines may seem difficult to compare due to the chronological gap, they present similarities: indeed, the debate on the features of First Francoism may benefit from a new approach if we consider the importance of I.N.I. for the Spanish Economy, as has been suggested by Spanish Scholars. Indeed, Spain’s isolation during First Francoism is similar to the period of isolation suffered by Italy after 1934; a similar parallel could be made for the period from 1939 in Spain, when the economy had to recover from the destruction caused by a Civil War, and the aftermath of World War II in Italy from 1945 onwards.

Furthermore, looking at the Italian sub-periods it is clear that three out of four were peaceful while just one was at a time of conflict, namely, the sub-period of total autarkic policies from 1939 to 1943. The comparison will be carried out by taking the Spanish experience into account and comparing it with these sub-periods, including the one that starts in 1945, that is, the reconstruction period. This period is the most similar as regards the aims that both State and Institutions should accomplish, but it seems the least similar if we consider the activities of both agents in their States.

Moreover, although the comparison of policies and activities of two chronologically different periods may present a problem of distortion in the evaluation of the influence of external factors in the choice of the States and Institutions, this can be solved – or limited – by the use of ratio indexes, because they are the final expression of all the internal and external factors that influenced the policies of both institutions.

The debate among Spanish scholars¹⁶ has not taken into account these sub-periods of I.R.I. In fact, all of the above-mentioned scholars use terms of comparison based on general observations, but none of them demonstrate through incontrovertible data whether or not the activities of the Spanish institution were

Italian economic reconstruction and the Marshall plan: a reassessment, Giessen, Justus Liebig Universitat, 2009

¹⁶ GÓMEZ MENDOZA, A., 2000, SAN ROMÁN, E., 1999, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

inspired by the model of I.R.I. What is missing in this specific debate are not only the incontestable data, but also a definition of which of I.R.I.'s activities are taken as a reference model. Neither one side nor the other has made any reference to the different roles that I.R.I. developed from 1933 to 1945, or during the post-war period.

For the above-mentioned reasons, I believe that it is important to verify whether similarities between I.R.I. and I.N.I. existed, presenting not only the comparison of the articles of the Statute's Acts,¹⁷ but also an in depth analysis of how the scholars had been thinking about the creation of and similarities between the Institutions.¹⁸

These investigations will help to define the features of the Ratios, the tools I will use to transform those characteristics into comparable quantitative data.¹⁹

a. The background research about the Spanish and Italian Institutes' similarities

Considering the still-open debate on the origins of autarkic policies²⁰ – and if such policies marked a watershed *vis-à-vis* those of the pre-civil war period – it is interesting to see how different historians discussed the birth and the activities of I.N.I., as well as its possible connections with the autarkical Francoist regime. Since Schwartz and Gonzalez²¹ paved the way for the study of I.N.I., a lively debate on its origins has started. Up until now, the debate has juxtaposed Gómez Mendoza and Elena San Román on the one hand, and Comín Comín and Martín Aceña on the other hand.

The former took advantage of the *Memorias* and the documents published by I.N.I. and on its history, whilst Gómez Mendoza and Elena San Román had access to

¹⁷ See paragraph b

¹⁸ See paragraph b

¹⁹ See paragraph c.

²⁰ See Introduction

²¹ SCHWARTZ, P., GONZALEZ, M. J., *Una historia del Instituto Nacional de Industria (1941 - 1976)*, Madrid, Editorial Tecnos, 1978.

primary sources from archives, which are particularly relevant for the history of I.N.I. – such as the Archive of I.N.I. itself and the private archive of Suanzes.²² All these scholars tried to explain why Spain chose I.N.I. as an instrument for solving its economic problems and fostering the rebirth of its economy during the first years of the civil war.

While searching for the reasons that lay behind this choice, one should also try to underline the different projects available at the time (if there were any), and why I.N.I. project was eventually chosen. Besides this, we still do not know who exactly elaborated the underlying scheme of the institute and the law that created it. One of the definitive conclusions upon which everybody agrees, starting with Schwartz and Gonzalez, is that the founding text of I.N.I. is undoubtedly connected to that of I.R.I. in 1937.

By comparing the Spanish text with the Italian one, it is clear that the statute of I.N.I. was copied from that of I.R.I. – although not in its entirety.²³ One only has to exclude the realms in which the new Spanish regime had already deliberated, like for instance the labour legislation²⁴ - that was specifically taken into consideration in Article 7 of the statute of I.R.I., and that was instead totally absent from the one of I.N.I.'s, because it was already regulated by the *Fuero del Trabajo* (legislation published in 1938), which regulated unions and industrial relations.

It is also equally clear that Spain referred to I.R.I. statute of 1937, and not to the preceding one of 1933. This was due to the different goals of I.R.I. in 1933 and 1937 although *a priori* it might not make much sense, since I.N.I. was created in 1941 *ex novo* – and therefore it might have been more logical to look at the founding legal framework of I.R.I. in 1933. In the case of I.R.I., Italy wished to control the

²² Franco made him 'Ministro de Industria y Comercio' of the first Francoist government from 1938 to August 1939, and then he became the first president of I.N.I. from 1941 to 1962.

²³ SAN ROMÁN, E., in GÓMEZ MENDOZA, A., (ed.), 2000, SAN ROMÁN, E., 1999, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978.

²⁴ SAN ROMÁN, E., in GÓMEZ MENDOZA, A., (ed.), 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978.

problems of the Italian economy, especially after the 1929 crisis,²⁵ which were also linked to the Italian banking system and to its involvement in many industrial sectors.

As a temporary institution, I.R.I. was then asked to help the recovery of those firms owned and controlled by the three major Italian banks:²⁶ the *Banca Commerciale Italiana* (Comit),²⁷ the *Banco di Roma*,²⁸ and the *Credito Italiano* (Credito).²⁹ The main objective of I.R.I. was to give back to the private sector all the firms in their possession to the extent that, if needed, I.R.I. could also invest in the modernisation of the firms and their structures to make them more attractive and competitive for the market.

In 1937, I.R.I. was transformed into a permanent institution, whose aims were no longer the relocation of the firms on the market but the support of Fascist Italy's autarky and of Italian colonial expansion.

With this in mind, one might say that the choice of 1937 I.R.I. by Spain seemed more pertinent to the founders of I.N.I. In fact, those who dealt with I.N.I. or issues connected to it confirm the many similarities that exist between its statute and

²⁵ See FEINSTEIN, C.H., TEMIN, P., TONIOLO, G., *L'economia europea tra le due guerre*, Roma, Laterza, 1998, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, TONIOLO, G., *Industria e banca nella grande crisi, 1929-1934*, Milano, ETAS Libri, 1978, TONIOLO, G., CIOCCA, P.L., *L'economia italiana nel periodo fascista*, Bologna, Il Mulino, 1976. For a general introduction to the 1929 crisis: EICHENGREEN, B., *Golden Fetters. The Gold Standard and the Great Depression, 1919-1939*, New York, Oxford University Press, 1996 and TEMIN, P., *Lessons from the Great Depression*, Cambridge, MIT Press, 1989

²⁶ For a synthesis of the problems of the Italian banking system at the beginning of the 1930s, see CONFALONIERI, A., *Banche miste e grande industria in Italia: 1914-1933*, Milano, Banca Commerciale Italiana, 1994, CASSESE, S., *Come è nata la legge bancaria del 1936*, Roma, Banca Nazionale del Lavoro, 1988

²⁷ For the history of the Banca Commerciale see SIGLIENTI, S., *Una privatizzazione molto privata: Stato, mercato e gruppi industriali: il caso Comit*, Milano, Mondadori, 1996, RODANO, G., *Il credito all'economia: Raffaele Mattioli alla Banca Commerciale Italiana*, Milano, Napoli, Ricciardi, 1983, CONFALONIERI, A., *Introduzione, l'esperienza della Banca commerciale italiana e del Credito italiano*, Milano, Banca commerciale italiana, 1994, in CONFALONIERI, A., *Banche miste e grande industria in Italia: 1914-1933*, Milano, Banca Commerciale Italiana, 1994.

²⁸ For the history of Banco di Roma, see DE ROSA, L., *Storia del Banco di Roma*, Roma, Banco di Roma, 1982

²⁹ For the history of Credito Italiano, see CONFALONIERI, A., *Introduzione, l'esperienza della Banca commerciale italiana e del Credito italiano*, Milano, Banca commerciale italiana, 1994, in CONFALONIERI, A., *Banche miste e grande industria in Italia : 1914-1933*, Milano, Banca Commerciale Italiana, 1994, AAVV, *Credito Italiano, 1870-1970: cento anni*, Milano, Credito Italiano, 1971

I.R.I.'s. When speaking about the similarities of the goals, policies and strategies put into practice, we are again facing two opposing interpretations. Indeed, whereas San Román and Gomez Mendoza say that the similarity only applies to the Statute, Schwartz, Gonzalez, Comín and Martín Aceña think that the two institutions also coincide regarding their objectives and their economic role in Italy and Spain. Such a similarity was first underlined by Schwartz and Gonzalez³⁰ in 1978. They claim this on the basis of the (wrong) denomination of the *Istituto Español de Moneda Extranjera*, which is instead indicated in the founding law of I.N.I. published on the *Boletín Oficial del Estado*,³¹ with the translation of its Italian counterpart,³² *Istituto per i Cambi e le Divise*. The two authors think that the founding law of I.R.I. was used as a model for the Spanish one.³³ Theirs is a logical explanation, and they argue that there are even more points in common between the founding law of I.N.I. and the 1937 I.R.I. – which the 1941 Spanish law refers to.³⁴ They do not say if the similarity existed only with respect to the 1937 I.R.I. Statute or if it also applied to the projects then put into practice. Also, the authors do not deal with the results that I.N.I. obtained, aside from a vague comparison of the productivity of the two institutions between 1971 and 1975.

Their explanations partially clash with those of the scholars who dealt with I.N.I. after 1978, and who could rely on more precise sources.³⁵ Comín and Martín Aceña explain the differences and similarities between the two institutions in more detail,³⁶ and agree with Schwartz and González.³⁷ In order to support their argument, they do not explicitly refer to the theories of the two authors cited above, but instead, they underline the first article of the founding law of I.N.I. that, as with that

³⁰ SCHWARTZ, P., GONZÁLEZ, M.J., 1978

³¹ Official publication of the Spanish government, like the *Gazzetta Ufficiale dello Stato* in Italy.

³² From which they found the example inspiring the creation of the Spanish Institution.

³³ SCHWARTZ, P., GONZÁLEZ, M.J., 1978, page 16

³⁴ See the Introduction - paragraph Statutes Acts: a comparison; SCHWARTZ, P., GONZÁLEZ, M.J., 1978

³⁵ In fact, Schwartz and González had limited access to sources to work with, as they admitted SCHWARTZ, P., GONZÁLEZ, M.J., 1978, page 79.

³⁶ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

³⁷ SCHWARTZ, P., GONZÁLEZ, M.J., 1978 and COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

the one of I.R.I., allowed for the possibility of being active in the defence sector, to pursue the goal of national defence, and also to achieve a self-sustained economy.³⁸ At the same time, they committed two small inaccuracies while analyzing I.R.I. and its role in the birth of I.N.I. The first one is when they talk about the '*nationalization of the three banks*',³⁹ which never happened. The second one is connected to the reasons for the transformation of I.R.I. into a permanent institution. The decision to use it as an autarkic instrument came after its transformation,⁴⁰ which occurred mainly because of the impossibility of relocating the firms on the market.

San Román⁴¹ presents a detailed analysis of I.N.I. and the way in which it had been portrayed, opposing it thanks to the new data at her disposal. According to her, the scholars had reached diverging conclusions regarding the origins of I.N.I., even though they all based their assumption on the same documents.⁴²

The three main points that she underlined were that:

1. '*[...] it was born in order to develop the firms connected to the national defense and the autarkic economic system [...] when it became clear that the private sector did not show any interest nor it was able to perform such goals*'⁴³

2. '*[...] the creation was connected to all those nationalizations that were taking place in all European countries after WWII*'⁴⁴

3. The creation of I.N.I. is connected to industrial mobilization.

While points 1 and 2 are the traditional vision of I.N.I., the last point is the most interesting and original one, as it explains what San Román thinks of the birth of I.N.I. San Román developed a new way of thinking about I.N.I., based on the

³⁸ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, page 85

³⁹ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, page 85. See also Chapter 2

⁴⁰ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, page 50.

⁴¹ SAN ROMÁN, E., 1999.

⁴² See SCHWARTZ, P., GONZÁLEZ, M.J., 1978; SAN ROMÁN, E., 1999; COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991; BOYER, M., La empresa pública en la estrategia industrial española: el INI, in *Información Comercial Española*, n. 500, 1975.

⁴³ SAN ROMÁN, E., 1999, page 21.

⁴⁴ SAN ROMÁN, E., 1999.

industrial mobilization experience of the 1920s⁴⁵ faced by many European countries, amongst which were Italy⁴⁶ and Spain.⁴⁷

When San Román presents the Italian case, the reader is reminded that there was industrial mobilization and – relying on the study by Paci⁴⁸ – this was connected to the fact that Italy was taking part in World War I. Given that Spain was not actively involved in the war, the industrial mobilization of the two countries undoubtedly had very different characteristics.⁴⁹

Paci⁵⁰ introduced the idea, shared by other authors,⁵¹ that World War I had been an opportunity to improve productivity and to take advantage of the increased demand of goods produced by the national industries, especially in the steel, mechanical and chemical sectors.⁵² The idea is that the consequences of World War I consisted of the development of Italian industries and the specialization of the working class⁵³ in a way that could not have been possible in times of peace. Besides, the increase in benefits for the companies in the sectors most involved in the state production compensated for the damage suffered by the industrial sector because of the war.⁵⁴

The most important customer of Italian companies was the State⁵⁵ and since 1915, through the work of the *Sottosegretariato delle Armi e Munizioni* – which subsequently became a proper Ministry – controlled the distribution of raw materials among these companies, stepping over all the accountancy rules of the State and

⁴⁵ SAN ROMÁN, E., 1999, page 89 and ss.

⁴⁶ PACI, R., “Le trasformazioni ed innovazioni nella struttura economica italiana” in VALLECCHI, A., ed., *Il trauma dell'intervento: 1914-1919*, Firenze, 1968, cited in SAN ROMÁN, E., 1999. The director is CARACCILO Alberto and not VALLECCHI as reported by SAN ROMÁN

⁴⁷ SAN ROMÁN, E., 1999.

⁴⁸ PACI, R., in VALLECCHI, A., ed., 1968, cited in SAN ROMÁN, E., 1999. The director is CARACCILO Alberto and not VALLECCHI as reported by SAN ROMÁN

⁴⁹ PACI, R., in VALLECCHI, A., ed., 1968, cited in SAN ROMÁN, E., 1999. The director is CARACCILO Alberto and not VALLECCHI as reported by SAN ROMÁN

PACI, R., in CARACCILO, A., (and others), *Il trauma dell'intervento: 1914-1919*, Firenze, 1968, page 31.

⁵¹ See PACI, R., in CARACCILO, A., (and others), 1968, page 31 and ss.

⁵² PACI, R., in CARACCILO, A., (and others), 1968, page 32.

⁵³ PACI, R., in CARACCILO, A., (and others), 1968, page 36.

⁵⁴ PACI, R., in CARACCILO, A., (and others), 1968, page 36.

⁵⁵ PACI, R., in CARACCILO, A., (and others), 1968, page 32.

thus controlling the national economy as well as stimulating the sectors in which the State was interested in war times.⁵⁶

When the *Sottosegretariato* became a Ministry, it was created as a bureaucratic organisation in which one of the most important divisions was the *Mobilitazione Industriale*.⁵⁷ It was responsible for the transport and distribution of fuels, metals and explosives, and most importantly its role was to develop relations with the companies that produced them for the State. Furthermore, it dealt with working conditions and salary controversies.

Most importantly, this division had the responsibility of choosing the companies that should produce for the State and the declaration of auxiliary was given to them.⁵⁸ This special declaration allowed companies to receive orders and supplies, which meant great benefits for them.

In 1918, the State was the centre of the national economy, the only customer for most industries. Besides, the supply and demand chain was controlled by the State, as well as the production of goods.

This situation was called the ‘nationalization’ of the Italian economy⁵⁹ as it involved not only the big companies, but also small companies – small factories – that produced for the bigger companies. In some cases, the small companies were absorbed by the bigger ones, creating a process of recession in the investments for the smaller ones and, at the same time, this increased the process of concentration and the creation of oligopolies.⁶⁰

With the end of the war, and of orders from the State, the production capacity of companies became oversized in respect to necessity in peacetime, and more importantly, some of them which were only dedicated to wartime production, such as *Ansaldo*,⁶¹ were completely unable to go back to normal production because of

⁵⁶ PACI, R., in CARACCILOLO, A., (and others), 1968.

⁵⁷ PACI, R., in CARACCILOLO, A., (and others), 1968.

⁵⁸ PACI, R., in CARACCILOLO, A., (and others), 1968.

⁵⁹ “[...] nazionalizzazione dell’economia italiana”, PACI, R., in CARACCILOLO, A., (and others), 1968, pag 34.

⁶⁰ PACI, R., in CARACCILOLO, A., (and others), 1968.

⁶¹ A few companies, such as Fiat, were able to invest in productions that at the end of the war could be transformed into production for times of peace. PACI, R., in CARACCILOLO, A., (and others), 1968. For the history of Ansaldo, see CASTRONOVO, V., (a cura di), *Storia dell’Ansaldo*, Vol. 9: *Un secolo e mezzo, 1853-2003*, Roma, Laterza, 2003, DORIA,

careless and sometimes disproportionate investments that did not take into account conveniences and costs.

The companies tried to solve the problems by asking for loans from banks of which they were already creditors of the companies. As they were not able to give back the money to the banks, the banks financed the companies to avoid losing the money already invested.

As for the companies, they desired to control the banks' financial policies to be able to receive more financial help. To reach this goal, they bought the shares of the banks.

This situation, called *catoblepismo*,⁶² continued to the point that the banks owned the shares of the companies toward which they had credits while the companies owned the shares of the banks toward which they had debts.

After some years, this situation was the reason behind the creation of I.R.I.

For this reason, I would say that what links I.R.I., especially the one of 1933, to industrial mobilisation is the fact that this institution tried to solve the problems caused by mobilisation, or problems that had occurred in its context. It is sufficient to remember *Ansaldo*, a private firm which had been crucial to Italian war production, and which caused the bankruptcy of the *Banca Italiana di Sconto*,⁶³ since it was not able to relocate its products after the war. It is more likely that, given the irreversibility of many of I.R.I.'s firms, the latter ended up being perceived as an active component of industrial mobilization endowed with special objectives connected to autarky or to possible other wars, or invasions⁶⁴ – not to mention the

M., *Ansaldo: l'impresa e lo Stato*, F. Angeli, 1989 and FALCHERO, A.M., *La Banca Italiana di Sconto, 1914-1921: sette anni di guerra*, Milano, F. Angeli, 1990

⁶² See AAVV, *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma, Laterza, 1986, page 410. See TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza 1980, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990, CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977

⁶³ FALCHERO, A.M., *La Banca Italiana di Sconto, 1914-1921: sette anni di guerra*, Milano, F. Angeli, 1990

⁶⁴ Italy aspired to be a country with colonies and for this reason the nation needed to increase war production and implement autarkic policies to survive to the International Economic Sanctions faced by Italy after the invasion of Eritrea in 1935.

possibility that another European war was already envisioned by the Italian government.

Clearly, if a state finds itself in a war situation (as Italy did during the invasion of Ethiopia), it will initiate a warlike industrial mobilisation. In this case, considering its past experience, the state will try not to make the same mistakes and therefore look for new solutions. It is then more likely that I.R.I. as an industrial mobilizer was not a conscious choice, but a coincidence that occurred after this institution was made permanent.

If one considers that I.R.I. of 1937 was the solution through which Italy might have escaped from the problems it had already faced after the end of WWI and a means for its industrial mobilisation, it is obvious that I.N.I. is a copy of the Italian institution of 1937, moved by military aims.⁶⁵ The two states were in fact living through times when the possible outbreak of international conflicts was very concrete. Both countries thus wished to mobilize their economy and clearly the war sectors were the ones that most interested them. Thus, the two institutions are similar because they were born out of the same needs.

However, if Spain had other experiences about industrial mobilisation and they were more positive, as it did not go through the crisis that Italy experienced, why did it decide to follow the Italian path – which had not yet shown its effectiveness regarding industrial mobilisation? Moreover, the statute of I.N.I. is rather elaborate. It is similar to that of I.R.I. but it also has many peculiar characteristics, which reflect the thought of Spanish legislators and their answers to the problems and ideologies of the Spanish ruling elite of the time.

In fact, Suanzes considered that Spain missed the tradition and experience of staff and structure to pursue the goal the Francoist Government desired to conquer.⁶⁶

As consequence of the inability that Suanzes exposed, we can think that the founding idea of an institution dedicated to the organization of national defense and

⁶⁵ SAN ROMÁN, E., 1999 page 24

⁶⁶ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, *Memoria I.N.I. 1941 y 1942*, page 21

of autarky might, then, be due to industrial mobilization and the need to foster production and relocation from ordinary production to war production.⁶⁷

For these reasons, I think that I.R.I. and I.N.I. have to be considered as the outcomes of past experiences, for sure, but furthermore, as an innovative way of managing the economic problems of their time. In both cases we should never forget the political aspects of both regimes, as the Italian regime wished to be understood as modern and innovative, while the Spanish one wanted to be different from the previous Governments.

b. The Statutes Acts: a comparison

As seen above, all Spanish scholars⁶⁸ use terms of comparison based on general observations, but none of them demonstrate through incontrovertible data whether or not the measures and ways of the Spanish institution were inspired by the model of I.R.I. What is amiss in this specific debate is not only the absence of incontestable data, but also a definition of which operational strategies and policies of I.R.I. are taken as the reference model. Neither side has made any reference to the different roles that I.R.I. developed from 1933 to 1945, or during the post-war period.

Starting from the available bibliography on this particular topic,⁶⁹ I will proceed to compare the similarities and differences of both statutes, to verify the extent to which I.R.I. influenced I.N.I. I will present a reasoned analysis of the differences between the two statutes. These will be analysed considering the parts of the articles of I.R.I. statute that have been partially copied or not copied at all, and the ones that have been added to I.N.I. statute, but that were not included in I.R.I. statute, or vice versa.

⁶⁷ PACI, R., in VALLECCHI, A., ed., 1968, cited in SAN ROMÁN, E., 1999. The director is CARACCIOLO Alberto and not VALLECCHI as reported by SAN ROMÁN

⁶⁸ GÓMEZ MENDOZA, A., 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

⁶⁹ GÓMEZ MENDOZA, A., 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

The Spanish scholars⁷⁰ have been using the comparison of the statutes to find evidence that I.N.I. copied the Act of I.R.I. Act of 1937. For instance, Schwartz and Gonzalez⁷¹ considered that the evidence of the connection between the statutes is seen in the mistaken name *Instituto de Cambios y Divisas*, given to the *Instituto Español de Moneda Extranjera* in the first version of I.N.I. Act published on 25th September 1941, and corrected with the Act published on the 7 October 1941. In fact, they are not wrong, because the Institution that corresponds to the Spanish *Instituto Español de Moneda Extranjera*, is called *Istituto per i cambi e le valute* in Italy and the Institution is cited in the laws of both statutes.

Comín and Martín Aceña⁷² state that the evidence of the literal translation of I.R.I. statute is to be found in article 7 of the Italian statute that was not copied by the Spanish one. Some years later, San Román and Gómez Mendoza expressed the same opinion as Comín and Martín Aceña, and also added that the amiss article 7 of I.R.I.'s statute helped I.N.I. to reduce the fascistic features that – for the authors – were typical of I.R.I.

Article 1 of I.N.I.'s Act of 30 September of 1941 presents I.N.I. as a public company, just as I.R.I. is defined in article 1, 1st paragraph of its own statute. Then, article 1 of I.N.I. statute goes on to detail the goals of the Institution with regard to the creation and development of Spanish companies '*[...] especially the ones whose aim is the solution of the problems arising from the need to defend the nation or to develop the autarkic economy*'.⁷³ The whole sentence is literally translated from article 2, point a, of I.R.I. Act, for both the reference to the defence of the country and the development of economic autarky.

Furthermore, article 2 specifies that I.N.I. will use the ways of the Private Company, still controlled and managed by the Government.

⁷⁰ GÓMEZ MENDOZA, A., 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

⁷¹ SCHWARTZ, P., GONZALEZ, M. J., 1978

⁷² COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

⁷³ "[...] en especial de las que se propongan como fin principal la resolución de los problemas impuestos por las exigencias de la defensa del país o que se dirijan al desenvolvimiento de nuestra autarquía económica", I.N.I. Act, 25 September 1941, art. 1

In the second article of I.N.I. Act, paragraphs 3 and 4 provide for the opportunity to sell the shares and companies which the State is not interested in, or introduce the idea to use uniform criteria to manage the companies when they are included in I.N.I.'s portfolio, as paragraph 4 indicates: “[...] *the efficient management of the shares and credits owned by the Institute and the possibility of gradually proceed to settle*⁷⁴ *holdings and credits that the State has no interest in preserving.*”⁷⁵

As it is also mentioned in the second half of the same sentence, I.N.I. had the opportunity to sell the shares owned in portfolio, if the state did not consider them useful for its aims. The sentence, in both parts, is literally translated from article 1, paragraph 3, of I.R.I. Act. For I.R.I., the action ‘to settle’ also meant the process of liquidation of the Credits or Shares that could not be sold back to the private market – the first of the aim of I.R.I., in this case.

Article 3 of the statute of I.N.I., in point A, indicates that the Shareholders’ Capital for the Institute consists of 50 million *pesetas*. The article is the same as article 1, paragraph 2 of I.R.I., but in this case the amount of the funds was one thousand million *lire*. Points B and C are also copied from article 1, paragraph 3 of I.R.I. statute. These points introduce the idea of transferring the Companies’ shares or companies owned by the Spanish State to I.N.I.

The same article 3 of I.N.I. statute explains other forms of financing that I.R.I. statute does not include expressly: points D, E and F include incomes from benefits produced by the owned companies, or incomes from the sale to the market of the owned companies that were of no interest to the Spanish institution or regime. These types of income had always been naturally considered as rightly owned by

⁷⁴ The process indicated by Settlement is intended here as the process of selling the Credits and Shares back to the market, but also, as we will see for I.R.I. in Chapter 4, to clear them off in the case it would be impossible to have them paid off by the debtors or sold on the market.

⁷⁵ English translation: ‘[...] *la eficiente gestión de las participaciones y actividades a él confiadas y podrá liquidar gradualmente las participaciones y actividades que el Estado no tenga interés en conservar.*’, I.N.I. Act of 1941, article 2, paragraph 4.

I.R.I. since 1933, when it was considered that a State-Owned company acted as a private company in the market⁷⁶.

In addition, part of article 4 of I.N.I. statute has been copied by I.R.I. statute in article 3, paragraph 1, 2 and 3. In this case, I.R.I. opened the door to obtain external funding, especially by public entities, and allowed for all the '*Beneduce Institutes*' to subsidise each other. But in Spain, there were no other public bodies, apart from I.N.I., that could be financed and funded, although there was probably a desire to create them, or to prepare the field for a future decision in this sense.

Article 5 of I.N.I. statute deals with bonds, and it is completely copied from articles 2, 8, 9 – 1st, 2nd and 3rd paragraphs of I.R.I. statute, changing the value of 0.10 cents for I.R.I. into 0.25 cents for I.N.I., while article 6 of I.N.I. is copied from article 10 of the I.R.I. statute. However, if the transaction is of a value of above 5 million pesetas, then the Institute must receive permission from the Minister of Treasury to perform it.

Article 9 of I.N.I. statute states that the vice president will be a technician and this feature is also listed in the statute of I.R.I. While article 14 of I.N.I. statute defines that the president must be a technician as well, I.R.I. statute does not define a specific profile for this position. The words in paragraph 6, article 9 of I.N.I. statute are copied word for word from articles 19, 17 - last paragraph, 22 and 24, and copied with inspiration from article 23 of I.R.I. statute.

The same article 9 of I.N.I. statute describes another organ that is part of the Spanish Institution: the *Comité de Gerencia*, called *Giunta Tecnica* in I.R.I. This part is copied word for word from articles 19, 20 and 21 of I.R.I. statute, where the members are the same as for I.R.I., changing the representative of the *Demanio* with that of Hacienda. These I.R.I. articles have been copied word for word and inserted in article 9 of I.N.I. statute.

⁷⁶ In fact, I.R.I. was conceived differently, in 1933, from I.N.I.: with respect to the State structure and the national market, I.R.I. was called to work side by side with Private Companies, whereas I.N.I. was called to support the private sector and to take its role to meet the interest of the Spanish country or the Franco Regime. Only after it became a permanent Institution, in 1937, I.R.I. was called to meet some requirements to support, or substitute, Private Companies of national interest.

In this case, the specification of I.N.I.'s fields of competence differs from the one indicated in I.R.I. statute at article 2, 1 points 1, 2, 3, 4 and 5: for the Spanish Institute they will be indicated using a Regulation to be published after I.N.I. Act. Instead, I.R.I. includes them in the statute, and differentiates between the ordinary and extraordinary competences: the latter are for the Government Committee, limiting the competence to the former only in case of urgency.

Article 10 presents the Technical Committee of I.N.I., its responsibilities and composition, copied from articles 22, 1st paragraph, 24 and 23 of I.R.I. statute – although the paragraphs related to the organisational procedures that were specified in I.R.I. statute were not included.

Article 12, which indicates the date of the closing of the balance sheet and the date of filing of the report, is copied word for word from article 28, 2nd paragraph, of I.R.I. statute.

Article 13 of I.N.I. statute is copied word for word from article 30 of the I.R.I. statute, excluding the percentage of distribution of annual supplies: in I.N.I. 10% - 35% more than I.R.I. – is attributed to the formation of the reserve fund, and 15% - 50% less than I.R.I. – to the Ministry of Finance.

These differences in percentage show the different relations between the state and the institute. In fact I.N.I. was supposed to reinvest more in itself than I.R.I., which, on the other hand, had to pay more money to the state. This situation is explained by the fact that I.R.I. counted on external funds to sustain its investments in shares as well as in the financing of the third companies owned by I.R.I., and made use of the bonds instrument on several occasions.

On the other hand, I.N.I. features may be due to two facts: the Spanish Institution intended to maintain a strong control over the third companies' portfolio, and for this reason it needed more funds to buy the shares and avoid investment from private companies. At the same time, I.N.I. had more sectors, those connected to defence or to production related to national interest, on which private investment was forbidden.

The percentages of distribution of the profits for I.N.I. indicate the value of 5% to pay provisions or prizes for the managers of the Spanish Institute, an indication that is completely absent from I.R.I. statute. This would be

understandable, remembering that I.R.I. is acting as a private corporation and its employees are not civil servants, for whom any other labour activity is not compatible with employment in the Italian Institute, as indicated in article 35, 3rd paragraph; even more so, it is uncommon for these prizes and provisions to be included for I.N.I. employees who assumed the role of civil servants, and were also selected from the civil servants who already worked for the state, as indicated in article 11 of I.N.I. statute.

The remainder of the article is again copied from I.R.I. statute, with the exception of the rules to be applied in case of profit redistribution when the Institute presented losses instead of benefits in the previous years. In the case of I.R.I., article 31 states that all the benefits should be redirected to cover the previous losses. As for I.N.I., at least 50% of the value of the amount of the benefits should be used to cover the previous losses.

The differences in the process of covering losses, as an example of the application of the rules of the private corporation, help us to understand why it is more important to analyse the differences between the two Institutions than their similarities. The differences in their methods of covering the losses of the previous year, or years, is an important point in the analysis of the respective policies of I.R.I. and I.N.I. Indeed, for the private corporation, the economic result of the year is important – a positive one being the ideal value of the economic result – and it is considered as a goodwill for the Company. This is considered the economic value of the good impression that the Company gives to the market thanks to its abilities to produce benefits and to cover prospective losses, facilitate the access to the Capital Market and to the investments that third agents may be interested in carrying out in the Company.

In the case of I.N.I. and I.R.I., the latter respected the rules dictated for private corporations more than the former, since the distribution of dividends and a positive profitability is an aim of the company that I.R.I. seems to pursue. It seems that I.R.I. was more interested in the external market as a fundraiser than I.N.I.

Other differences between the statutes' Acts of I.N.I. and I.R.I. regard the parts of the articles of I.R.I. statute that have been partially copied or not copied at all, and a few cases concerning add-ons in I.N.I. statute that were not included in the

Italian Institution ones. The first feature that has been partially copied is the fact that both Institutes were supposed to meet the criteria of private corporations. In this respect, Article 2 of I.N.I. Act makes specific reference to “[...] *métodos de las Sociedades Anónimas privadas para sus fines estatales, pero conservando siempre en la gestión y administración el control del Gobierno.*”⁷⁷ I.R.I. was also organised as a private corporation, but the difference is that the Government’s influence was not clearly specified in the Act, like for I.N.I.,⁷⁸ but instead it was assured thanks to the representatives of the Ministries in the Administrative Council.

For I.R.I., the representatives were the General Directors of each of the following Ministries: *Demanio pubblico e Demanio Mobiliare, Tesoro, Ragioneria Generale dello Stato*, Industry, and Delegates *Scambi e Valute* and War Production, as indicated by article 16 of I.R.I. statute.⁷⁹ In 1938,⁸⁰ the representatives of the ministries in the Administrative Council counted one more member, namely, a representative of the Ministry of *Marina*.

Only some of these figures are included in I.N.I. Administrative Council, as written in Article 9, that includes: 3 Delegates for the Hacienda, 2 for the Industry – one for the Mining sector and another for the Industrial sector –, one for the *Instituto Español de Moneda Extranjera*, one for the *Alto Estado Mayor* and 3 for the Directors of the *Industria de Mar, Tierra y Aire*.⁸¹

As we can see, while for I.R.I. the composition of the Administrative Council is more diversified thanks to the presence of representatives of different branches and specialisations, for I.N.I., the presence of Industry representatives is lower and the Military presence is higher.

For San Román,⁸² the high number of Military representatives in the Spanish Institution is what gave I.N.I. a martial feature. Another argument that San Román

⁷⁷ I.N.I. Act of 1941, article 2

⁷⁸ I.N.I. Act of 1941, article 17

⁷⁹ I.R.I. Act of 1937, article 16

⁸⁰ This Representative was included by the Act of 25 April 1938, published in the G.U. n. 125 of 13 June 1938

⁸¹ I.N.I. Act of 1941, article 9

⁸² SAN ROMÁN, 1999

and other Spanish scholars⁸³ give as an explanation for the martial feature of I.N.I. is the fact that article 7 of I.R.I. Act has not been copied.

For the authors, article 7 of I.R.I. act made reference to the Trade Unions, and they argued that the existence of the *Fuero del Trabajo* in Spain made the incorporation of I.R.I. article into I.N.I. act useless. Furthermore, article 7 of I.R.I. statute is the reason that the Spanish authors use to point out the Syndicalist characteristic of I.R.I., against the martial one of I.N.I.

Article 7 of I.R.I. statute prescribed that the bonds needed to present the signatures of the president of I.R.I., the Administrator and the president of the *Collegio Sindacale*, a typical and compulsory organ of Internal Auditing in private corporations, whose role and responsibilities in the institution are regulated by articles 26 and 27 of I.R.I. statute, articles that are also absent from I.N.I. statute.

Nevertheless, the absence of these articles and of the reference to article 7 has nothing to do with the Unions. It is true that in Italian the word *Sindacale* is commonly understood as the adjective for *Sindacato*, the Union; but in this case the word refers to an organ defined in this way because of the verb ‘*Sindacare*’, which means to ‘express an opinion or judgement about something’, exactly the role of the *Collegio Sindacale* within the companies.

Although scholars have been mistaking the meaning of the word *Sindacale*, their opinion on the martial characteristic of I.N.I. is confirmed, as we have seen earlier while considering article 2 of I.R.I. statute and the components of the Administrative Council. In this regard, the many representatives of the Military, or pursuing Military interests, gave a distinctive feature to the Institution and its activities. This is much more evident in the selection of the representatives than in the explanation of the Spanish authors: the absence of the reference to the Unions was justified by the existence of the *Fuero del Trabajo*, the explanation that the authors gave to define I.N.I. as martial.

Furthermore, while all the other organs of I.R.I. had been copied, I.N.I. did not copy the *Collegio Sindacale*, nor did it present any other Internal Auditing

⁸³GÓMEZ MENDOZA, A., 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

control. The fact that article 7 of I.R.I. was not copied is understandable because for I.N.I., its only judge was the Government, as article 17 of I.N.I. Act stated. It also specified that I.N.I. was the Institution in charge of the realisation of the economic and industrial programmes of each Ministry, but not subdued to them.

Besides, for San Román⁸⁴ this martial feature helped I.N.I. to lighten the fascist aspects⁸⁵ of the Spanish Institution. While I do agree with San Román about the martialization of I.N.I. thanks to the high presence of military representatives, I doubt that this led to the diminishing of the fascist aspects of I.N.I. In my opinion, martiality is part of the fascist aspects of the institutions. Indeed, starting from 1938, as mentioned above, and even more from 1939, I.R.I. also presented a militarization of its activities, and changed some important Representatives; the president of I.R.I. itself, for example. In my opinion, there was a period of I.R.I. in which both characteristics, fascism and martiality, were present, namely, during World War II, from 1940 to 1943.

Other features that are present in one statutes Act, but not in the other are:

- The limit established for the Investment on third companies' shares for I.R.I. The Italian Institution cannot invest more than 1 billion *lire* on shares in big companies whose aims are the “[...] *defence of the Nation or directed to obtain the goal of the national economic autarky*”.⁸⁶ This import was raised to two billion in 1941,⁸⁷ when Italy was involved in World War II. The limitation on investments in the sectors of National interest in 1937 is the expression of the ideas of Beneduce, president of the Institution until 1939, and although I.R.I. was transformed into a permanent Institution, it showed that the transformation was intended to manage the shares owned and to try to reorganise them before selling them back to the market. The core idea at the basis of this limitation is that I.R.I. should work in the markets to foster private companies and not to monopolise sectors. In fact, the increase in the

⁸⁴ See SAN ROMÁN, 1999, p. 148

⁸⁵ This is a general term for which San Román does not give any definition or references, but she deems it incompatible with Martiality.

⁸⁶ “[...] *difesa del Paese o diretti al raggiungimento dell'autarchia economica nazionale*”, I.R.I. Act of 1937, article 2, paragraph 2

⁸⁷ L. 14 of September 1941, number 1068.

limit was carried out during the autarkic plans, although it would have been more reasonable to delete it completely⁸⁸ to free the investment depending on the interests, and war needs, of the State.

- Article 7 of I.N.I. Act prescribed the cases in which I.N.I. could expropriate the ownership of the companies that were considered important to achieve the Institute's objectives, activity that was not part of I.R.I.'s.

Both differences are important in themselves, but even more so, if we consider them together. They highlight how strong the idea of State intervention in the economy was, and how the activity of I.N.I. in the Spanish Economy had been free from any constraint. The most important goal was the fulfilment of the State's objectives and the protection of the Nation. The presence of a high number of Military Representatives is connected to the latter goal, and it is not easy to understand the cause-effect relation.

The consequence of this situation is the ideology of 'National defence above everything', which induces a high investment in war production, which is characteristic of a Nation involved in war, or that is preparing to enter into war, as was the case for Italy from 1939 to 1943.

As mentioned above, I.N.I. Act did not include any *Collegio Sindacale* or any other Internal Auditing Committee, something uncommon considering the functioning of private corporations, but logical if connected to the inexistence of any limitation to invest, the primacy of the State's objectives and the State as the only reference to address them. It is also true that for I.R.I. the statute of 1937 was the one that had run the Institution during peacetime – although autarkic from 1937 to 1939 – and during wartime.

This observation should be kept in mind because it means that the Acts may have been adapted to the changing times and goals, even if the changes had not been translated into new Acts or regulations.

In conclusion, I have showed that I.N.I. copied the statute and the structure of I.R.I. and its organisation, although the analysis confirms that there were some

⁸⁸ L. 14 of September 1941, number 1068

important differences between the Acts when considering the activities of the two Institutions.

c. Methodology and outline of the thesis

The results of the analysis of the similarities and differences between the Statutes' Acts of both institutions and the background research covering existing literature help to select aspects of the Institutions as key characteristics to be investigated on quantitative terms. The analysis of the Financial data of both Institutions will solve these doubts and will be helpful to explain the trends of the sub-periods of I.R.I. as well as their similarities with I.N.I.

For this reason, it is necessary to conduct a comparison of the industrial activities and the financial results of the Institutions to verify what these similarities and differences meant for the Institutions presented in the previous paragraphs.

The Financial Statement Analysis⁸⁹ will be the methodology through which I will compare the values of the Balance Sheet and Income Statement, in order to analyse the company performances or business activities.

The Ratio Indexes are the instruments and they present the characteristics of being an expression of the policies of the companies, in this case of the State-Owned Companies, and their calculation produces comparable data, not only for different time periods, but also among the two institutions.

While I will use these ratios, I will also explain the reasons why they are important for my research. I will concentrate on the ratios that are the expression of the observations that have been mentioned as general characteristics of the institutions that the analysis of the Statutes Acts highlighted. They may also help to

⁸⁹ For more details on the methodology and the Ratios, see ROBINSON, T., VAN GREUNING, H., HENRY, E., BROIHAN, M., *International Financial Statement Analysis*, New Jersey, Wiley, 2008, ROBINSON, T. R., VAN GREUNING, H., HENRY, H., BROIHAN, M. A., *International Financial Statement Analysis*, New Jersey, John Wiley & Sons, 2009, FOSTER, G., *Financial Statement Analysis*, 2nd ed., New Jersey, Englewood Cliffs, 1986, FRIDSON, M., ALVAREZ, F., *Financial Statement Analysis*, 3rd Edition, New York, Wiley & Sons, 2002

explain some of the aspects of the autarkic policies in which the institutions may be involved.

This approach helps to carry out a more thorough analysis of the characteristics of the policies of each institution. The comparative approach, using the same Ratios calculated for I.N.I. and I.R.I., is the it is possible to determine the similarities and differences in business activities and performance of both institutions.

The Ratios Indexes, in general, can be divided into 4 categories:

a. Profitability Ratios: these Ratios measure the return earned by a company during a period of time and are relative to the measure of the income of the assets, equity, or total capital employed by the company. The ability to generate profit on capital invested is key for a company's value, and it is usually the core of the Financial Statement Analysis. For example, we can consider that, in the case of the State-Owned Companies, profit is one of the many goals of their business activities, and in the case of I.R.I. and I.N.I. it is a very important aspect to be considered since, by definition, during War Autarkic Policies, production is carried out at any cost. This condition affects the results of the Company, reducing its profitability, and for this reason the calculation of the profitability may help us to understand if it was one of the goals of the institutions or not.

b. Solvency Ratios: measure the company's ability to meet long-term obligations. In this group, we also find the sub-category of 'leverage' and 'long term debt' ratios. In the case of I.N.I. and I.R.I., it is important to relate the debts with the capital, the assets and the equity in order to understand if the debts were contracted pursuing an equilibrium or made without any economic plan and consideration.

c. Valuation: measures the quantity of an asset associated with ownership of a specified claim, such as Owners' shares of Capital, Third Owned Companies' Shares, Reserves, Own Shares Repurchases, and so on. These Ratios analyse the different values included in the Equity, and produce significant data about its composition.

d. Liquidity Ratios: measure the availability of cash to pay debts in the short-term period. These Ratios help to understand if the company was planning to pay back its short-term obligations using liquidity, as usually done by the companies, or if it required access to credits to solve it.

The selection of Ratios I have decided to use to carry out my research depends firstly on the features of the Institutions that I highlighted during my discussion of the Statutes Act and, secondly, on the aspects of the Institutions with respect to their relation with the market, the Government and others. In fact, all of them highlight an aspect that is an expression of the independence of the institution with respect to the external market or State funds, or that are an expression of the objective of making the Company more profitable, or if the Company tends to produce at all costs – as occurs with total autarky.

The ratios I will calculate will be:

1. Percentages of Third Owned Companies' Shares,⁹⁰ (Valuation ratio). As I.N.I. and I.R.I. should foster or control the industrial policies of Spain, for the former, and Italy, for the latter, the tool they used was the ownership of Third Owned Companies' Shares, through the activities of buying or selling the shares, or through the creation of new Companies. The ownership of the shares meant a control of the policies, and the decisions, of the Owned Companies. The ratio that expresses this concept is the one that relates the Third Owned Companies' Shares to the Assets – the higher the percentage, the greater the power to control the Companies. The analysis of the weight of the Third Owned Companies' Shares, expressed as percentage of the Assets, helps us to understand the importance of the shares that allow direct control over the Companies⁹¹ of their industrial policies and production processes. For these reasons the amount of investment in shares also

⁹⁰ Part of this analysis about I.R.I. Third Owned Companies' Shares is already to be developed in the paragraph 1, section 'a' and 'b', and in this paragraph, I will compare them with that of I.N.I.

⁹¹ The last paragraph of article 2, of I.N.I. indicates that the control over the Owned Companies is realized by the representative of the Spanish Institution into the Administrative Council.

expresses the infiltration of the State in the economy,⁹² and its intent to control the production in the sectors considered strategic or important for national production by both Institutions and States.

2. Return on Equity (ROE), (Profitability Ratio). This ratio measures the Profitability that is of interest for my comparison since the difference between the partial or total autarkic policies is to be found in the costs⁹³ of the investments and productions: if they are considered, as it is in the partial autarky, or not, as it is in the total one. In this latter case the profitability, if not negative, should be very low.

3. Percentages of Internal and External Financing: The Solidity of the Shareholders' Equity (Solvency Ratio). The relationship between External and internal financing is used as an expression of the self-sufficiency of the company, or on the other hand, it measures if the values of the State funds, considered in this case as the internal financing, are the most important values with respect to other ways of financing the company. The Solidity of the Equity Ratio goes a step further, used to verify if the Company can take advantage of so called 'Leverage'⁹⁴. This ratio will help to understand if I.N.I. or I.R.I. were open to external investment, as it should be for Private Corporations, which they were defined as in their statutes.

4. Company independence from external influences (Solvency Ratio) Equity over Third Owned Companies' Shares. This last ratio will be another of the Debts Ratios group as is the Solidity of the Equity, but it will explain how much of the investment in Third Owned Companies' Shares is covered by the Equity and how much originates from external financing.

While I will proceed to calculate them I will also introduce the Ratios and their categories, their meanings, and the reasons why they are important.

The data I will use to calculate these ratios is collected from I.N.I. Balance Sheets from I.N.I. Archives, that, in some cases, I will integrate by the elaboration of

⁹² Although other indexes exist which evaluate the parameters of infiltration and control of the State, as shown in the work of VASTA, M., TONINELLI, P., *State-owned enterprises (1936-1983)*, unpublished, this index is still significant.

⁹³ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, November 1937

⁹⁴ The 'Leverage' measures the ability of the company to increase the potentiality of the return of an investment: the higher the external financing with respect to the internal ones, the higher the leverage ratio.

the data presented in the published bibliography of Comín and Martín Aceña⁹⁵ and in the *Apéndice Estadística of I.N.I.*,⁹⁶ or of the one of San Román⁹⁷ and Gómez Mendoza⁹⁸. On the other hand, the data of I.R.I. is extracted from the documents collected in I.R.I. Archive, Balance Sheet and Administrative Council Meetings.

Furthermore, some others Ratios may be added to the ones mentioned above in the case that it will help to give a better insight into the characteristics of sub-periods or industrial policies that may help to describe the roles of the Institutions into the national policies of Spain or Italy better.

The results of the Ratios Indexes will define the characteristics of the policies carried out by the Institutions, defining the differences among the sub-periods of I.R.I. Thus the comparison of I.R.I. indexes of a specific period to those of I.N.I. determines whether I.N.I. was carrying out types of business activities similar to those of I.R.I., and, as a result, which goal the Institution was planning to implement.

The comparison of I.N.I. Ratios to those of the sub-period of I.R.I. will show that I.N.I. was conducting a type of activity similar to I.R.I.'s. As I.R.I. carried out a wide range of roles and applied economic and industrial policies depending on the aims of the State, the comparison of I.R.I. with I.N.I. will give an answer to the aspects of I.R.I. that had been copied and applied in Spain during the First Francoist period until 1959. The goal of this comparison will be to determine which of I.R.I.'s roles is the most similar to the one accomplished by I.N.I. during the First Francoist period.

In the first chapter, the thesis will start comparing the economic conditions of Italy and Spain, to highlight the differences or similarities. Then I will focus on the specificities of the economies of the Fascist and Francoist regimes.

The second chapter will focus on the autarkic policies that were implemented in both countries. I will also define different types of autarkies using not only the common definition of autarky and the ideas of different scholars who have been

⁹⁵ COMÍN, COMÍN, F., MARTÍN ACEÑA, P., 1991

⁹⁶ COMÍN, COMÍN, F., MARTÍN ACEÑA, P., *Apéndice Estadístico*, 1991

⁹⁷ SAN ROMÁN, E., 1999

⁹⁸ GÓMEZ MENDOZA, A., 2000

studying autarkic policies, but also using innovative information about autarkic policies proceeding from the archives' documents. The combination of all of this information will allow me to carry out a classification of the different types of autarkies and, most importantly, to define the degree of achievement of autarky and if the autarkic policies were carried out considering the costs of production. I will use the measure of the costs of production to define the goals that I.R.I. and I.N.I. carried out and, consequently, the type of autarky they pursued.

The third chapter will start presenting the state-owned companies' history in Spain. It is important to consider Spain's past experiences, and try to understand why Spain decided to create I.N.I. instead of reproducing past experiences, such as the industrial mobilization that happened during World War I. Then it will present the different classifications of the sectors of production which Suanzes used to differentiate the sectors of investment when I.N.I. was created, how it differs from the classical one, and what is important to understand the policies of I.N.I. Then it will focus on the balance sheet analysis of I.N.I. and of the sectors of investments using the above-mentioned ratios.

The fourth will start presenting the origins of I.R.I. and of public intervention. I will analyse I.R.I.'s balance sheet and sector investment using the ratios.

Finally, in the fifth chapter, the results of the 3rd and 4th chapter will be compared and their results will be presented.

In the conclusion, I will answer the question I am addressing throughout the thesis, using the results of the comparison.

Chapter 1

The economies of Spain and Italy in a comparative perspective (1919-1959)

In this chapter I will give an overview of Spanish and Italian economies since the Great Depression until 1959. I will compare their performance in GdP, GdP per capita, Degree of Openness and Economy Sectors, and the performance of the same indexes for the Western European economy.

1.1 - Introduction

The economic consequences of the First World War produced important changes in the economies of the European countries, that the effects of the Great Depression only worsened. The Western European countries responded to the new difficulties using economic policies of different natures, from the creation or strengthening of the mixed economies, to the increase of Governmental control of the economies and autarky, especially in the Southern European countries, including Italy and Spain.

In the case of these latter two countries, the existing literature puts forward the idea that the reason why both countries chose to carry out autarkic policies was of an ideological nature. The process of nationalization and the creation of State-Owned Companies⁹⁹ constituted the ways through which Spain and Italy reached the

⁹⁹ AMATORI, F., (ed.), *Reappraising state-owned enterprise: a comparison of the UK and Italy*, New York, Routledge, 2011, TONINELLI, P.A., (ed.), *The Rise and Fall of the State-Owned Enterprise in the Western world*, Cambridge, Cambridge University Press, 2000. See also JAMES, H., TANNER, J., *Enterprise in the Period of Fascism in Europe*, Aldershot, Ashgate Publishing, 2002

political goals of their ideology: the control and domination over their Nation and, at the same, time national independence from the influence of foreign countries. In this case, the state-owned companies were identified as the tool to solve the problems and difficulties originating in previous decades.

For these reasons, to understand the state-owned companies' roles, roots, and evolution, I have to study them on a broader perspective of comparison and look, for a longer period of time, at the economies in which they played an important role, and compare them with the experiences and economic performances of other Western European countries.

In this chapter I present the performances of the economies of Italy and Spain and compare them to the Western European economy,¹⁰⁰ through which I will determine the national characteristics of both economies. I will present the evolution of the economy's performance in both countries and in Western Europe, using the GDP and GDP per capita and some other indexes, such as the Degree of openness of the economies, for example.

The comparison of the economies is carried out from 1898 to 1968, which will help to demonstrate the long-term evolution of the economies of both countries and also to better understand the period of time on which my thesis focuses - from 1933 to 1959 - and why these years are so important for the history of both nations.

The long-term is important to show the trend of the evolution of both countries, especially for performances during the periods of the First and Second World Wars. This is an important issue if we consider that while Italy participated in both World Wars, Spain kept out of them. The year 1898 is an important date for Spain because of the Spanish-American War which determined the loss of the Spanish Colonies: Cuba, the Philippines and Puerto Rico. The impact of this event

¹⁰⁰ The European Economies/Nations included in the calculation of the European economic data that I will use during this chapter, in alphabetic order, are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and The United Kingdom, and their values are collected from the published works of MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003, and CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, depending on the indexes used, and in the origins of the data will be indicated in the notes of the Figure or Graph. will be indicated the origins of the data.

on the economy was important, and signified a key point in the trend where Spain slowed down and suffered a process of negative growth compared to the Western European Countries, which instead developed.

The final year of the long-term comparison is 1968 because, for Spain, the decade of the 60's were the first decade of economic plans and renovation and the beginning of an economic boom and a new way of organizing the economy and the State. Therefore the decade of the 60's meant an important change for the national economy and industrial policies.

At the same time, Italy also took advantage of an important change for the Italian economy, from 1958 until 1963, the period of the so called 'economic miracle'. Therefore the long period is able to include and look at the changes that both countries faced between the end of the Fifties and Sixties.

The Decades I am interested in for my research, from the 30's to the end of the 50's, are included in this long period of time.. In fact, the time period of my research is defined by two years which have more to do with the economic policies of the State that signified an important change in the national economies, - the years 1933 and 1959.

The year 1933 is important because it is the year of the creation of the Italian state-owned company, the *Istituto per la Ricostruzione Industriale* (I.R.I.), intended as a solution to an already existing problematic situation that Italy was facing since the end of the First World War that generated the Italian crises in the industrial and financial sector, only made worse by the Great Depression.

I chose the 1959 as the final year as it is important for Spanish History, firstly because is when the *Plan de Estabilización*¹⁰¹ was approved by the Government which influenced the organization and economic activities of the Spanish state-owned company as an externality of the broader effect of this plan.

¹⁰¹ ROS HOMBRAVELLA, J., *Política económica española, (1959-1973)*, Barcelona, Editorial Blume, 1979, GARCÍA DELGADO, J.L., (ed.), *España. Economía*, Madrid, Espasa Calpe, 1990, PRADOS DE LA ESCOSURA, L., ZAMAGNI, V. eds., *El desarrollo económico en la Europa del Sur: España e Italia en perspectiva histórica*, Madrid, Alianza, 1992, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003.

The change was important and absolutely in contrast with the economic and industrial policies that the President of the *Instituto Nacional de Industria* (I.N.I.), Juan Antonio Suanzes,¹⁰² carried out when directing the state-owned company – whose policies were more similar to the ideology of the autarky¹⁰³ and state control over the economy. I.N.I. was the way in which he intended to realize the independence of Spain from imports and external markets.

During this period important wars took place: The Civil War in Spain, from 1936 to 1939, in which Italy and Germany were involved with volunteer militias and acted as suppliers of armaments to the Francoists. The other event is the Second World War, where Italy and Germany were directly involved, while Spain kept out.

The outcomes of these two wars were the dictatorship in Spain that lasted until 1975, and the end of the Fascist regime in Italy. This different political situation determined for Italy the opportunity to be included among the countries that received aid from the Marshall plan,¹⁰⁴ while Spain benefited from help from USA only from the beginning of the 50s,¹⁰⁵ which is the decade that is defined by scholars as one of progressive openness of the economy towards international markets.

¹⁰² He was in the Maritime Force Military as a Maritime engineer, and he was a friend of General Franco's brother, Nicola. He had been the Minister of Industry and Trade for the First Franco Government during the Spanish Civil War, and he had been the First President of I.N.I., from its creation until 1963; from 1945 to 1951 he was again the Minister of Industry and Trade for the Franco Government. More details about Suanzes's life can be found in BALLESTERO, A., *Juan Antonio Suanzes 1891-1977. La política industrial de la posguerra*, León, LID, 1993 and SAN ROMÁN, E., *Ejército e industria: el nacimiento del INI*, Barcelona, Editorial Crítica, 1999.

¹⁰³ See Chapter 2 about the autarkic choice and autarkic policies.

¹⁰⁴ See DONOVAN, R., *The second victory: Marshall Plan and the postwar revival of Europe*, New York, Madison Books, 1987, AAVV, *The Marshall plan: fifty years after*, New York, Palgrave, 2001, MILLS, N., *Winning the peace: the Marshall Plan and Americas coming of age as a superpower*, Hoboken, Wiley-Blackwell, 2008, CAMPUS, M., *L'Italia, gli Stati Uniti e il piano Marshall: 1947-1951*, Roma, Laterza, 2008, RAFTOPOULOS, R., *Italian economic reconstruction and the Marshall plan: a reassessment*, Giessen, Justus Liebig Universitat, 2009

¹⁰⁵ The change in the situation was determined by the changes in World politics including the USA's opposition to the Soviet Union. The first of its wars against communist influence found in Spain an anti-communist ally and acceptance of military installations in its territory in exchange for financial help. Since then the Franco Regime started to have their own Marshall plan.

1.2 - The Turmoil of the 20th Century and Western Europe

The First decade of the 20th Century had been a period of order for political and economic aspects, and the economic trend of Western Europe had been steadily increasing since the end of the 19th Century which meant a substantial economic development. Although the economic development process may be seen as a general phenomenon for all of Western Europe, transcending national frontiers, it is also true that inside Western Europe the difference in development between countries may be of importance if we compare Greece, Bulgaria, Spain and other countries, to Britain, France, Austria and, in certain cases, Italy, which developed more during the beginning of the 20th Century than in previous decades.¹⁰⁶

The First World War represented the breaking point of this situation and determined a change in the equilibrium of the powers in Western Europe. The economic consequences were very important, not only due to the physical destruction that accompanied the end of the wars, or the financial disorganization and contraction in output, price inflation and currency depreciation but, in the case of the First World War they were worsened because of the economic policies that were adopted in the post war period. Most of the effects were suffered by the countries involved directly in the conflict such as Germany, Austria and Hungary, who suffered the highest level of depreciation and inflation, while Spain, like other neutral countries, managed to control currency levels even in the presence of degrees of inflation.¹⁰⁷

¹⁰⁶ See ALDCROFT, D. H., *Studies in the Interwar European Economy*, Modern Economic and Social History Series, Aldershot, Brookfield, 1997, ALDCROFT, D. H., *The European economy 1914-2000*, London- New York, Routledge, 2001, MADDISON, A., *L'economia mondiale: una prospettiva millenaria*, Milano, Giuffrè, 2005, KITCHEN, M., *Europe between the wars*, Harlow, Pearson Longman, 2006, FEINSTEIN, C., H., TEMIN, P., TONIOLO, G., *The World Economy between the World Wars*, New York, Oxford University Press, 2008

¹⁰⁷ See ALDCROFT, D. H., *Studies in the Interwar European Economy*, Modern Economic and Social History Series, Aldershot, Brookfield, 1997, ALDCROFT, D. H., *The European economy 1914-2000*, London- New York, Routledge, 2001, SUDRIÁ, C., TIRADO, D., *Peseta y Protección: Comercio Exterior, Moneda y Crecimiento Económico en la España de la Restauración*, Barcelona, Ediciones Universidad de Barcelona, 2001, MADDISON, A., *L'economia mondiale: una prospettiva millenaria*, Milano, Giuffrè, 2005, KITCHEN, M., *Europe between the wars*, Harlow, Pearson Longman, 2006, FEINSTEIN,

On the other hand, during the First World War, the neutral position of Spain allowed the nation to take advantage of the increase in the demand for goods on international markets, because of the shortage of some goods, due to the focus on war production for the nations directly involved in the war for which the necessity of outputs forced to manufacture them, even if the cost of production increased out of any economic rationality. For this reason, the output cost for productions created, or promoted, for war purposes are not a key point for its economic importance.

In addition, the effects of rising international prices created the opportunity to increase output even when it meant higher costs of production. This situation opened up the market to a lot of companies which, in peace time, were inefficient and out of the market, often due to their backwardness in technology, for example, or simply because they produced goods not demanded by the market.

In this context, Spain could increase their supply of products in the international market,¹⁰⁸ as the other neutral countries did, but they did even better than other countries because of their geographic position, near the war grounds and nations involved in the war. This geographical aspect had an effect on exports towards the nations directly involved in the war and on the competitiveness of Spain in the international market, due to the reduced costs of transport with respect to the countries that had to use maritime transport, which suffered an exceptional increase in the costs of the freights¹⁰⁹. On the other hand, the different sectors of the Spanish economy were not equally favoured, especially the ones that depended on the import of raw material, while the cotton, wool, shoes, iron and steel industries and mechanical production faced a boom in their sales and produced at the top of their ability.

Also, the U.S.A. and Japan, neutral countries, could take advantage of the shortages and suspension of competition, and expanded their industrial sectors and

C., H., TEMIN, P., TONIOLO, G., *The World Economy between the World Wars*, New York, Oxford University Press, 2008

¹⁰⁸ See NADAL J., CARRERAS, A., SUDRIA' C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, NADAL, J., CATALÁN, J., eds., *La cara oculta de la industrialización española. La modernización de los sectores no líderes (siglos XIX y XX)*, Madrid, Alianza Editorial, 1994, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003

¹⁰⁹ See CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003

their power, pushing developments in technology, becoming more self-sufficient and less dependent on Western European countries' production. At the end of the First World War this independence created difficulties for Western European countries who wanted to export their production in these countries, as it was in the pre-war time.¹¹⁰ From the point of view of the Western European economy, the First World War meant a shock in the growth during the First World War and worsened the economic position of Western Europe in respect to the rest of the world.

In order to better understand the evolution of these figures, it is useful to compare the trend of some indexes for Italy, Spain and Western Europe.

1.2.1 – The GDP and GDP per capita

Graph 1 shows the evolution of the GDP values of Western Europe,¹¹¹ Italy and Spain, which helps to demonstrate how the First World War and then the post-war period influenced the development of these countries. The comparison of the trend of the GDP's evolution for Italy and Spain to the trend in Western European is interesting considering that they had two different developments since the end of the 19th Century.

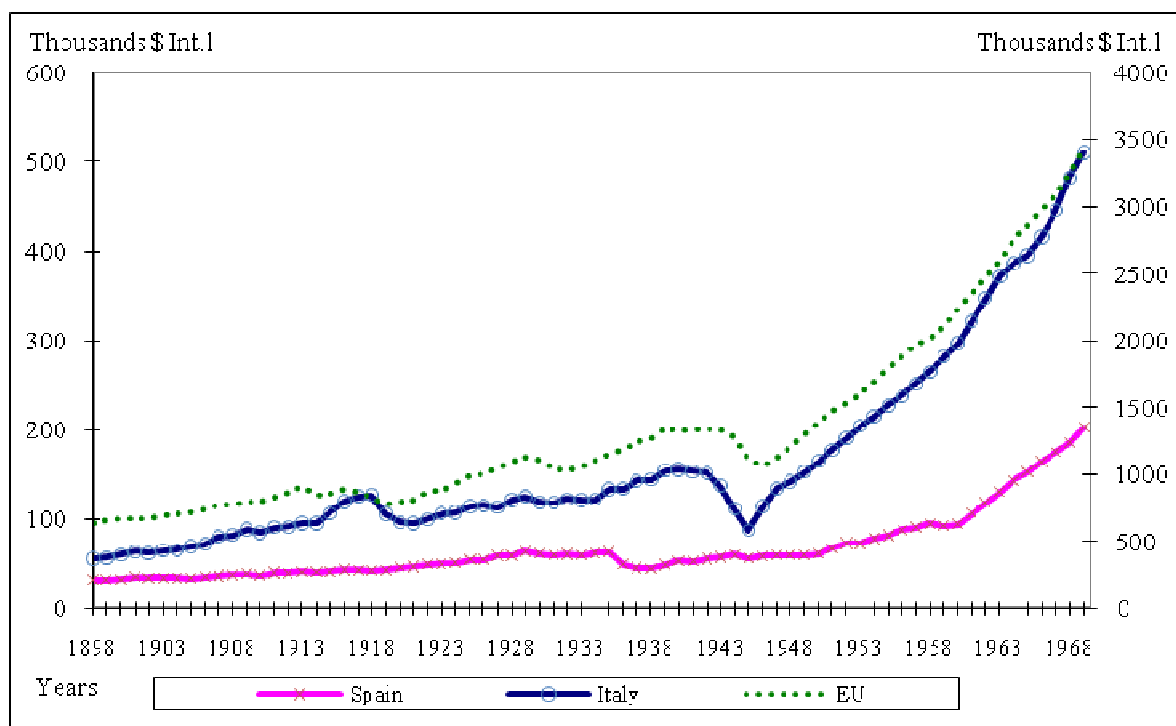
The evolution of the Western European GDP is indicated by the discontinuous line and its values of reference are on the Second Axis of Graph 1. We can observe how the trend of Western Europe, from 1913 to 1923, suffered a break in the developing tendency, but saw an increase in performance after the war until the Great Depression broke into Western Europe, around 1931, but then again

¹¹⁰ See ALDCROFT, D. H., *Europe's third world: the European periphery in the interwar years*, Burlington, Ashgate, 2006

¹¹¹ The European Economies/Nations included in the calculation of the European economic data that I will use during this chapter, in alphabetic order, are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and The United Kingdom. Their values are collected from the published works of MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003, or CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, depending on the indexes used, and the origins of the data will be indicated in the notes of the Figure or Graph. .

the GDP increases until the shock determined by the end of the Second World War, when it seems to restart an important trend of development.

Graph 1 – The GDP of Italy, Spain (left axis) and Western European Countries (right axis)¹¹²



Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

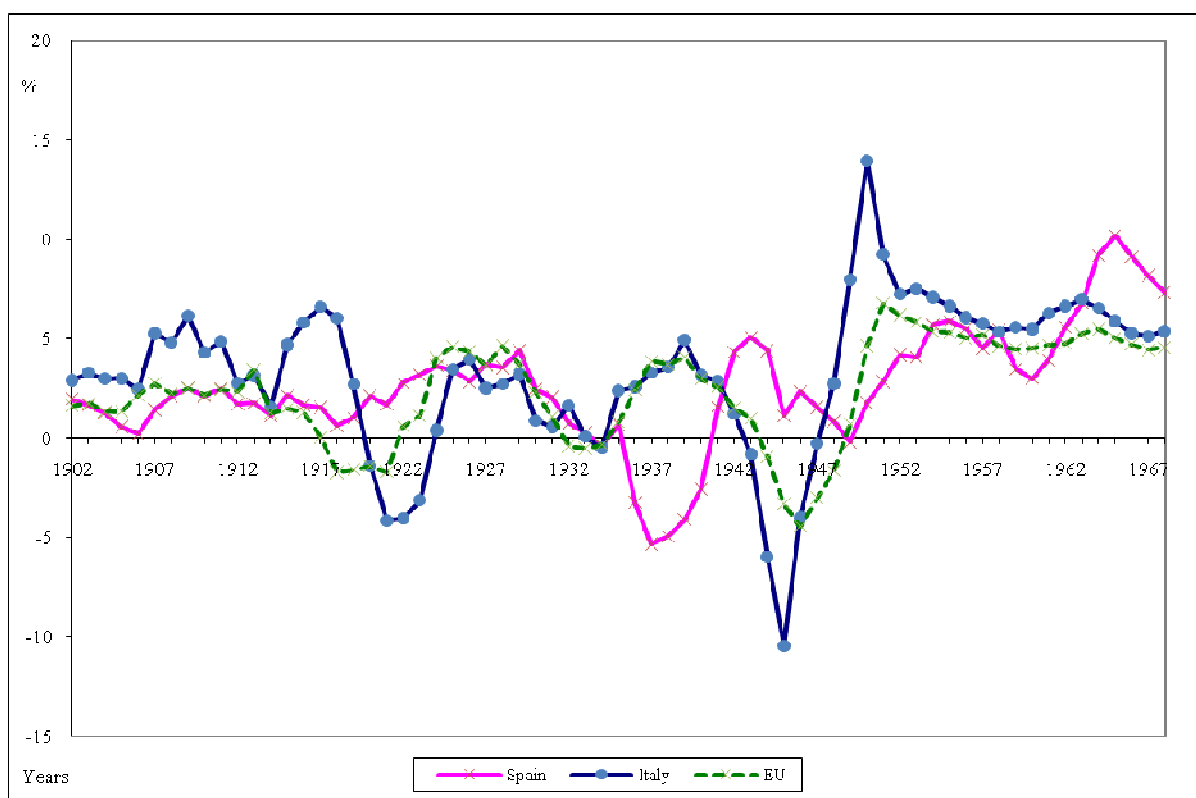
Italy presents a similar growth in GDP to Western Europe although in some short periods, such as from 1898 to 1913, Italy increased its GDP and developed more than Western Europe.¹¹³ In fact, in the Italian case the GDP increased when the

¹¹² The European Economies Nations included in the calculation of the European economic data that I will use during this chapter, in alphabetic order, are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and The United Kingdom

¹¹³ See CASTRONOVO, V., *La storia economica*, in *Storia d'Italia*, vol. IV, Laterza, Bari, 1984, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, PETRI, R., *Storia economica d'Italia*, Bologna, Il Mulino, 2002

country was involved in the First World War, and then has a negative peak at the end of the Second World War.

Graph 2 - GDP Growth Index for Italy Spain and Western Europe (Moving Average of 5 years)



Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

On the contrary, Spain's economy suffered for losing the colonies, the last of which were lost in 1898, as said before, and this situation negatively influenced the trend. In fact, scholars¹¹⁴ explain that after 1898 and until the First World War,

¹¹⁴ See NADAL J., CARRERAS, A., SUDRIA' C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990, GARCÍA DELGADO, J.L., ed., *España. Economía*, Madrid, Espasa Calpe, 1990, COMÍN COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., *Historia económica de España, Siglos X-XX*, Barcelona, Crítica, 2002, CARRERAS, A., TAFUNELL, X., *Historia económica de la España*

Spain diverged from Western Europe, and while Italy and Western Europe increased their GDP, Spain did not.

As we can observe, the GDP of Western Europe was influenced by the First World war, and it was only around 1925 that they could recover the pre-war values, then it presents a growth, although it suffered the impact of the Great Depression, and from 1930 to 1933 it decreased again and did not recover until 1943. The end of the Second World War signified a negative and sudden reduction, which was more accentuated for Italy, but since 1945 the GDP growth in Western Europe as in Italy.

Spain, on the other hand, presents GDP values that increase slightly each year until the impact of the Spanish Civil War in 1936. It seems that not even the Great Depression had an important impact on the Spanish economy as it had with other countries and Western Europe, and it recovered the level of 1931 in 1935.¹¹⁵

Graph 2 shows how Spanish growth had been effectively slow and presented a negative trend until 1905, and then increased at the same rate as the EU, while Italy presents an increase of around 5% in the same years.

During the First World War the growth of Western Europe was negative while Italy increased and Spain also presented a growth trend at the beginning of the conflict. Starting from 1924 the three present equal values of negative trend until 1934-1935, when Spain started on a different path of growth due to the Spanish Civil War and the First Francoist period that is clearly marked by the sub-period until 1949,¹¹⁶ and then the beginning of the opening of the economy that created the opportunity for growth, although not as it will be starting from 1959, end of the First Francoist period.

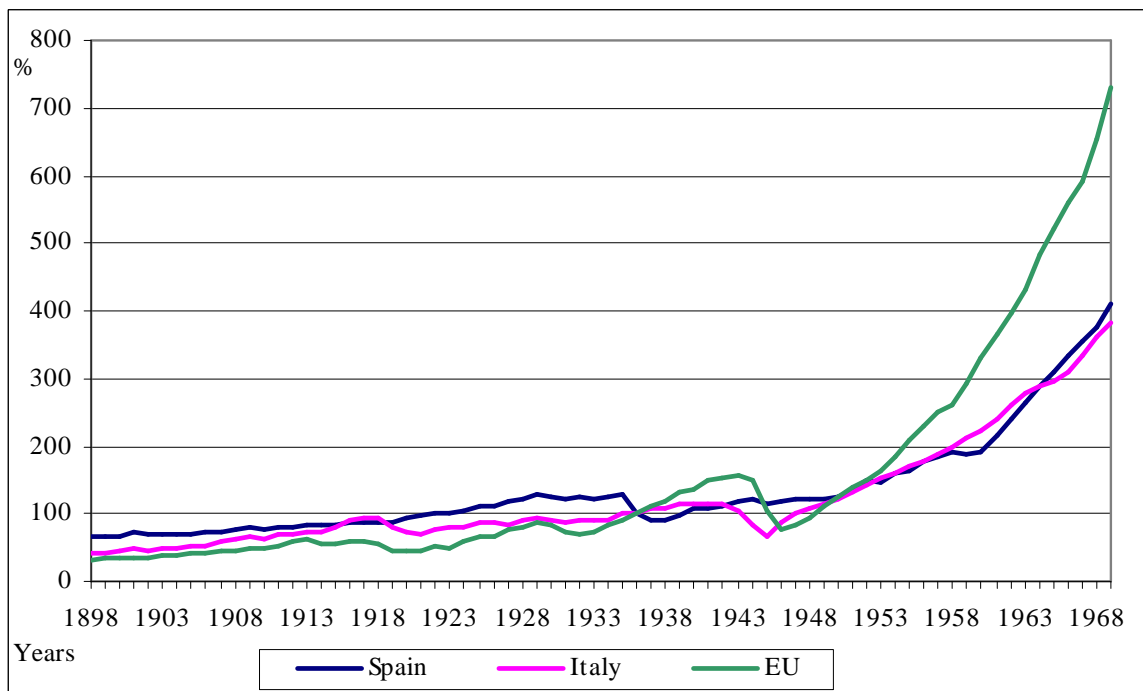
contemporánea, Barcelona, Editorial Crítica, 2003, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003,

¹¹⁵ See NADAL J., CARRERAS, A., SUDRIA' C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990, GARCÍA DELGADO, J.L., ed., *España. Economía*, Madrid, Espasa Calpe, 1990, COMÍN COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., *Historia económica de España, Siglos X-XX*, Barcelona, Crítica, 2002, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003

¹¹⁶ The First Francoist period and its sub-periods will be analyzed in more depth in the next chapter.

Graph 3 expresses the evolution of GDP and it is elaborated to consider, for every series, the values of the year 1936 equal to 100 and the values of the other years are expressed in relation to it.

Graph 3 – GDP of Italy, Spain and Western Europe (1936 = 100)

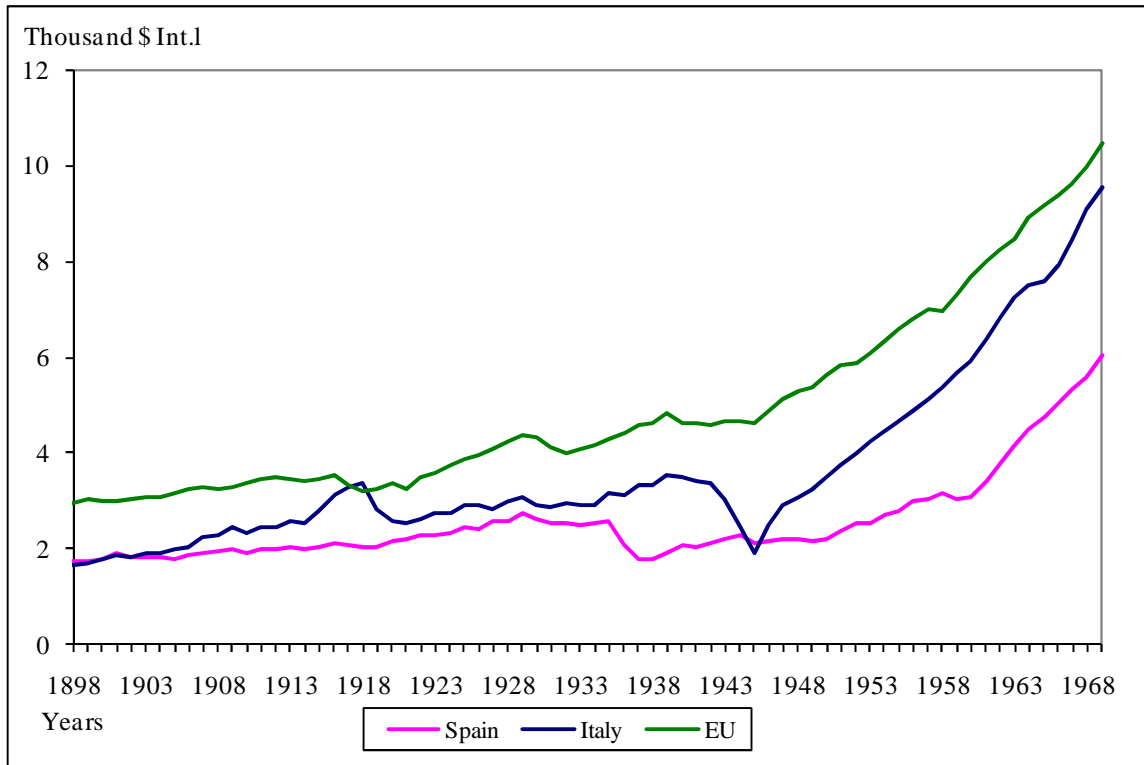


Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

The values of Spain show that recovery to the level of 1933, the highest value obtained by Spain before the Civil War and The Second World War, were at the beginning of 1951, needing a longer period than Western Europe and Italy to go back the best performance of the pre-war period.

Italy increased its GDP slightly each year until the end of the First World War and then decreased and did not recover to the same level if not around 1929. But if it is compared to the performance of Western Europe, it seems that the trend of Italy's growth had not been at its best, and also Spain seems to do it better. If we look at Graph 2, we can see that during the period from 1918 to 1931 the percentage of growth has been lower compared to the Western European and Spanish one.

Graph 4 – GDP per capita Italy, Spain and Western Europe (weighted average)

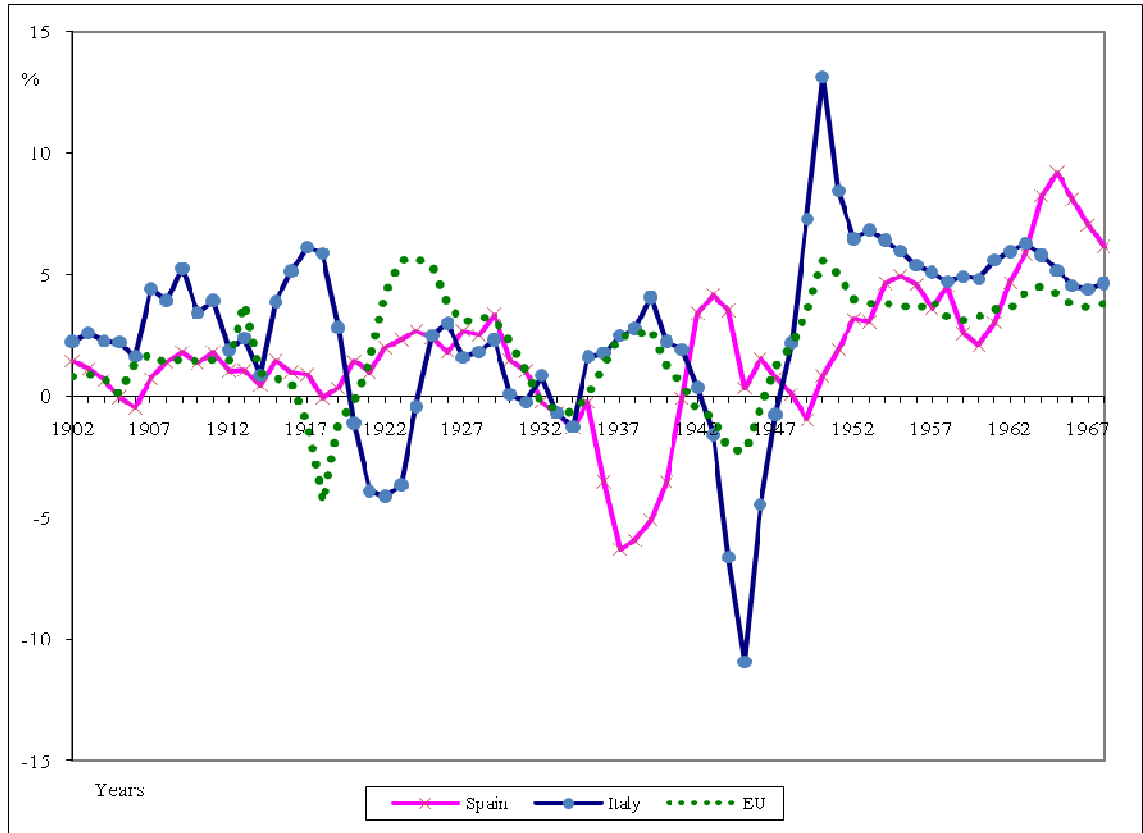


Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

This confirms the opinions of some scholars,¹¹⁷ that the Fascist period seems to be the one in which Italy gained backwardness with respect to the other countries, as Spain did at the beginning of the Century.

¹¹⁷ See TONIOLO, G., CIOCCA, P.L., *L'economia italiana nel periodo fascista*, Bologna, Il Mulino, 1976, TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza, 1980, ZAMAGNI, V., *Lo Stato italiano e l'economia Storia dell'intervento pubblico dall'unificazione ai giorni nostri*, Firenze, Le Monnier, 1981, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, FEINSTEIN, C.H., TEMIN, P., TONIOLO, G., *L'economia europea tra le due guerre*, Roma, Laterza, 1998

Graph 5 - GDP per capita Growth Index for Italy, Spain and Western Europe (Moving Average of 5 years)



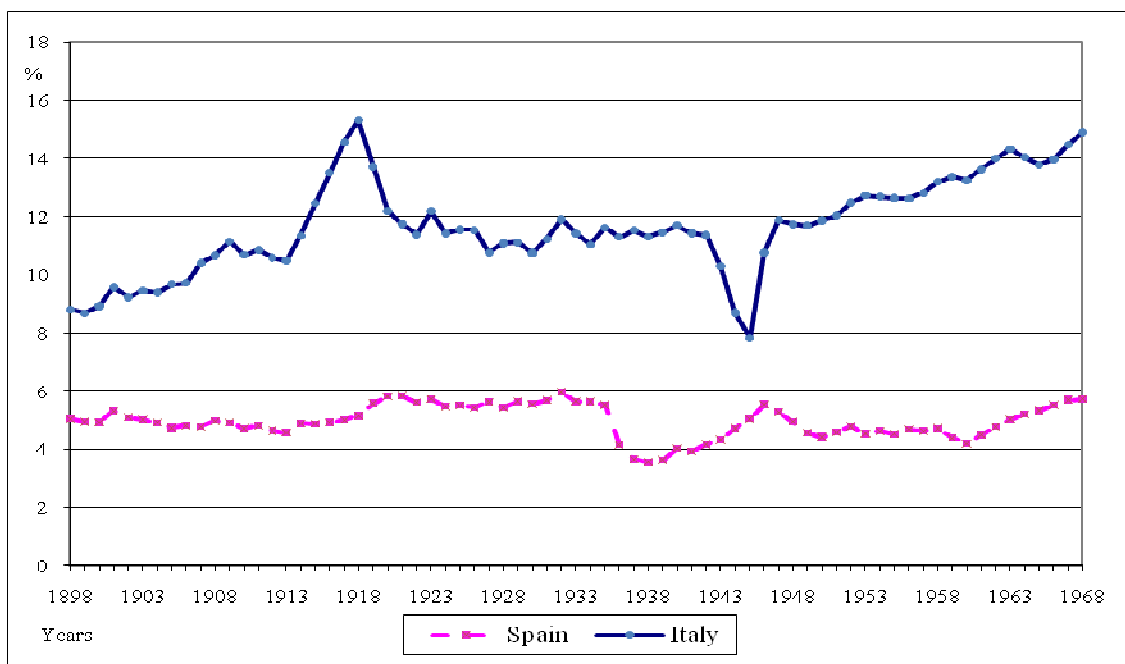
Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

The values of the GDP per capita presented in Graph 5 demonstrate that Italy, during the First World War, presented values that are higher than the weighted average of Western Europe, while Spain is always below the Western European average.

The GDP per capita growth index presented in Graph 5 shows again that the Spanish index is lower than the GDP index, while the other 2 values are about the same between GDP per capita and GDP. For the Western European index for the year 1913 the GDP per capita is higher than the GDP, while during the First World War the GDP per capita presents a negative pick that the GDP does not. From 1948

the percentages of the indexes are about the same, although the Spanish ones are below 5% while the GDP is more than 5%.

Graph 6 - Convergence Index of GDP for Italy and Spain (respect to Western Europe)¹¹⁸

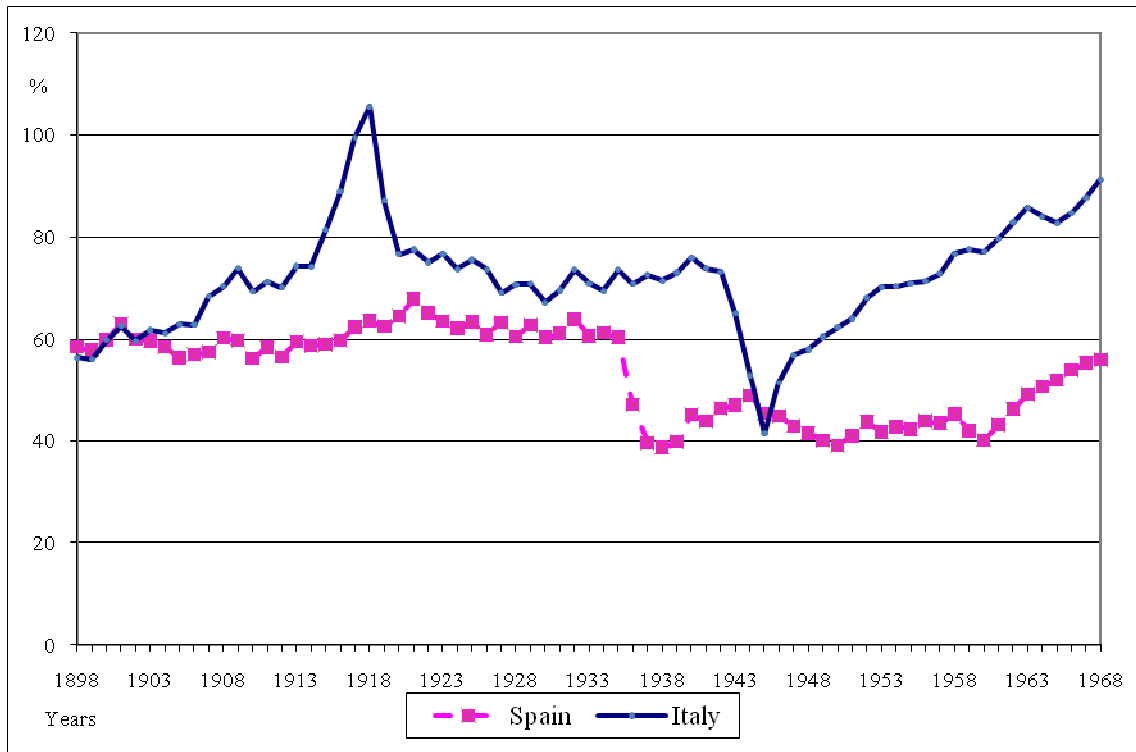


Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

The convergence of Italy and Spain toward Western Europe is presented in the next two graphs, GDP Convergence Index in Graph 6 and the GDP per capita in Graph 7.

¹¹⁸ Percentage of GDP of Italy, or Spain, divided by the GDP of Western European Countries

Graph 7 – Convergence Index of GDP per capita for Italy and Spain (with respect to Western Europe)¹¹⁹



Source: Self-elaboration from MADDISON, A., *The world economy in the 20th century*, Paris, Development Centre of the Organization for Economic Co-operation and Development, 2003

Until 1901 Spain equalled Italy in both the Convergence indexes, but then until 1916 did not suffer important variation, neither positive nor negative. The first important change in convergence growth happened during the First World War in 1921, when it was 67.9% - the highest rate ever reached during the period considered.

After this it reduced a bit and stabilized at slightly over 60%, until 1936, when the Civil War started, and the rate dropped to 39%. The immediate post-war period from 1939 to 1945 seemed to start a recovery process that did not last and the rate stabilized between 39% and 42% - the same values as of the Civil War period.

¹¹⁹ Percentage of GDP per capita of Italy and Spain, divided by the GDP per capita of Western European Countries

The big change in the rate of convergence happened in 1959, the year after the Government approved the *Plan de Estabilización*.¹²⁰

What we can observe from all the data presented above is that the Spanish economy did not converge toward the Western European one, and Carreras¹²¹ even suggests that Spain diverges since the XIXth Century. For Carreras the macro period during which Spain lost the convergence is from 1800 to 1959, although during the period of 1913-1936, Spain presented a tendency to converge with Western Europe and, from 1960, Spain started a period of convergence that finished around 1975.

The sub-periods of the macro period in which Spain diverged from the Western European trend were from 1898 to 1913 and from 1936 until 1959, when the GDP and GDP per capita seem to change this trend and increase the divergence with Western Europe. The second period is important because it concentrates the most important events for Spain and Western Europe, such as, for Spain, the Spanish Civil War, 1936-1939, then the post-Civil War period, called the First Francoist period,¹²² and on the other side, from 1939 and 1945, Western European countries were involved in the Second World War, including Italy and excluding Spain, who kept a neutral position in the conflict.

Starting from 1959, Spanish economic performance was positive and created an acceleration in the Convergence rate of GDP per capita, so that it went from being 42% of the Western European one,¹²³ to 56% at the end of 1968 improving its economic performance and performing a convergence process, as shown in the graphs above, although the process did not permit the recovery of percentage of 1934, when it was 61%, or of 1898, which was 58%.

¹²⁰ ROS HOMBRAVELLA, J., *Política económica española, (1959-1973)*, Barcelona, Editorial Blume, 1979, GARCÍA DELGADO, J.L., (ed.), *España. Economía*, Madrid, Espasa Calpe, 1990, PRADOS DE LA ESCOSURA, L., ZAMAGNI, V. eds., *El desarrollo económico en la Europa del Sur: España e Italia en perspectiva histórica*, Madrid, Alianza, 1992, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003.

¹²¹ CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003

¹²² For a more detailed analysis, see Introduction and Chapter 2.

¹²³ Calculated using the Weighted Average of the GDP per capita, my own elaboration from MADDISON, A., 2003

On the other hand, the Italian performance in GDP and GDP per capita, as seen in the graphs above, may be distinguished in 3 sub-periods: the first, until 1913, when growth was close to the Western European average, while from 1913 to 1920 we see exceptional growth due to the increase in production for the First World War, then until 1936 it does not present any special change. The convergence index shows that Italy lost convergence, even if the rate was higher until 1930 and then stable until the Second World War, confirming the idea that the Fascist Regime had been reducing the opportunity of development for Italy and worsening the performance and reducing the growth of Italy with respect to the other countries.

The reasons for this situation are generally considered to be the policies applied by the Fascist regime, such as the 'Wheat battle' combined to the introduction of the duty on the corn during 1925, and the 'Lira battle' of 1926 whose goal was to return to the exchange rate of 90 Lire between the Lira to the Pound. Later on, when the goal was met, it was called *Quota 90*.¹²⁴

This exchange rate was hyper evaluating the Lira and creating difficulties for the exports and distortion in the national markets. Furthermore, the Fascist Government during the 20s promoted some economic resolutions, such as the ones cited above, which negatively affected the performance of the Italian economy and slowed the process of recovery from the First World War. And this is exactly the reason why at the beginning of 1930, when the international crisis touched the Italian economy, it was with the same harshness as it was for the others countries,¹²⁵ but it was worsened by the difficulties of liquidity in which companies and banks found themselves as the result of the non solved problems that the First World War and the reconversion carried on.

¹²⁴ See FALCHERO, A.M., "Crisi del 'grande capitale' e crisi dell'economia italiana da 'quota '90' ai primi anni Trenta", in CASTRONOVO, V., *Storia dell'IRI. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, CASTRONOVO, V., *Storia dell'Italia: dall'800 ai giorni nostri*, Torino, Einaudi, 2013, FELICE, E., *Ascesa e declino: storia economica d'Italia*, Bologna, Il Mulino, 2015, VECCHI, G., *In ricchezza e in povertà: il benessere degli italiani dall'unità a oggi*, Bologna, Il mulino, 2011, CIOCCA, P.L., TONIOLO, G., *Storia economica d'Italia*, Milano, Laterza, 2004, MIGONE, G.G., *I banchieri americani e Mussolini: aspetti internazionali della Quota novanta*, Torino, Rosenber & Sellier, 1979

¹²⁵ TONIOLO, G., CIOCCA, P.L., *L'economia italiana nel periodo fascista*, Bologna, Il Mulino, 1976

During this same period, and as a consequence of Italian legislation, there was an increase of the Oligopolistic forms and a decrease in the number of companies in the market.¹²⁶ In fact, the number of small Companies merged in the biggest one increased during the 30's, as Profumieri underlines.¹²⁷ In fact, during the period from 1927 to 1940 the Italian state promoted the financial concentration of the companies, including the sectors in which the concentration did not get a complete technical advantage in the production capacity for the big dimension because of a low demand for it. This situation created the condition for a rent position that did not favor an increase in productivity, as happened in other countries, or an increase in efficiency and competitiveness.

It is in the process of recovering from effects of the Great Depression that Italy differed with respect to the other countries. In fact, the internal economic policies and the process of substitution of the import started from 1934, and reinforced from 1936 with the autarkic policies, as declared by Mussolini,¹²⁸ produced disequilibrium in the balance of payments and a slow recovery from the Great Depression that lasted longer and generated an inefficient allocation of resources.¹²⁹

¹²⁶ See PROFUMIERI, P.L., Capital and Labour in Italy, 1929-1940: An economic interpretation, in *The Journal of European Economic History*, 1972, p. 684, MORI, G., *Il capitalismo industriale in Italia. Processo d'industrializzazione e storia d'Italia*, Roma, Editori riuniti, 1977, MORI, G., Ed., *L'industrializzazione in Italia (1861-1900)*, Bologna, Il Mulino, 1981

¹²⁷ PROFUMIERI, P.L., "Capital and Labour in Italy, 1929-1940: An economic interpretation", in *The Journal of European Economic History*, 1972. This analysis will be again considered when in the future chapters of the thesis will be carried on a complete analysis of I.R.I. shares, companies sold and bought in Chapters 4.

¹²⁸ See *Dichiarazione alle Corporazioni*, 23rd of march of 1936

¹²⁹ On the other hand, the investment and production created by the invasion of Ethiopia by Italy was stimulated although this was not the first goal of the armament policy. In fact, Renzo DE FELICE demonstrates that the real reasons for Mussolini to conquer Ethiopia had the character of international politics and not internal economy. But, if on one side the opposition to the intervention in Ethiopia recalled the costs that this campaign implies, the industrial sector, the one that took advantage of the autarkic war system, was of a different idea. DE FELICE, R., *Mussolini, il Duce. Lo Stato Totalitario, (1936-1940)*, Torino, Einaudi, 1996, Vol. 2, DE FELICE, R., *Storia dell'Italia contemporanea*, Napoli, Edizioni Scientifiche Italiane, 1984.

1.2.2 - Degree of Openness of Western Europe, Italy and Spain

The consequences of the wars and the Great Depression on the international trade market were the restriction of the national market on imported goods. The period in which this restriction was especially high is the interwar period,¹³⁰ as shown in Graph 8.

In fact, the degree of openness of Western Europe¹³¹ presents an important trend to the reduction starting in 1929 and reaching the negative pick in 1942 with a percentage of 15,62 %. Since 1942 the trend started to be positive until 1968. In fact, if we look at the long-term evolution of the degree of openness, 1942 is the negative year throughout this long period that started in 1898 at 35% and a positive trend until 1912 when it was 43%. During the First World War the percentage reduced to about 33%.

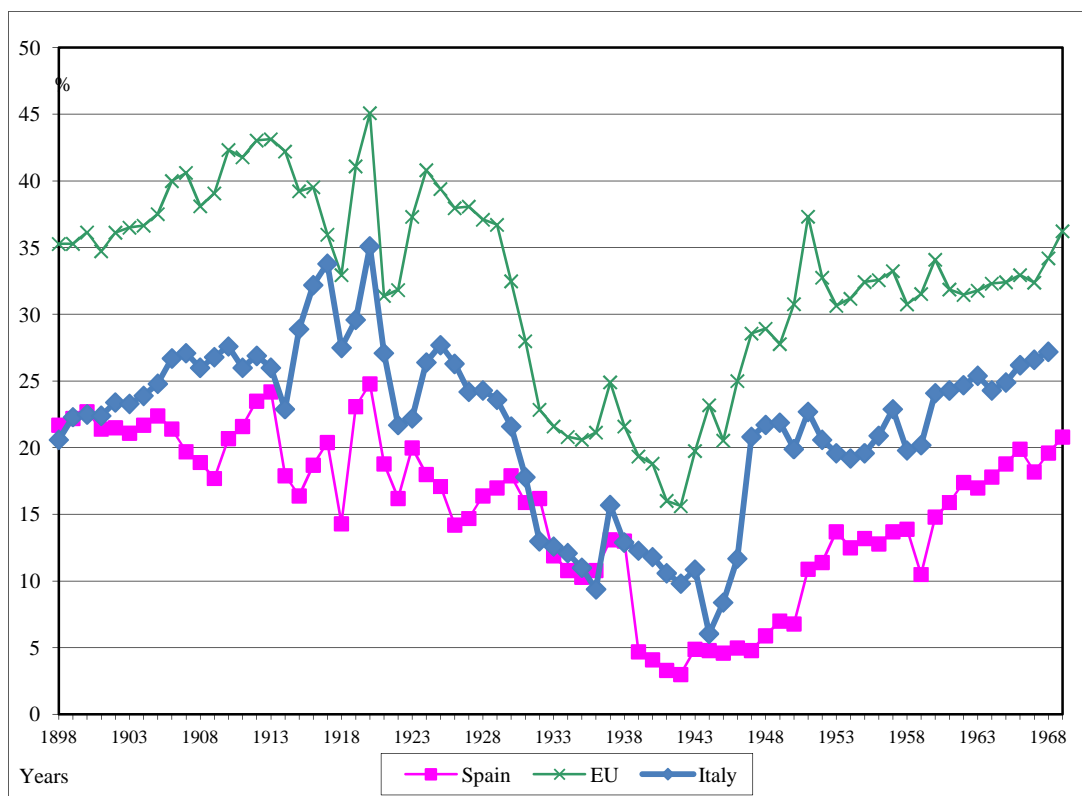
From 1918 to 1924 the percentages varied from 32 to 45% - the latter being the top percentage ever reached by Western Europe –the result of the end of the war and the recovery of international trade. From 1925 until 1929 the openness decreased slightly to 36%, and from then the Great Depression increased the rapidness of reduction, as I mentioned earlier.

Italy resembles the evolution of the Western European trend, although the percentages of Italy had always been lower than the Western European ones.

¹³⁰ See ALDCROFT, D. H., *Studies in the Interwar European Economy*, Modern Economic and Social History Series, Aldershot, Brookfield, 1997, TONIOLO, G., CIOCCA, P.L., *L'economia italiana nel periodo fascista*, Bologna, Il Mulino, 1976, TONIOLO, G., *Industria e banca nella grande crisi, 1929-1934*, Milano, ETAS Libri, 1978, ZAMAGNI, V., ed., *Come perdere la guerra e vincere la pace l'economia italiana tra guerra e dopoguerra 1938-1947*, Bologna, Il Mulino, 1997, FUA, G., *Lo sviluppo economico d'Italia*, Vol.III, Milano, Franco Angeli, 1974.

¹³¹ This includes the same countries as for all the others indexes.

Graph 8 – Degree of Openness of Italy, Spain and Western Europe¹³²



Source: Self-elaboration from CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, Apéndice, and for Italy FEDERICO, G., WOLF, N., “Comparative advantages in Italy: a Long-

¹³² In this graph I used the data proceeding by for Italy, FEDERICO, G., WOLF, N., “Comparative advantages in Italy: a Long-run Perspective”, *Quaderni di Storia Economica*, n.9, Roma, Banca d’Italia, 2011, 1861-1965, integrated for the years from 1939 until 1949 by the data from ERCOLANI, P., “Documentazione statistica di base”, in FUA, G., *Lo sviluppo economico d’Italia*, Vol.III, Milano, Franco Angeli, 1974, for Spain and Europe, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003 as he uses the data of PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003 for the GDP and GDP per capita, while the data on the import and export is taken by TENA, A., *New series of the Spanish Foreign Sector, 1850-2000*, Universidad Carlos III de Madrid, Working Papers in Economic History, 14, 2007. I decided to use the data from CARRERAS because of the reduced number of Nations included in the work of PRADOS DE LA ESCOSURA to calculate the EU data: Germany, Italy and France while CARRERAS and TAFUNELL include 12 Nations in its calculations, including Spain and Italy, which I think produces a more useful set of data to be used in this specific analysis of comparison. The data is calculated by the formula $(X+M)/GDP$. CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, page 127 and 293. See also CARRERAS, A., TAFUNELL, X., *Estadísticas históricas de España: siglos XIX-XX*, Bilbao, BBVA, 2005, CARRERAS, A., “La producción industrial española, 1842-1981: construcción de un índice anual”, in *Revista de historia económica*, n. 1, año II, 1984, CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990

run Perspective”, *Quaderni di Storia Economica*, n.9, Roma, Banca d’Italia, 2011, 1861-1965, integrated for the years from 1939 until 1949 by the data from ERCOLANI, P., “Documentazione statistica di base”, in FUA, G., *Lo sviluppo economico d’Italia*, Vol.III, Milano, Franco Angeli, 1974

Italy also presented a positive trend until 1910, from 24% to 35%, but it started to increase to reach 35% in 1920. Then, it dropped to 20% in about 2 years, and a part of the years from 1924 to 1926, the Italian openness never recovered the percentages of the pre-war period until 1968.

The year 1925 was a turning point for Italy, as this was the point at which the percentage of openness decreased without interruption until 1944 when it was 6.05%, the lowest percentage of the entire the period – an impressive negative trend across 19 years. Since then, the trend has been positive, although with some fluctuations that never escaped the range of 5% of differences among the percentages of each years.

It is useful to remember that it was along these 19 years of negative trend of the Italian degree of openness that I.R.I. started and developed its business activities and three different roles in the Italian economy.

On the other hand, Spain differed from the Western European context, including Italy. The Spanish trend had been marked by a reduction of the openness degree index during this time, excluding some short periods in which, thanks to the conjuncture of the economy, or due to special international situations, such as the First World War when the percentage increased from 16% in 1915 to 24% in 1919. On the eve of the Spanish Civil War in 1935, the percentage in 1923 was 10%, around which values settled all the percentages of the previous years, from 1898.

The different trend in the degree of openness of the Spanish economy with respect to the general one had been the cause of the problems of the industrial sector’s inability to expand in the international market. In fact, Spain did not even take advantage of the key periods in which the other Western European countries increased their openness, and the Spanish industrial sector was separated from the international one.¹³³

¹³³ FRAILE BALBÍN, P., *Industrialización y grupos de presión. La economía política de la protección en España, 1900-1950*, Madrid, Alianza Editorial, 1994.

The worst performance for Spain started in 1939, and it got worse in the first 3 years of post-war period, until 1941. These years were considered the worst and most difficult period for Spain's economy, even worse than the war years,¹³⁴ from 4.7% to 3%. After this, it stabilized around 4.8% until 1948, and from 1950 presented a trend and an increase that reached 10% again, which was the pre-war percentage of 1936 – not a great value compared to the Western European (37.32%) and Italian percentages (26%), but all the same it signified the beginning of a good period for Spain, that during the 50's changed its economic policies and opened up the economy. In fact, for Spain the sub-period from 1950 until 1968 shows a slow but steady increase in the degree of openness, taking the same path as Western Europe and Italy, although with half the percentage of the others.

So, the sub-period from 1939 to 1948 is important because it shows a closeness trend of the Spanish economy that not even the countries involved in the Second World War were suffering, and in this respect Italy is an example.

For this reason, this period is important for the understanding of economic policies and also for this thesis, because it is included in the First Francoist period, and it presents a special mark of development that differs from the period of 1950 to 1959.

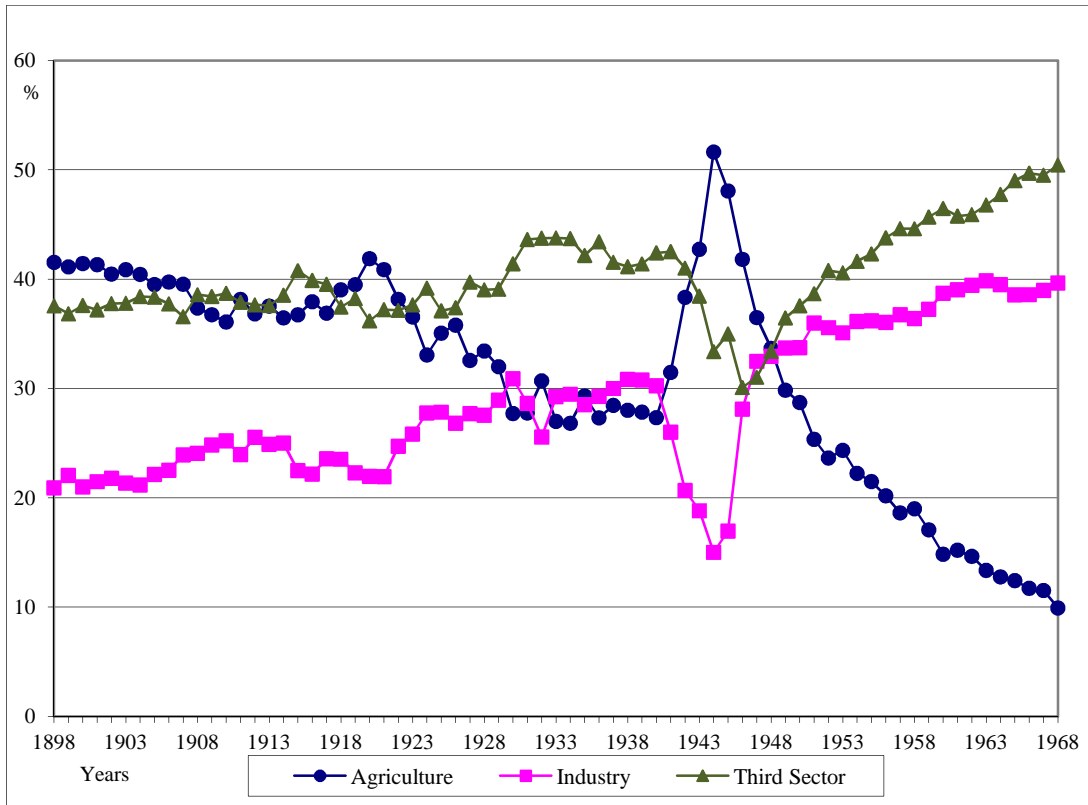
1.3 - Economic sectors of Italy and Spain

The evolution of the weight of the economic sectors of Italy and Spain will help demonstrate how the Italian and Spanish economies evolved.

¹³⁴ See NADAL J., CARRERAS, A., SUDRIA' C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990, GARCÍA DELGADO, J.L., ed., *España. Economía*, Madrid, Espasa Calpe, 1990, CATALÁN, J., *La economía española y la segunda guerra mundial*, Barcelona, Ariel, 1995, COMÍN COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., *Historia económica de España, Siglos X-XX*, Barcelona, Crítica, 2002, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA, 2003

Graph 9 shows the evolution of the percentage of the economic sectors in Italy. We can see how, since 1898, the negative path of the agriculture sector and the positive one of the industrial sector was leading to an inversion of their importance for the Italian economy.

Graph 9 – Economic sectors of Italy



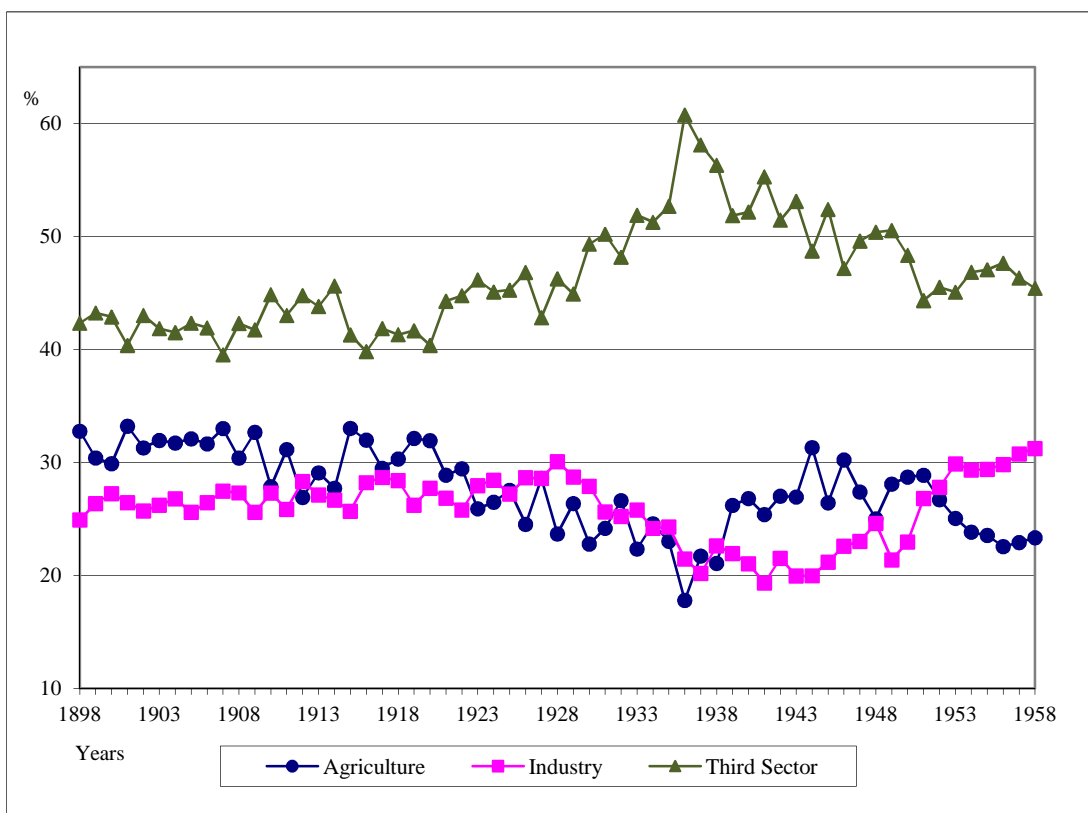
Source: BAFFIGI, A., “Italian National Accounts”, *“Economic History Working Papers, Banca d’Italia”, n. 18, 2011*

These steady paths were interrupted by the two periods of the World Wars that are, each one in a different way, two breaking points in these trends. While World War I had little influence on the evolution of the trend of the industrial sector, that from 25% in 1914, decreased to 21.9% in 1921 and from 1940 to 1945, importance gained by the agricultural sector, World War II signified 5 years of inverted evolution. The agricultural sector increased its importance at the expense of

the industrial sector and the third sector, and only from 1944 did it start again to decrease, a negative path that never stopped.

As part of the evolution of the weight of the industrial and agricultural sector, it is interesting to look at their values in 1930. It was in this year that the agricultural sector inverted for the first time, its importance with respect to the industrial sector, and this trend lasted until 1940, when again during World War II the two sectors inverted their importance.

Graph 10 – Economic sectors of Spain



Source: Self-elaboration by PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA,

Again in 1948, for the second time, the two sectors inverted their importance for the Italian economy and this time the trend was settled and the agricultural sector decreased steadily, while the industrial one increased and kept its percentages consistently above the agricultural sector without interruption. This process of

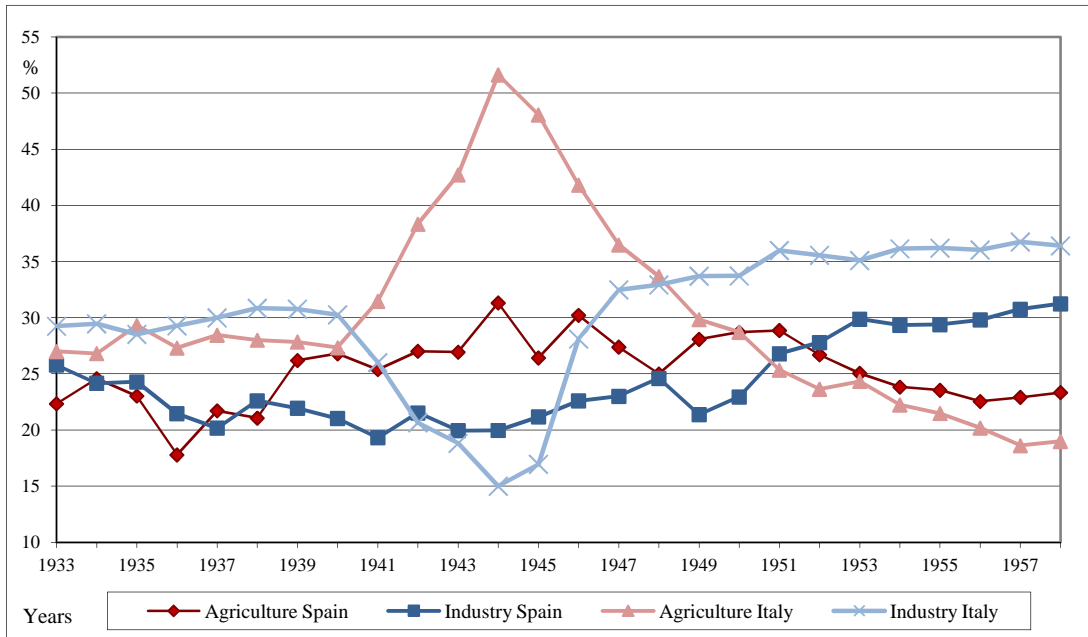
overtaking determined the definitive change in the economic structure, passing from an agriculture economy to an industrial one.¹³⁵

On the other hand, the agricultural and industrial sectors were running around the values of 30% or 20%, alternatively. The trends show a decrease for the period from 1923, the Primo de Rivera dictatorship, until the end of the Spanish Civil war, when the agricultural sector tended to increase its values and the industrial sector decreased to its lowest level, 20%, from 1938 to the beginning of 1950. Since then the trend in the industrial sector increased its values.

The trend of the industrial sector presents a clear division in sub-periods: the first between the year 1938 to 1949, when only in 1948 it recovered the percentage of 25% as it was in the year 1935, recovering the percentage of the last year of peace before the beginning of the Spanish Civil War. The second is from 1949 when the trend presents the uninterrupted tendency to increase, as we can appreciate better in Graph 11.

¹³⁵ FUA, G., *Lo sviluppo economico d'Italia*, Vol.III, Milano, Franco Angeli, 1974, MORI, G., Ed., *L'industrializzazione in Italia (1861-1900)*, Bologna, Il Mulino, 1981, CASTRONOVO, V., La storia economica, in *Storia d'Italia*, vol. IV, Laterza, Bari, 1984, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, PETRI, R., *Storia economica d'Italia*, Bologna, Il Mulino, 2002, CIOCCA, P.L., TONIOLO, G., *Storia economica d'Italia*, Milano, Laterza, 2004

Graph 11 - Agricultural and Industrial Sector of Italy and Spain.

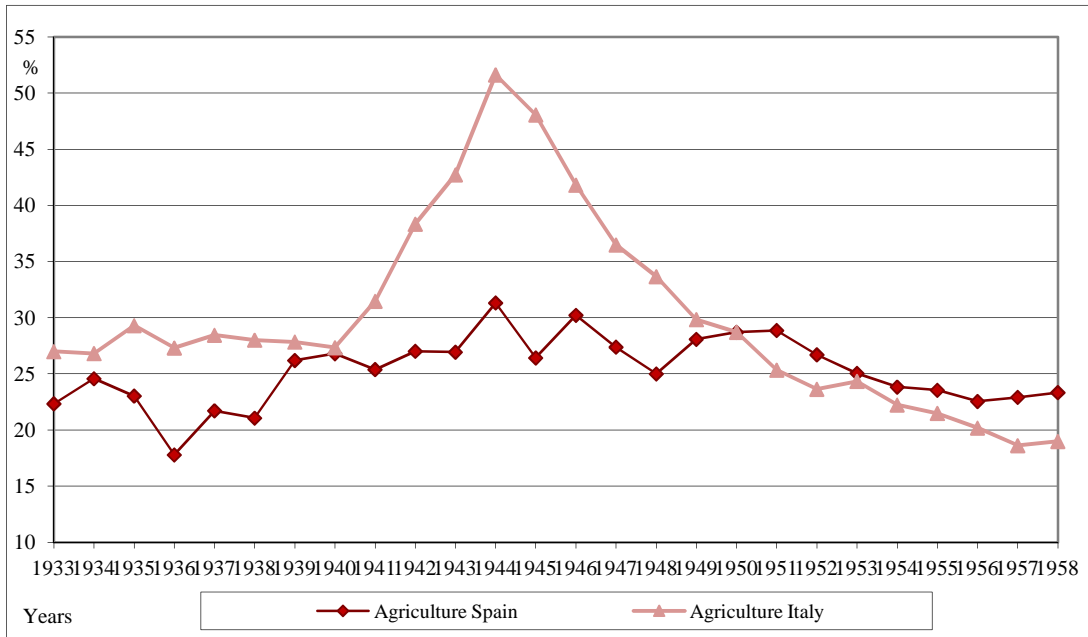


Source: BAFFIGI, A., “Italian National Accounts”, *“Economic History Working Papers, Banca d’Italia”*, n. 18, 2011, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA

In 1954 the value of 30% were the same as the one marked during the year 1928. It is in 1952 that the industrial sector becomes definitively more important than the agricultural one and continues to increase its values throughout the Fifties. Since then it presents an increase in the industrial sector and a decrease in the agricultural one.

The compared evolution of the sectors of industry and agriculture between Italy and Spain are shown in Graph 12 and Graph 13. While Italian agriculture has always presented a higher percentage with respect to the Spanish one, after 1950 Spanish sector increased its percentage and while at the same time the Italian one decreased. These two different trends inverted, respectively, the importance of the sector and made Spanish agriculture more important for the economy than it was for the same sector in Italy.

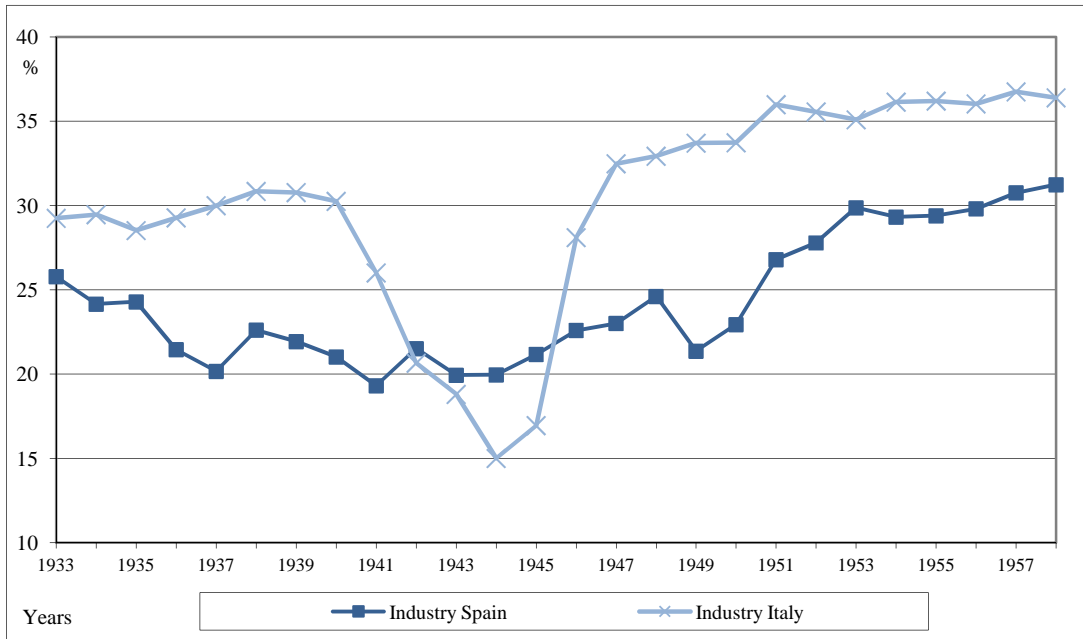
Graph 12 – Agriculture sector Italy and Spain



Source: BAFFIGI, A., “Italian National Accounts”, *“Economic History Working Papers, Banca d’Italia”*, n. 18, 2011, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA

For the industrial sector, in Graph 13, we can observe that the Spanish one had been equal to or even more important for the Spanish economy than it was for the Italian one until 1928, when the Spanish trend decreased to its lowest level, between 1936 to 1950. From then it started a positive trend, with a key turning point in 1950, although in 1958 it was still lower than the Italian one.

Graph 13 – Industrial Sector Italy and Spain



Source: BAFFIGI, A., “Italian National Accounts”, *“Economic History Working Papers, Banca d’Italia”*, n. 18, 2011, PRADOS DE LA ESCOSURA, L., *El progreso económico de España (1850-2000)*, Madrid, Fundación BBVA

This clear division of the trends before and after 1950 shows the existence of two different trends during the First Francoist period, that the authors had been analyzing.¹³⁶

¹³⁶ See Chapter 2

Chapter 2

Autarky: Francoism and Fascist autarkic policies

- 2.1 - Autarky and Isolation: the Spanish economy from 1939 to 1959 – 2.2 – Autarkic policies and First Francoism: the distinction of the sub-periods –
- 2.3 - The Autarkic choice: the realization of a desire or an obliged decision? –
- 2.4 - The degree of achievement of the autarky: a measure and definition –
- 2.5 - Autarkic policies of the First Francoist period and their origins of I.N.I., 1941-1959

In this chapter I will consider the Francoist Policies of the First Francoist period as well as the debate about their importance in the creation of I.N.I.

2.1 - Autarky and Isolation: the Spanish economy from 1939 to 1959

In the history of the influence of the political aims of the economic policy of the Franco regime there exist two clearly distinct stages: a first one in which politics played an important role, and a second in which this was not the case.¹³⁷

The year 1959 marks the turning point in economic policy, especially in its subsidiary respect to political goals, thanks to the approval of the *Primer Plan de Estabilización*.¹³⁸ Starting from this year there was a significant change in the economic and political trajectory of the country, a period during which the foundations were laid for the economic development which Spain would carry out

¹³⁷ FONTANA, J., ed., *España bajo el Franquismo*, Barcelona, Editorial Crítica, 1986, page 49.

¹³⁸ PIRES JIMÉNEZ, L. E.; BUESA, M., “Intervención estatal durante el franquismo tardío: la regulación de la inversión industrial en España (1963-1980).”, in *Revista de Historia Industrial*, 2002, n. 21, p. 159-198; CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003; SERRANO SANZ, J.M., PARDOS, E., “Los años del crecimiento del Franquismo (1959-1975)”, in COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., *Historia económica de España, siglos X-XX*, Barcelona, Ed. Crítica, 2002, GARCÍA DELGADO, J.L., (ed.), *España. Economía*, Madrid, Espasa Calpe, 1990.

during the sixties, marked by an increase of the degree of openness of the economy.¹³⁹

On the contrary, the years of the First Francoist period, from 1939 to 1959, were characterized by a total subsidiary position of the economic policy to the political interests of the new government: it is, in fact, during this period that Spain implemented the autarkic policies and economic interventionism which shaped the economy and industry with the goals of creation and reconstruction after the end of the Spanish Civil War.¹⁴⁰

Despite the fact that this period is not homogeneous with regard to the economic policies adopted,¹⁴¹ it is possible to detect the continuous presence of the autarkic policy throughout the entire period, whose application was implemented and applied to different degrees and, simultaneously, with a strong tendency to decrease during the period considered.¹⁴²

The feature of non-uniformity related to the application of the autarkic policies and the interventionism which was adopted, and the different degrees with which these were applied throughout the period, facilitates its division into two sub-periods: the first from 1939 to 1950, called First Francoism, or War Francoism,¹⁴³

¹³⁹ For a more detailed analysis of the Degree of Openness of the Spanish economy see the paragraph of Chapter 1. See also CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, page 127 and 293. See also SERRANO SANZ, J.M., PARDOS, E., “Los años del crecimiento del Franquismo (1959-1975)”, in COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., *Historia económica de España, siglos X-XX*, Barcelona, Ed. Crítica, 2002, GARCÍA DELGADO, J.L., (ed.), *España. Economía*, Madrid, Espasa Calpe, 1990, CATALÁN, J., *La economía española y la segunda guerra mundial*, Barcelona, Ariel, 1995.

¹⁴⁰ See also CARRERAS, A., TAFUNELL, X., 2003, COMÍN, F., HERNÁNDEZ, M., LLOPIS, E., 2002, GARCÍA DELGADO, J.L., (ed.), 1990, CATALÁN, J., , 1995.

¹⁴¹ See GARCÍA DELGADO, J.L., “Estancamiento industrial e intervencionismo”, in FONTANA, J. (ed.), 1986, page 190.

¹⁴² The technical characteristics of the autarky that we are considering in this case, were the absence of competitiveness, specialization and the most important goal above all of the maximization of production in numeric terms, without any considerations of the cost-opportunity of it.

¹⁴³ Or “*franquismo de guerra*” as it was called by GONZÁLEZ, M.J., “La autarquía económica bajo el régimen del General Franco: una visión desde la teoría de los derechos de propiedad”, in *Información Comercial Española*, n. 676-677, 1990, page 20.

and the second between 1950 and 1959, called “*decenio bisagra*”;¹⁴⁴ from now on we will call it the Pivotal decade.

José Luís García Delgado¹⁴⁵ points out that this division clearly reveals the evolution of the different degrees of the political economy and its different outcomes.¹⁴⁶ According to García Delgado,¹⁴⁷ the Pivotal decade is characterized not only by a different way of achieving economic policies – which allowed the move from the position of total autarky of the previous decade, that of First Francoism, to the total openness which is found in the *Primer Plan de Estabilización* of 1959, its ultimate step. The Pivotal decade also differed with respect to the earlier period in its absence, or near absence, of industrial development and high proportion of economic interventionism and political isolation.¹⁴⁸

It is generally accepted that the Pivotal decade was characterized by the presence of autarkic policies hand in hand with the policies of economic openness, where targets of self-sufficiency and the desire for a free market co-existed in the national economy. During this period, we can see the dominance of the desire to achieve autarkic policy goals, although it slowly, but inexorably, reduced its importance in favour of the increasing policies of opening up the national market, reversing the weight and importance they had had during the first decade of the Francoist Regime.¹⁴⁹

The same García Delgado along with other authors¹⁵⁰ consider the period of the First Francoism, from 1939 to 1950, the historical period in which the Franco

¹⁴⁴ Translated, this means “Pivotal decade” because during this period the francoist policy changed the economic policies and their position in the international equilibrium completely, as we can easily see from the Degree of Openness of Italy, Spain and Western Europe Graph 8. From now on I will refer to this period as the Pivotal decade.

¹⁴⁵ See GARCÍA DELGADO, J.L., in FONTANA, J. (ed.), 1986, page 190.

¹⁴⁶ “[...] *de las tonalidades de la política económica [...] y sus diferentes resultados*”, see GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 171 and ss.

¹⁴⁷ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 171 and ss.

¹⁴⁸ “[...] *del nulo o muy corto crecimiento industrial y de la extraordinaria intensidad del intervencionismo económico en el marco de un aislamiento económico y político sin precedentes*”, GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 172; for a different opinion, see ROS HOMBRAVELLA, J., CLAVERA, J., *Capitalismo español: De la autarquía a la estabilización. 1939-1959*, Madrid, Cuadernos para el Diálogo, 1978.

¹⁴⁹ This specificity originated the adjective of Pivotal with which the Decade is called.

¹⁵⁰ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), FONTANA, J., “Naturaleza y consecuencias del franquismo”, in FONTANA, J., (ed.), 1986, page 147, CARRERAS, A.,

Government obtained the worst economic outcomes from its policies and that in this period it is possible to find the foundations of Spain's economic backwardness compared to the rest of the European countries.¹⁵¹

Albert Carreras¹⁵² also agrees with this view and finds evidence in his work of how the negative results of this period can explain the industrial backwardness that Spain presented in the second half of the twentieth century.¹⁵³ Moreover, in carefully observing the data series that cover the period from 1939 to 1950, Carreras shows that the year 1941 is the historical moment in which the Index of Industrial Production reaches its minimum,¹⁵⁴ as well as being the period marked by the complete immobility of the economy.

The level of GDP per capita¹⁵⁵ shows a negative trend as well: the recovery of the value of GDP per capita to the pre-war period was reached only in the fifties, which was very late compared to other European countries, even the ones that were militarily involved in World War II.¹⁵⁶

It is for this reason that certain scholars¹⁵⁷ emphasize that the economic situation suffered by Spain in the post-Civil War period has special characteristics

Industrialización española: estudios de historia cuantitativa, Madrid, Espasa Calpe, 1990, CARRERAS, A., "La producción industrial española, 1842-1981: construcción de un índice anual", in *Revista de historia económica*, n. 1, año II, 1984, and also MIRANDA ENCARNACIÓN, J.A., "El fracaso de la industrialización autárquica", in BARCIELA, C., (ed.), 2003, page 95 and ss., BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., *La España de Franco (1939-1975). Economía*, Madrid, Síntesis, 2001, CATALÁN, J., 1995, BARCIELA, C., (ed.), *Autarquía y mercado negro*, Barcelona, Crítica, 2003.

¹⁵¹ See Chapter 1.

¹⁵² CARRERAS, A., 1984, and presented again in CARRERAS, A., 1990. See also Chapter 1.

¹⁵³ "[...] el único que puede explicar satisfactoriamente el atraso industrial de España", CARRERAS, A., *Industrialización española: estudios de historia cuantitativa*, Madrid, Espasa Calpe, 1990, page 127.

¹⁵⁴ In this case I exclude the year of 1939 for which Carreras has no data; see also GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), page 174.

¹⁵⁵ See Chapter 1, second paragraph and Graph 1 GDP and Graph 4 GDP per capita.

¹⁵⁶ For a more detailed analysis, see CATALÁN, J., 1995, page 25 and ss.

¹⁵⁷ FONTANA, J., "Naturaleza y consecuencias del franquismo", in FONTANA, J., (ed.), 1986, page 147, and also MIRANDA ENCARNACIÓN, J.A., "El fracaso de la industrialización autárquica", in BARCIELA, C., (ed.), 2003, page 95 and ss., BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., *La España de Franco (1939-1975). Economía*, Madrid, Síntesis, 2001, CATALÁN, J., 1995, SUDRIÀ, C., (dir.), *Història econòmica de la Catalunya contemporània*, Barcelona, Enciclopèdia Catalana, 1988-1994, vol. 4, MALUQUER DE MOTES, J., *Història econòmica de la Catalunya contemporània*, Barcelona, Enciclopèdia Catalana, 1988, vol. 1

that distinguish it from other European countries which emerged from the Second World War, including those which suffered the devastating effects of conflicts fought physically on their national territories.¹⁵⁸

Indeed, the widespread opinion among scholars dealing with this historical period coincides with that of Carreras,¹⁵⁹ although García Delgado¹⁶⁰ believes that this decade, represents more than a moment of stagnation of the Spanish economy, and that it is, rather, a period of depression.¹⁶¹ He reaches his conclusion by comparing the data used by Carreras and integrated by others, such as for example the GDP per capita, and he changed the beginning of the reporting period to 1942, instead of 1939 as it was for Carreras.¹⁶² García Delgado¹⁶³ justifies the choice to postpone the start of the economic period of reference by three years, considering that this period, starting in 1939, was a ‘necessary’ one in which the new Government could organize the legal and institutional framework of the new state,¹⁶⁴ and therefore, for the author, cannot be considered in the computation of the performance of First Francoism.¹⁶⁵

Despite the disagreement on the severity of the economic situation of First Francoism, García Delgado, Carreras¹⁶⁶ and other scholars¹⁶⁷ agree that the breaking

¹⁵⁸ For a more detailed analysis, see CATALÁN, J., 1995, page 25 and ss.

¹⁵⁹ CARRERAS, A., 1990.

¹⁶⁰ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 147 and ss.

¹⁶¹ The evolution of the Index of Industrial Production shows a negative trend for the 5 years from 1940 to 1945, and of 1,1% for the rest of the period, when the indexes of the other countries involved in the World conflict, registered a sudden increase, and some of them even duplicate their percentages. GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 147, and see also PRADOS DE LA ESCOSURA, “El crecimiento económico moderno en España”, in *Papeles de economía española* n. 20 (1984) page 152, MIRANDA ENCARNACIÓN, J.A., in BARCIELA, C., (ed.), 2003, page 95 and ss.; see also CATALÁN, J., 1995.

¹⁶² CARRERAS, A., 1990.

¹⁶³ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 147 and ss.

¹⁶⁴ “[...] *las bases legales e institucionales del <<Nuevo Estado>>*”, GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 172

¹⁶⁵ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 172. See also the next paragraphs of this Chapter where I will address with more details the discussion about the beginning of the First Francoism and the autarkic policies applied during these periods.

¹⁶⁶ CARRERAS, A., “La producción industrial española, 1842-1981: construcción de un índice anual”, in *Revista de historia económica*, n. 1, año II, 1984

¹⁶⁷ GARCÍA DELGADO, J.L., “Notas sobre el intervencionismo económicos del primer franquismo”, in *Revista de Historia Económica*, III, n. 1, 1985, MIRANDA ENCARNACIÓN, J.A., in BARCIELA, C., (ed.), 2003, page 103, GARCÍA DELGADO,

point in the process of long-term Spanish economic growth is in this period.¹⁶⁸ There is therefore consensus that the inflexion in the Spanish economic growth lies in this period, not before or after, and that its consequences were the decline of economic development to equal the conditions of a developing country.

Therefore, if we look at the decade of First Francoism (and at the autarkic period until 1959) from the point of view of a long-term perspective, without reference to the fluctuations of the short period, we can see that it represents the end of a steady moderate growth - which started in the late nineteenth century and continued until the end of the 1930s, when Spain had managed to catch up with the level of economic development of other European countries.¹⁶⁹ The Civil War and the policies of the post-war period helped to create the divergence between Spain and the others, and even worsened it,¹⁷⁰ so that the first decade of the post-war period, the one of First Francoism, negatively affected the country's economic development, increasing the conditions of extreme difficulty which the Spanish economy had to face up to until 1959.

2.2 – Autarkic policies and First Francoism: the distinction of the sub-periods

If scholars agree with regard to the division into First Francoism and the Pivotal Decade, they debate two other points: first, on the economic activities of

J.L., in FONTANA, J., (ed.), 1986, page 171 and ss., CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, page 291, TUSELL, J., *Historia de España en el siglo XX. La Dictadura de Franco*, Madrid, Taurus Ediciones, 2007, vol. 3, page 240.

¹⁶⁸ See also Chapter 1

¹⁶⁹ “[...] representa el final de un proceso de crecimiento moderado pero mantenido que se prolonga en España durante el último tercio del XIX y el primero del XX, [y que determina] el ensanchamiento de la brecha que separa la trayectoria de España respecto a la de otros países europeos” GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 176. See also GARCÍA DELGADO, J.L., “Notas sobre el intervencionismo económicos del primer franquismo”, *Revista de Historia Económica*, III, n. 1, 1985, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003, MIRANDA ENCARNACIÓN, J.A., in BARCIELA, C., (ed.), 2003.

¹⁷⁰ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 176.

First Francoism and on the ideology that supported them, and secondly, on the dates of the beginning of the autarkic policies and of the period mentioned above.

As regards this last point, if we use the methodology approach, the dominance of laws and activities whose final aim was to obtain autarky, the years from 1939 to 1950 are the ones generally referred to as the beginning and end of First Francoism; but, in this case, some authors do not agree on 1939 as the starting point.

According to Carlos Barciela¹⁷¹ there is no doubt that there existed an autarkic policy which ends in 1959, in agreement with other authors. But he also states that this does not begin in 1939, but at the beginning of the Civil War, in 1936. He also agrees with García Delgado and other authors regarding the evolution of the weight of autarky in the Spanish economy since 1951, when it went along with the activities of opening it into a more liberal economy, with the goal of maintaining the conquered power.¹⁷²

Francisco Comín and Pablo Martín Aceña,¹⁷³ as well, are in agreement with the point of view of Barciela and García Delgado about the existence of an autarkic policy, identifying I.N.I. as an institution whose existence was directed towards achieving this goal, and they identify Juan Antonio Suanzes as the creator and manager of the self-sufficiency policy of the Francoist regime. According to these two authors¹⁷⁴ the dates for the autarkic period are from 1937, when Suanzes had already begun to develop the Autarkic Plan,¹⁷⁵ which, in their opinion, found its realization in the industrial mobilization established to address the gaps created by the Civil War. According to Martín Aceña and Comín the most appropriate period to indicate the end of the comprehensive actions put in place to implement the autarkic policies is not 1959 but 1963, when Suanzes left the position of President of I.N.I.,

¹⁷¹ BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, page 24.

¹⁷² BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, page 12.

¹⁷³ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

¹⁷⁴ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

¹⁷⁵ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

because he was totally contrary to the new economic policy which the Franco government began to implement from 1959.

Comín and Martín Aceña¹⁷⁶ introduce another detail to the analysis of the autarkic period; they consider, in fact, that it existed in a sub-period of autarkic policy, starting from 1941 when I.N.I. was founded, and that it includes the entire decade of the forties, when the Institute began to diversify its activities, not exactly consistent with the projects that Suanzes had carried out during the Spanish Civil War, continuing an action that tended towards the creation of an autarkic economic development rather than industrial mobilization, because the activities preferred were more related to the fields of energy and transport than to those of defence.¹⁷⁷ These preferred sectors for the autarkic activities mark the differences between Industrial Mobilization and the First Francoism autarky.¹⁷⁸

Jordi Catalán¹⁷⁹ also supports the idea of a sub-period in autarkic economic policy, and he believes that it was during the years from 1938 to 1941 that the framework of the legislation and the autarkic economic policies were created. Catalán also highlights that between 1940 and 1941 the highest number of concessions to the companies working in the fields included in the definition of the activities of national interest were authorized, an area where I.N.I. started its activity as economic agent in 1941. Therefore, he considers that it is in 1938 when autarkic policy began to be created and implemented, and indicates the year 1941 as the year of change, perhaps more in political plans than in the methodology of achieving it.¹⁸⁰

Furthermore, Catalán considers that the opportunities for the development of the industrialization plans worsened from 1942 due to the difficulties which arose in the exchange trade with the Axis powers. This is why, according to Catalán, the intervention of the State is accomplished through I.N.I., the means by which the state promoted the creation of state-owned shareholding companies which would

¹⁷⁶ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

¹⁷⁷ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

¹⁷⁸ COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991.

¹⁷⁹ CATALÁN, J., 1995.

¹⁸⁰ CATALÁN, J., 1995.

eventually be the preferred way of industrial policy,¹⁸¹ giving to the private sector, by contrast, a secondary role in the program for the development of the national economy.

Antonio Gómez Mendoza and Elena San Román¹⁸² agree with Comín and Martín Aceña, indicating the year 1937 as the year of the beginning of the autarky, but are of a different opinion about the change in the autarkic policy until 1959, that for Gómez Mendoza and San Román did not change at all. For Gómez Mendoza,¹⁸³ the features present in the autarky of First Francoism did not change, not even in 1951,¹⁸⁴ because the policies and activities carried out by Suanzes through I.N.I., aimed at consolidating autarkic policies, did not change and did not lose the character of hostility towards private initiatives in the economic market;¹⁸⁵ so Gómez Mendoza believes that the process of reduction of the autarkic policies was not continued, as the other scholars stated, and, therefore, the decade of the fifties was not in any way a Pivotal Decade.¹⁸⁶

Elena San Román¹⁸⁷ believes that the beginning of the autarkic period is 1937 and its end is in 1959, and she considers that the elements of change in economic policy, noted by some authors, were limited to a change in image and they had a limited influence on the economic reality.¹⁸⁸

Gómez Mendoza and San Román come to these conclusions because they focus their attention on Juan Antonio Suanzes, to whom was conferred a broad

¹⁸¹ “Mediante el I.N.I., el Estado pasaba a promover directamente la constitución de empresas con capital público, instrumento de política industrial que acabaría por ser preferido, con el subsidio de las actividades privadas”, CATALÁN, J., 1995, page 231.

¹⁸² GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, Edicions Universitat de Barcelona, 2000.

¹⁸³ GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, Edicions Universitat de Barcelona, 2000.

¹⁸⁴ GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, 2000.

¹⁸⁵ “[...] ni un ápice de hostilidad hacia la empresa privada [de manera que] hay que concluir que los años cincuenta no fueron, en modo alguno, un decenio bisagra”, GÓMEZ MENDOZA, A., (ed.), 2000, page 21.

¹⁸⁶ GÓMEZ MENDOZA, A., (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía (1941-1963)*, Barcelona, page 21.

¹⁸⁷ SAN ROMÁN, E., 1999, page 82.

¹⁸⁸ “operaciones de imagen del régimen que repercutieron, de forma limitada, sobre la realidad económica”, SAN ROMÁN, E., 1999, page 37.

power of decision-making. He remained faithful to its ideals throughout the period in which he held the post of President of I.N.I. until 1963, the year in which he left office. Therefore, to San Román, there was never a change in the autarkic policy because, according to the author, Suanzes was the man for key decisions on economic policy, and keeping them consistent with its principles, the Spanish autarkic economic policy reflects the consistency and the choices of Suanzes, from the beginning of his role as President of I.N.I. to the end of it in 1963. In fact, for San Román and Gómez Mendoza, I.N.I. reflected the views of the President and, as the Institute was the means used to carry out autarkic policies, they did not change until Suanzes left.

2.3 - The Autarkic choice: the realization of a desire or an obligated decision?

So, as we saw in Spain, after the end of the Civil War economic activity was characterized by interventionism and self-sufficiency policies, and the reasons why the regime decided to apply them have been the subject of a debate among scholars.

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There is an extended literature agreeing that the decision to maintain autarkic policies and the self-sufficiency policy during the period after the end of the Spanish Civil War was not a decision taken freely by the Franco government, but rather one

¹⁸⁹ ROS HOMBRAVELLA, J., CLAVERA, J., 1978, page 79 and ss.; see also VELARDE FUERTES, J., *Política económica de la Dictadura*, Madrid, Guadiana de Publicaciones, 1968, page 23 and ss, VELARDE FUERTES, J., 1968, DONGES, J.B., *La industrialización en España. Políticas, logros y perspectivas*, Barcelona, Oikos-Tau, 1976, BIESCAS, J.A., TUÑÓN DE LARA, M., “España bajo la dictadura franquista (1939-1975)” in TUÑÓN DE LARA, M., (dir.), *Historia de España*, Barcelona, 1994, vol. X, VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, BALLESTERO, A., 1993, CATALÁN, J., 1995, SAN ROMÁN, E., 1999., SAN ROMÁN, E., in GÓMEZ MENDOZA, A., (ed.), 2000, GÓMEZ MENDOZA, A., (ed.), 2000, BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, BARCIELA, C., (ed.), 2003, CARRERAS, A., TAFUNELL, X., 2003, MOLINERO, C., YSÀS, P., *El règim franquista. Feixisme, modernització i consens*, 2^a edició, Vic, Eumo Editorial, 2003.

forcibly taken due to the international situation, such as, for example, the Second World War and its consequences, and the problems that Spain had to face resulting from these situations.

This is the opinion that Juan Velarde Fuertes¹⁹⁰ and Joan Clavera¹⁹¹ agree with, even if the latter agrees with the hypothesis that the self-sufficiency policies had been a conscious choice in the first three years following the end of the Spanish Civil War (1939-1942), years which overlap the first three years of the Second World War, and Clavera argues that only since 1943 had the autarkic policies been the response of a disoriented Government facing the sinking powers of the Axis countries, while unable to resolve the ties and obligations that the interventionist economic mechanisms had already started to produce.¹⁹²

Clavera¹⁹³ says that since 1943, when the defeat of the Axis started to become obvious, the friendship and the support showed by the Spanish Government toward these powers limited the number of options among which Spain could choose economic policies, not only due to the scarcity of resources and production capacity or the restriction of the trade with foreign countries, but also due to the fact that the ideological, and in some cases material, support for the Axis nations and their ideology negatively influenced international acceptance of the Francoist regime by other countries.

José Antonio Biescas,¹⁹⁴ on the contrary, believes that nearness to the Axis powers brought with it the obligation to adapt to the same type of economic choices, considered highly successful until then, characterized by the principles of military organization,¹⁹⁵ while later on, starting from 1943, when the outcome of the Second World War was shown to be contrary to the Axis powers, Spain could opt for a

¹⁹⁰ VELARDE FUERTES, J., 1968.

¹⁹¹ ROS HOMBRAVELLA, J., CLAVERA, J., 1978, page 79 and ss.

¹⁹² “*La autarquía fue un reflejo de una actitud no ya de política económica, sino sencillamente de una cierta política desorientada ante el hundimiento de las potencias del Eje, e incapaz de sanear unos mecanismos económicos atrapados en la creciente maraña intervencionista*”, ROS HOMBRAVELLA, J., CLAVERA, J., 1978 page 82.

¹⁹³ ROS HOMBRAVELLA, J., CLAVERA, J., 1978 page 79 and ss.

¹⁹⁴ BIESCAS, J.A., TUÑÓN DE LARA, M., “España bajo la dictadura franquista (1939-1975)” in TUÑÓN DE LARA, M., (dir.), *Historia de España*, Barcelona, 1994, vol. X.

¹⁹⁵ MIRANDA ENCARNACIÓN, J.A., in BARCIELA, C., (ed.), 2003, page 101 and ss.; see also CATALÁN, J., 1995.

change in the economic policy, because, Biescas¹⁹⁶ argues, Spain had the opportunity to decide to follow a different economic policy than the one it had applied until then. So, if the regime continued to apply the same economic policy, it had voluntarily decided to keep the autarkic policy option.

According to Juergen Donges¹⁹⁷ the choice of the autarkic economy in Spain was determined as much by internal factors, such as nationalist ideology and the impact of the Spanish Civil War on the internal equilibrium of the country, as by external factors, such as the outbreak of the Second World War.

Most scholars¹⁹⁸ agree with the idea that there was a voluntary election of the autarky by the Francoist regime, not only to meet a number of practical problems, but rather because this ideology adapted better to the mentality of the winners of the Spanish Civil War and their economic ideology.¹⁹⁹

The importance of the men called to work in the key positions in the structure of the new state is considered very important by the authors,²⁰⁰ given that most of them were influenced by an engineering-minded military²⁰¹ and were fascinated by the dictatorial regimes because of what they considered the brilliant

¹⁹⁶ BIESCAS, J.A., TUÑÓN DE LARA, M., “España bajo la dictadura franquista (1939-1975)” in TUÑÓN DE LARA, M., (dir.), *Historia de España*, Barcelona, 1994, vol. X

¹⁹⁷ DONGES, J.B., *La industrialización en España. Políticas, logros y perspectivas*, Barcelona, Oikos-Tau, 1976, page 37 and ss.

¹⁹⁸ VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, BALLESTERO, A., 1993, CATALÁN, J., 1995, BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, BARCIELA, C., (ed.), 2003, CARRERAS, A., TAFUNELL, X., 2003, MOLINERO, C., YSÀS, P., *El règim franquista. Feixisme, modernització i consens*, 2ª edició, Vic, Eumo Editorial, 2003.

¹⁹⁹ “La política autàrquica s’adeia amb el protagonisme dels militars en els aparells civils de l’Estat, amb les simpaties ideològiques de la coalició que havia guanyat la Guerra Civil y amb el context bèl·lic de la primera meitat dels anys quaranta”, MOLINERO, C., YSÀS, P., 2003, page 62. See also FONTANA, J., in FONTANA, J., (ed.), 1986, page 25 and ss., GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 183, ELLWOOD, SHEELAGH M., “Falange y Franquismo”, in FONTANA, J., (ed.), 1986, page 40 and ss., CATALÁN, J., 1995, page 60 and ss.

²⁰⁰ VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, BALLESTERO, A., 1993, CATALÁN, J., 1995, BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, BARCIELA, C., (ed.), 2003, CARRERAS, A., TAFUNELL, X., 2003, MOLINERO, C., YSÀS, P., *El règim franquista. Feixisme, modernització i consens*, 2ª edició, Vic, Eumo Editorial, 2003.

²⁰¹ TUSELL, J., “La autarquía cuartelera: las ideas económicas de Franco a partir de un documento inédito”, *Historia 16*, n. 115, 1985, page 41 and ss., TUSELL, J., 2007, page 232.

results achieved in terms of recovery of production. In the opinion of Tusell,²⁰² they identify Spain as a military barrack and they planned to organize the nation organise the nation following the same principles. For this way of thinking of the Spanish powers, Tusell added the adjective ‘cuartelera’²⁰³ to the autarky policy of the Francoist Government.²⁰⁴

The authors²⁰⁵ agree that the mentality of winners of the Spanish Civil War played a key role in determining economic policy, and they also agree on the fact that the characteristics of the autarkic policies found ideas in those that were applied in Italy and Germany during the thirties, even when considering the slight differences that existed among the ones applied in the different countries that we consider.

Scholars²⁰⁶ do not even deny the existence of references to the autarkic policies applied in Spain before the Spanish Civil War, but limit their importance and influence on the ideology of the Francoist regime. In fact, although some of the policies applied by the Franco government were implemented before the Spanish Civil War, the regime added new ones inspired by the politics of the Axis nations

²⁰² TUSELL, J., “La autarquía cuartelera: las ideas económicas de Franco a partir de un documento inédito”, *Historia 16*, n. 115, 1985, page 41 and ss., TUSELL, J., 2007, page 232.

²⁰³ TUSELL, J., “La autarquía cuartelera: las ideas económicas de Franco a partir de un documento inédito”, *Historia 16*, n. 115, 1985, page 41 and ss., TUSELL, J., 2007, see also BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, page 29 and ss.

²⁰⁴ TUSELL, J., 1985, page 41 and ss. y TUSELL, J., 2007, page 232.

²⁰⁵ VIÑAS, A., 1984, NADAL J., CARRERAS, A., SUDRIA’ C., *La economía española en el siglo XX. Una perspectiva histórica*, Madrid, Ariel Editorial, 1987, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, BALLESTERO, A., 1993, CATALÁN, J., 1995, SÁNCHEZ RECIO, G., “Inmovilismo y adaptación política del régimen franquista”, in MORENO FONSERET, R., SEVILLANO CALERO, F., (eds), *El franquismo. Visiones y balances*, Alicante, Universitat de Alicante, 1999, IRANZO, J.E., “El sector público como impulsor de la reconstrucción (1939-1959)”, in VELARDE FUERTES, J., (coord.), *1900-2000. Historia de un esfuerzo colectivo*, Madrid, Fundación BSCH-Planeta, 2000, vol. 1, BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, BARCIELA, C., (ed.), 2003, CARRERAS, A., TAFUNELL, X., 2003, MOLINERO, C., YSÀS, P., 2003, DI FEBO, G., MOLINERO, C., “Presentació”, DI FEBO, G., MOLINERO, C., (eds.), *Nou Estat, nova política, nou ordre social. Feixisme i franquisme en una perspectiva comparada*, Barcelona, Fundació Carles Pi i Sunyer d’Estudis Autònoms i Locals, CEFID-UAB, 2005, page 9 and ss.

²⁰⁶ VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, BALLESTERO, A., 1993, CATALÁN, J., 1995, BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., 2001, BARCIELA, C., (ed.), 2003, CARRERAS, A., TAFUNELL, X., 2003, MOLINERO, C., YSÀS, P., *El règim franquista. Feixisme, modernització i consens*, 2ª edició, Vic, Eumo Editorial, 2003.

with strong characteristics of the economic autarky and activities that were more typical of a self-sufficient economy.

Furthermore, scholars also argue that it is true that the autarkic experience of industrial mobilization existed,²⁰⁷ which was applied before the Spanish Civil War, but the characteristics of this experience had nothing to do with those of the autarky applied from 1941, which are more similar to the policies of the Axis countries.

Carme Molinero and Pere Ysàs summarize this position by stating that “[...] even if it is possible to find experiences of isolation previous to the Spanish Civil War, the goals and the ways to reach them used by First Francoist were inspired by the economic policies of the fascist regimes”²⁰⁸ and not from the policies of the government which existed before the Francoist regime.

According to Jordi Catalán²⁰⁹ the origins of the inspiration of the economic policy of First Francoism were the experiences of Italy, Germany and Portugal, whose application determined a turning point with respect to the pre-war Spanish economic experience.²¹⁰ Catalán also points out that the policies of the New Spanish State had specific characteristics that do not coincide perfectly with those of the Axis powers, but they had enough characteristics in common to clearly demonstrate the existing connection to each other.²¹¹

Furthermore, Catalán²¹² argues that the differences are also significant because whatever activity was carried out, it was settled in a strongly non-equilibrated institutional system as it was following the Spanish Civil War. Spain was, in fact, reshaping economic policy, taking examples from the economic policy

²⁰⁷ See also SAN ROMÁN, E. 1999

²⁰⁸ “[...] tot i que podríem trobar precedents aïllacionistes autòctons abans de la Guerra Civil, els objectius que volia assolir el primer franquisme i els instruments per aconseguir-los estaven inspirats en les polítiques econòmiques desenvolupades pels règims feixistes”, see MOLINERO, C., YSÀS, P., 2003, page 61.

²⁰⁹ “la fuente de inspiración que resultó más decisiva en la política económica del primer franquismo fueron las experiencias contemporáneas de Alemania, Italia y Portugal [...] contribuyó a que el sistema económico de posguerra [...] punto de ruptura con la trayectoria económica prebélica”, see CATALÁN, J., 1995, page 41 and ss.

²¹⁰ CATALÁN, J., 1995, page 61.

²¹¹ “Las coincidencias entre la política económica de los primeros gobiernos franquistas y la de los de la Alemania nazi, la Italia fascista y el Portugal salazarista, no fueron absolutas, pero sí suficientes como para emparentarla claramente con ellas”, CATALÁN, J., 1995, page 61.

²¹² CATALÁN, J., 1995

of war carried out in Italy and Germany, and not to the authoritarianism typical of the period before the Spanish conflict.²¹³

García Delgado²¹⁴ defends, as does Catalán, the mixed inspiration of the policy of the Francoist regime, although he thinks there was a more balanced redistribution between the two elements which could be the inspiration for the Francoist policy. This hypothesis is based on the connection between the legislation which emanated from the Francoist government with the policy of protectionism implemented from the end of the nineteenth century, and the similarities between the laws published in 1939 and those that were published in 1917²¹⁵ and in 1924, and especially the law of 1907 in which the ownership of more than the 25% of a company's capital by foreign investors was forbidden. García Delgado adds that the law of 1926, with which the Committee Regulator of the Industrial Production was created, is the precursor of the Law of Management and Defence of the Industry published in 1939.²¹⁶

San Román²¹⁷ and Gómez Mendoza²¹⁸ also found the roots of the autarkic policy set up by Juan Antonio Suanzes in the national experience of the industrial mobilization organized in 1917, and not in the one applied by the policies of the Axis powers.

²¹³ CATALÁN, J., 1995, page 71.

²¹⁴ GARCÍA DELGADO, J.L., 1985, GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, GARCÍA DELGADO, J.L., "La industrialización y el desarrollo económico de España durante el franquismo", in NADAL J., CARRERAS, A., SUDRIÀ C., 1987, page 169.

²¹⁵ BORDERÍAS, C., FINA, L., MOLINERO CARME, PUJOL J., SUDRIÀ, C. YSÁS P., "Evolució econòmica i condicions de vida i treball" in BARBAGALLO, F., *Franquismo. Sobre resistència i consens a Catalunya (1938-1959)*, Barcelona, Editorial Crítica, 1990, page 81. See also GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 180, FONTANA, J., in FONTANA, J., (ed.), 1986.

²¹⁶ GARCÍA DELGADO, J.L., in FONTANA, J., (ed.), 1986, page 180.

²¹⁷ SAN ROMÁN, E., 1999., SAN ROMÁN, E., "La gestació castrense del I.N.I.", in GÓMEZ MENDOZA, A., (ed.), 2000, page 53 and ss.

²¹⁸ GÓMEZ MENDOZA, A., (ed.), 2000, page 17 and ss.

2.4 - The degree of achievement of the autarky: a measure and definition

As we have seen above, San Román and Gómez Mendoza argue that there were no changes in autarkic policy until Suanzes resigned as President of I.N.I. because he was the most important supporter of autarkic policy and I.N.I. was the means to achieve it, and all throughout his tenure he was consistent with his own principles. On the opposite side, other scholars argue that there was a change in the importance of autarkic policy.

The debate about the autarkic policy of the First Francoism period is strictly connected to the concept of the degree of autarky achieved. The degree of autarky measures the intensity of the autarky policy and it is useful to understand which type of autarky had been achieved.

To verify which of the types of autarky had been selected to be carried out during the First Francoism is important because it gives us further details to answer the question about the type of autarky which was been carried out from 1936 to 1959, and whether it was the same autarky applied during this period or if it changed.

To define the degree of autarky we can use the classification that San Román uses in her work,²¹⁹ which is the same as the one described in the Italian documents in I.R.I. archive,²²⁰ although in the latter the names are slightly different.

We can differentiate between:

- partial²²¹ autarky, also called relative,²²² or *valutaria*,²²³ and total autarky, or as it called by the *Corporazioni*, economic integral autarky,²²⁴

²¹⁹ BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A, (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36.

²²⁰ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, November 1937.

²²¹ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, November 1937.

and between

- normal²²⁵ autarky and emergency²²⁶ autarky, which is called *temporary*²²⁷ by San Román.

The partial autarky is defined as “[...] *the economic autarky to which aim depending on the availability and reducing it to partial goals for the production of raw material for which the total needs cannot be covered by national resources.*”,²²⁸ while the total pursued the aim of the total independence of the national economy and fostered the self-sufficiency of it.²²⁹

For partial autarky, the *valutaria*,²³⁰ the main goal is not total economic independence²³¹ but rather it is aimed at decreasing the import of goods in specific

²²² BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A. (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36.

²²³ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2, and BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A. (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36.

²²⁴ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 1

²²⁵ I.R.I. Archive, Numerazione Nera, Documento 4130, corrispondente all'ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2, and BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A. (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36.

²²⁶ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937.

²²⁷ BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A. (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 37

²²⁸ “[...] *l'autarchia economica cui tendere secondo possibilità riducendone la realizzazione a obiettivi parziali per quelle materie prime per le quali il fabbisogno totale non può assolutamente essere coperto con risorse nazionali*”, I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 1 and ss.

²²⁹ See BALLESTERO, A., page 99 and ss.

²³⁰ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 1 and ss.

sectors, especially in some considered important for the fostering of national production.

The *Corporazioni italiane*²³² is also used to classify the autarkic policies in normal autarky,²³³ conceived for “[...] a normal political and economic situation [...]”²³⁴ and emergency autarky,²³⁵ applied in a special situation, in response to a specific need, that San Román²³⁶ defines as temporary. The latter is the type of autarky that should be carried out during war periods or special moments in which “[...] the absolute necessity is that all the energies of the Nation, all the production abilities of the Nation must be dedicated to the necessity of war”.²³⁷

In the same document, we read that “[...] This event should allow not only an effort in the production of goods above the national needs, but it changes the importance of the cost element that, in a normal autarky should be evaluated carefully, while in the autarky for war there are no other limits than the ones determined by the quantity of raw material at disposal and the ones of the national finances [...]”.²³⁸

²³¹ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 1 and ss. See also BALLESTERO, A., page 99

²³² I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937 page 2

²³³ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937.

²³⁴ “[...] prevista per una situazione politica ed economica normale”, I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2.

²³⁵ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937.

²³⁶ BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A., (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36

²³⁷ “[...] la necessità assoluta che, in tale ipotesi, tutte le energie della Nazione, tutte le forze della produzione siano dedicate alla necessità della guerra”, I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2.

²³⁸ “[...] Tale evenienza, non soltanto deve consentire uno sforzo produttivo oltrepassante i bisogni nazionali, ma fa anche variare notevolmente l'importanza dell'elemento costo che, in una autarchia normale, deve essere adeguatamente valutato,

There is no doubt that the *valutaria* type of autarky is the one that Italy applied during the second half of the thirties, beginning with the sanctions of the League of Nations after the invasion of Abyssinia. This autarky was a response to the problems created by international isolation in tangent with internal economic planning to pursue national independence in sectors also considered important during the period of normal autarky. Furthermore, the *Corporazioni* also provided some plans to foster national production in case of emergency periods,²³⁹ during conflicts of war for example. This special situation required special attention for some sectors of military production that are essential for production during war time (for example, the production of Chlorine in the Chemical sector), while during peace time they have no importance at all.

The above mentioned different types of autarky, and their degrees, would not have been mentioned by scholars if not for San Román. On the other hand, the opinion of scholars²⁴⁰ who wrote about the autarkic policy of First Francoism before her, as the one after,²⁴¹ agreed that the Spanish government decided on total (or *valutaria*) autarky, at least during the First Francoism period, and that this idea was copied by the Italian policies of Fascism.

mentre in una autarchia di guerra non ha altri limiti che quelli della quantità di materia prima disponibile e delle possibilità finanziarie nazionali [...]" I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2.

²³⁹ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, *Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale*, november 1937, page 2

²⁴⁰ See ROS HOMBRAVELLA, J., CLAVERA, J., *Capitalismo español: De la autarquía a la estabilización. 1939-1959*, Madrid, Cuadernos para el Diálogo, 1978, VIÑAS, A., *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona, Editorial Crítica, 1984, COMÍN COMÍN, F. Y MARTÍN ACEÑA, P., *Historia de la empresa pública en España*, Madrid, Espasa Calpe, 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., *El INI: 50 años de industrialización en España*, Madrid, Espasa Calpe, 1991, CATALÁN, J., *La economía española y la segunda guerra mundial*, Barcelona, Ariel, 1995.

²⁴¹ BARCIELA, C., LÓPEZ, M. I., MELGAREJO, J., MIRANDA, J.A., *La España de Franco (1939-1975). Economía*, Madrid, Síntesis, 2001, BARCIELA, C. (ed.), *Autarquía y mercado negro*, Barcelona, Crítica, 2003, COMÍN COMÍN, F. Y MARTÍN ACEÑA, P., *La política autárquica y el I.N.I.*, in SÁNCHEZ RECIO, G., TASCÓN FERNÁNDEZ, J., (Eds.), *Los empresarios de Franco. Política y economía en España, 1936-1957*, Barcelona, Editoria Crítica, 2003, page 23 y ss, MOLINERO, C., YSÀS, P., *El règim franquista. Feixisme, modernització i consens*, 2ª edición, Vic, Eumo Editorial, 2003, CARRERAS, A., TAFUNELL, X., *Historia económica de la España contemporánea*, Barcelona, Editorial Crítica, 2003.

Ballestero²⁴² agrees with these opinions and says that for Suanzes the total control of the economy was always necessary: during war periods to safeguard national independence and in peace time to control the trade balance.²⁴³

For San Román,²⁴⁴ the autarky pursued by Spain during the Francoist period was of the partial type, whose aim was “*selective control of the imports to buy technical goods important for the creation of the national industry and in this way to safeguard economic independence*”,²⁴⁵ combined with a total autarky period at the beginning of First Francoism.

In general terms, the hypothesis of the existence of the total autarky is completely accepted by scholars, who argue only about how long it continued, whether from the beginning of First Francoism until the end of the Spanish Civil War, or from World War II, or ending in the fifties.

2.5- Autarkic policies of the First Francoism and the origins of I.N.I., 1941-1959

As we have seen, the economic consequences of the First World War resulted in severe imbalances in the economies of European countries, and the effects of the crisis of 1929 further exacerbated those problems. The European countries responded to these new problems using different types of economic policies, such as the spread of socialism in Eastern Europe, the creation or

²⁴² BALLESTERO, A., *Juan Antonio Suanzes 1891-1977. La política industrial de la posguerra*, León, LID, 1993, page 99

²⁴³ BALLESTERO, A., *Juan Antonio Suanzes 1891-1977. La política industrial de la posguerra*, León, LID, 1993, page 99

²⁴⁴ BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A, (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36

²⁴⁵ “[...] en un control selectivo de las importaciones para adquirir los bienes de equipo imprescindibles a la creación de una industria poderosa y garantizar así la independencia económica”, BARRERA, E., SÁN ROMÁN, E., *Juan Antonio Suanzes, adalid de la industrialización*, in GÓMEZ MENDOZA, A, (ed.) *De mitos y milagros. El Instituto Nacional de Autarquía*, Barcelona, Universitat de Barcelona, 2000, page 36-37

strengthening of mixed economies, or the use of autarky policies and state control of economies, especially in Southern European countries, including Italy and Spain.²⁴⁶

In the case of these two countries, the historiography points out that the choice of economic policy was also taken with consideration to ideological reasons, for which the nationalization and the creation of State-owned companies were the means to obtain political goals of domination and national superiority.

At a European level, we observed a general tendency to respond to the crisis of the capitalist system of 1929 through the increased presence of the state in the economy. Italy and Spain responded to the crisis by sharing the methods and goals to be achieved, generically referred to as Fascist. But while for Italy there was the certainty of being able to apply this term, for Spain there is still an open debate regarding the nature of the government, whether it was fascist or *fascistizzato*.²⁴⁷

Those scholars who argue that the Francoist regime was not of the fascist type tend to emphasize issues such as the conquest of power through arms rather than the nature of mass movement or the small role accorded to the *Falange*, and on the other hand the social power of Catholicism. But it is also true that “*every successful movement must come to terms with the political traditions and local economic conditions. It is not realistic to expect that individual national fascisms should show strong characteristics of uniformity.*”²⁴⁸

²⁴⁶ TONINELLI, P.A., (ed.), *The Rise and Fall of the State-Owned Enterprise in the Western world*, Cambridge, Cambridge University Press, 2000. See also JAMES, H., TANNER, J., *Enterprise in the Period of Fascism in Europe*, Aldershot, Ashgate Publishing, 2002

²⁴⁷ See THOMÁS, J. M., *La Falange de Franco fascismo y fascistización en el régimen franquista, 1937-1945*, Barcelona, Plaza Janés, 2001. Thomás argues that Spain had already looked at the Italian experience for some years; his opinion is confirmed by the fact that the *Camera de Comercio* in Bilbao asked a copy of I.R.I. Statute Act of 1933, in a period that was not of fascist type; see also DI FEBBO, G., MORO, R., *Fascismo e franchismo. Relazioni, immagini, rappresentazioni*, Soveria Mannelli, Rubbettino, 2005, SAZ CAMPOS, I., *Fascismo y franquismo*, Valencia, Universidad de Valencia, 2004. For a global vision of the theory of Fascisms, see COLLOTTI, E., *Fascismo, Fascismi*, Milano, Sansoni, 2000, EATWELL, R., *Fascismo, verso un modello generale*, Roma, A. Pellicani, 1999, DE FELICE, R., *Fascismo, antifascismo, nazione, note e ricerche*, Roma, Bonacci, 1996, DE FELICE, R., *Bibliografia orientativa del Fascismo*, Roma, Bonacci, 1991, WOOLF, S. J., *Fascism in Europe*, London & New York, Methuen, 1981, CASALI, L., *Franchismo. Sui caratteri del fascismo spagnolo*, Bologna, CLUEB, 2005.

²⁴⁸ EATWELL, R., 1999, page 54.

These arguments emphasize important points, but forget to mention that there also existed similarities among the types of fascist regimes. From a theoretical point of view, for example, Italy and Germany show how important violence was as a methodology used to eliminate opponents of the regimes, and how big the failure was of the members of the elites in power to stop such violence. In other words, we can say that there existed many elements of similarity, such as the idea of nationalism and the hostility towards the basic values defended by the liberal democracies. Nor can we ignore the similarities between Francoism, the Estado Novo of Salazar and Italian Fascism, such as anti-communist ideology, the creation of corporate forms of state, paramilitary organizations and the collaboration between the state and the Catholic Church.

It could be argued that this second approach leads, to a certain extent, to a general theory²⁴⁹ of Fascism. It seems in fact to support the existence of two basic types of Fascisms, a German one and another one more characteristic of Italy and the Mediterranean regions. However, the most relevant aspect of this approach is the idea that among these Fascisms, where the term can be used in plural to include the two types mentioned above, the differences outweigh the similarities.

Nevertheless, I agree with Roger Eatwell²⁵⁰ when he speaks of the existence of an international dimension of fascism, since the very nature of this ideology is to be absolutely national, where the characteristic features of the superiority of the culture of the country are exhibited with superlative terms and highlighted and enhanced by the collective imaginary. It is precisely the nationalistic trend that would let us believe that the fascist regimes were not linked to each other, while it is precisely the conceptualization of this nationalistic trend that identifies the common feature, as it was with the ideologies of the Italian and Spanish fascist regimes.

However, it is not my intention to enter the academic debate as to whether the Franco regime was a fascist regime or simply a *fascistizzato*, since in both cases there is an emphasis and support of the theory that the Italian regime's ideology was involved, as the source of inspiration or with a more direct influence, in the decision

²⁴⁹ The general term of Fascism has to be understood as a general form of political organization. See EATWELL, R., 1999, p. 55.

²⁵⁰ EATWELL, R., 1999, page 9.

taken by the Francoist regime to create the *Instituto Nacional de Industria* (I.N.I.),²⁵¹ a decision process which I aim to elucidate with my research. The authors²⁵² who have studied this institution agree that the *Istituto per la Ricostruzione Industriale* (I.R.I.)²⁵³ has been the reference model.

I.N.I. is considered an important element in the autarkic policies which the Spanish government wanted to implement after the end of the Spanish Civil War in 1939. Indeed, despite the various debates and breaking points between the scholars of First Francoism, which I will discuss in more depth later on, they agree that there were three fundamental laws with which Francoist Spain founded its industrial autarkic policies:

- the law for the Protection of the New Industry of National Interest, introduced on the 34th of October 1939,²⁵⁴ which had the objective of exercising control over the creation of new industries, or the transfer of ownership of existing ones through the authorization granted by the Ministry of Industry and Trade. In the same law, there was a paragraph that indicated that the percentage of ownership for foreign companies could not exceed 25% of the Spanish company's capital in which they intended to invest. The goal of this paragraph was to prevent foreign investment in the national market in order to keep the Spanish economy independent from foreign countries' influence;²⁵⁵

- the law of Management and Defense of the Industry²⁵⁶ of the 24th of November 1939, about financial help to be granted to the industries of national

²⁵¹ COMÍN COMÍN, F., MARTÍN ACEÑA, P., *El INI: 50 años de industrialización en España*, Madrid, Espasa Calpe, 1991.

²⁵² SAN ROMÁN, E., in GÓMEZ MENDOZA, A., (ed.), 2000, SAN ROMÁN, E., 1999., COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978.

²⁵³ MINISTERO DELL'INDUSTRIA E DEL COMMERCIO, *L'Istituto per la Ricostruzione Industriale, I.R.I. - Vol. III Origini, ordinamenti e attività svolta*, (Rapporto Saraceno), Utet, Torino, 1956, MINISTERO DELL'INDUSTRIA E DEL COMMERCIO, *L'Istituto per la Ricostruzione Industriale, I.R.I. - Vol. I and II*, Utet, Torino, 1955

²⁵⁴ Ley de Protección de las Nuevas Industrias de Interés Nacional, published on the *Boletín Oficial del Estado* on the 25th of October 1939.

²⁵⁵ Defence against foreign influence was one of the most desired goals of Suanzes. See BALLESTERO, page 115.

²⁵⁶ Ley de Ordenación y Defensa de la Industria, published on the *Boletín Oficial del Estado* on the 15th of December of 1939. This law was incorporated in the regulation published on the 1940.

interest. This decree had two important effects: it further delimited the possibility of investment of the economic agents in the market of private companies and to foreign investment in the Spanish enterprises, both already limited by the law of 1939;

- in 1941 the law creating I.N.I. was promulgated, which ended the process of creating the Regime's new industrial policy, and especially determined the economic and industrial areas where private economic agents were excluded or authorised.

Thus, chronologically speaking, I.N.I. was the last stage of a formative process of the economic policies of Francoist Spain, and was the most important economic agent in the first twenty years of Francoism. For this reason, shedding light on the characteristics of this Institute enables us to better understand the historical period in which it acted and the ideology that permeated the Spanish company.

Defining the institution will bring new and significant data regarding the economic policy of the first twenty years of Francoism, until 1959, to the debate that is still open on the reasons behind the choice of the self-sufficiency policy implemented by the government; that is if this had been a voluntary choice or the consequence of a situation, from an economic and political point of view, from which Spain could not get out if not by taking the path of economic control.

The need to implement new research on I.N.I., when other authors have already studied the institution, is born from the fact that this was regarded as a typical Spanish experience, while, in truth, it has to be considered under the spell of a broader and more international context, especially with reference to the Italian experience of I.R.I., whose statute law of 1937 is clearly the most pertinent evidence of this connection because the Italian statute law was translated into the Spanish language and used as a statute for the establishment of the Spanish institution.²⁵⁷

But, reading the opinions of the Spanish scholars these are confined to a very theoretical comparison about the similarity between the two institutions, so their opinions are not supported by significant and incontrovertible data.

²⁵⁷ For the similarities and differences between the Statute Laws of I.R.I. and I.N.I. see Introduction – in the paragraph The Statutes Acts: a comparison

It is precisely for this reason that I consider the comparison between the two institutions regarding organizational and financial aid innovative, and it can help to give answers to the questions that are still open.

Chapter 3

The Spanish State-owned Companies, the Instituto Nacional de Industria and its Financial Statements

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This chapter initially traces the history of state-owned companies in Spain, from the *Reales Fábricas* to the creation of I.N.I., then it introduces the Financial Statement Analysis of I.N.I. The latter is at the core of my research and represents the most significant contribution to the ongoing debate on I.N.I.

Then I carry on the analysis of the characteristics of I.N.I. through the principles of the Financial Statement Analysis and, more specifically, by calculating the Ratios Indexes.²⁵⁸

I will present the elaboration of 4 ratios that are expression of the most significant data to achieve the goal of my investigation. I selected them on the basis of the similarities and differences between I.N.I. and I.R.I.,²⁵⁹ as well as because they are expression of the characteristics of I.N.I. industrial and financial policies: for example, the Return on Equity (R.O.E.)²⁶⁰ and the percentage of Internal and External Financing are crucial to understand the degree of independence of the company.

²⁵⁸ See Methodology in Introduction and Methodology Annex.

²⁵⁹ See Methodology in Introduction and Methodology Annex.

²⁶⁰ The ratio R.O.E, Return On Equity, expresses the ability to generate profits, and it can be measured by the Profit related or to the Shareholder's Capital or to Shareholder's Equity.

This approach helps conduct a more exhaustive analysis of the policies implemented by I.N.I. over time,²⁶¹ and it will help to carry out a more exhaustive analysis of the main characteristics of the policies of the Institution from 1942 until 1959.

3.1 - History of the State-Owned Companies in Spain

During the XVIII century, Spain began its policies of public enterprises inspired by the already existing experience of France, ideated by Colbert a century before, and applied by other European nations which, during that period, had already adopted the French experience, although the outcomes of the creation and the development of the public enterprises had different outcomes depending on the period of time and country.²⁶² The goals of these enterprises, at least for Spain,²⁶³ were not only of an economic nature, as subordinate to the increase of the power of the nation²⁶⁴, but also to show off the prestigious power of the Spanish nation, in terms of industrialization and self-sufficiency of the most strategic productions.

This is considered as the first experience for Spain with respect to the use of public enterprise, while the second, also in terms of the different character of the institution, had been I.N.I.²⁶⁵

From the first experience to the latter passed around two centuries and the public intervention of the State, as owner of companies, presented different

²⁶¹ I will calculate the same indexes for I.R.I. in chapter 4, and in chapter 5 I will present them in a comparative framework.

²⁶² COMÍN, F., MARTÍN ACEÑA, P., *Historia de la empresa pública en España*, Madrid, Espasa Calpe, 1991

²⁶³ HELGUERA QUIJADA, J., *Las Reales Fábricas*, in COMÍN, F., MARTÍN ACEÑA, P., *Historia de la empresa pública en España*, Madrid, Espasa Calpe, 1991, page 61.

²⁶⁴ HELGUERA QUIJADA, J., *Las Reales Fábricas*, in COMÍN, F., MARTÍN ACEÑA, P., *Historia de la empresa pública en España*, Madrid, Espasa Calpe, 1991, page 61.

²⁶⁵ See SEGURA, J., (dir), *La empresa pública en España*, *PAPELES DE ECONOMÍA ESPAÑOLA*, n.38, Madrid, Fundación Fondo para la Investigación Económica y Social, Obra Social de la Confederación Española de Cajas de Ahorros, 1989, COMÍN, F., MARTÍN ACEÑA, P., *Empresa pública e industrialización en España*, Madrid, Alianza Editorial, 1990, COMÍN, F., MARTÍN ACEÑA, P., *Historia de la empresa pública en España*, Madrid, Espasa Calpe, 1991, COMÍN, F., MARTÍN ACEÑA, P., *La empresa en la historia de España*, Madrid, Civitas, 1996, COMÍN, F., MARTÍN ACEÑA, P., *Los rasgos históricos de las empresas en España: un panorama*, Documento de trabajo 9605, Madrid, Fundación Empresa Pública, 1996

typologies depending on the intensities of its presence, thanks to which it is possible to identify 4 different sub-periods:

1. At the beginning, during the XVIII century, the *Reales Fábricas* were used as the instrument to enhance the political reputation of the nation and reindustrialization of the country. The aims pursued by the creation of the *Reales Fábricas* were many and varied, spanning from goals of political and economic strategies to special sector interests.
2. During the XIX century, the public enterprises suffered a loss of importance, that led to the privatization of some of them, although this did not involve all the public enterprises. In fact, the Ministry of Treasury opted for keeping ownership of some of the already existing *Reales Fábricas* and, in some cases, new ones were created to manage some properties and State Monopolies.
3. At the end of the XIX century until the beginning of the Spanish Civil War the aims of protectionism and the interest in nationalist policies found in the *Reales Fábricas* a good instrument to pursue nationalistic economic policies. These policies led to strong contrasts between the politicians and the entrepreneurs that were against their existence. To settle these disputes some limitations were introduced to their expansion and some of them, together with state monopolies, were given to private management by contract.
4. Under Francoism, from 1939 to 1975, the policies of public enterprises started under a different point of view and the new public enterprises were State-Owned Companies. During this period, the new role of I.N.I. was to be the 'hospital' for business companies in a situation of economic bankruptcy. During this long period of time did not present the same characteristics regarding the S.O.E.'s and their importance. In fact, there are 3 sub-periods in which the importance, the role and the goals of the S.O.E.s differed, and these correspond with the autarkic sub-periods:
 - a) The first sub-period coincides with the post-war period, from 1940 to 1959, during which they began the construction of an autarkic economy: the effort of industrialization and

interventionist spirit created abundant and important public companies in basic industries. The institution of this new unifying concept of public enterprise was the *Instituto Nacional de Industria* (I.N.I.), which under the leadership of Juan Antonio Suanzes, its first president from 1941 to 1963, assumed an important role in the promotion and development of the Spanish economy, which had suffered destruction by the Civil War²⁶⁶, to address in the immediate post-war period the reconstruction of the capacity of production, not only of the industrial sector, but also of other productive sectors. Then by the end of the Second World War, to cope with the difficulties created by the international embargo and some internal policies applied. It was exactly during this period that I.N.I. was used as tool for industrial policies of autarkic nature and as the instrument in contrast to the inefficiency (real or hypothetical is not the issue here) of private industrial business to promote and improve industrialization in Spain. At the same time, some of the previous public services contracted to private companies were nationalized.

- b) During the second sub-period, from 1964 to 1970, the S.O.E.s were relegated to the role of subsidiary. From 1959, with the *Plan de estabilización*, new economic policies were implemented and affected even more the role of the S.O.E. opening up opportunities for private enterprise to enter into new sectors of business activity, giving to the public enterprises the role of complementing and supporting private enterprise, covering with their business sectors abandoned or neglected by the companies of private capital. The new economic idea attributed to the S.O.E.s was to create economic activities in those areas in which they were not competing with private initiative, and usually the

²⁶⁶ See CATALÁN, J. 1999, for the debate about the damage and destruction made during the Spanish Civil War, FONTANA, J., (ed.), 1986, TUSELL, J., 2007.

absence of private business activities in these sectors was due to several reasons, such as:

- the business did not offer any more benefits to companies that already existed (such as for the railway sector);
- they were activities that required large investments in tangible assets with a long period to earn remuneration (such as electricity and steel sector companies);
- for their strategic role in the national economy (such as networks and mass media), or for the defence of the country (military production);
- innovative activities, or that used advanced technology, and high capital investments.

5. The last period begins in 1970 with the Transition period in Spain and ends around the mid-eighties. During the decade of the seventies, I.N.I. and other public enterprises were used as an instrument of industrial policy, with the purpose of re-industrialization and as counter-cyclical support in order to maintain a stable labour market. After this period, there was a tentative of returning to it the importance in the Spanish economy, giving it greater autonomy of action and mitigating the image of a return to an excessive public sector in the economy introducing rules of private-business as the criteria that I.N.I. should have undertaken managing its businesses.

3.1.1 - The *Reales Fábricas* and their evolution (1700-1833)

The first stage in the evolution of the public company in Spain in the eighteenth century is, as said, detectable in the *Reales Fábricas*, spread over the

territory, which can be considered the ancestor of the modern concept of state-owned companies in Spain. It is now generally accepted that the *Reales Fábricas*²⁶⁷ constituted in Spain the first tool used to create public enterprises, and represented the most remote of the industry of modern conception, that will make its appearance in the Spanish system only after the Civil War ended in 1941, with the creation of I.N.I.

It is true, they were a form of industrial enterprise specific of the eighteenth century, because they were unable to survive²⁶⁸ the changes in economic policy which occurred with the advent of the Liberal regime in the nineteenth century. Nor were the *Reales Fábricas* a peculiarity of Spain in the eighteenth century, as in other European countries too, the State proceeded to the creation of public industries in imitation of the French *Manufactures Royales*, created by Colbert in the second half of the seventeenth century.

In order to understand accurately the specificity of the *Reales Fábricas* we must think of them in the global context and relate both to the historical European industrial policy. In Spain, they were created by Felipe V²⁶⁹ in order to solve the industrial backwardness of Spain and the total dependence on foreign manufactured goods.

The goals pursued by Felipe V, in fact, not only responded to economic needs, but aimed, above all, to strengthen the prestige and power of Spain abroad, offering an exemplary image of the powerful and independent economic productive ability of the country, to impress the contemporary observer in European competitor countries.

It is therefore clear that economic goals were not the ultimate goal, but they were clearly subordinate to the strengthening of state power. The goal of self-sufficiency in manufacturing, and especially, in strategic military importance, later carried on what can be called a nationalist and autarkic policy.

The two main goals that the government is imposing with its own specific policy of re-industrialization are:

²⁶⁷ The State intervention in these Companies was made by different kind of typologies

²⁶⁸ The only exception the military industries.

²⁶⁹ Nephew of Luis XIV, and the head of the new Borbonic dynasty

- a) the increase in tax revenue, increasing the collection of direct taxes which burdened the manufacturing sector
- b) to decrease the deficit of trade through the development of import substitution industries products.

To achieve these many different goals, the Government applied five main groups of economic policy measures:

- 1) Customs Protectionism, to reserve the domestic market and colonial products to the domestic industry;
- 2) Measures to promote the technological development of Spanish industry, which was one of the main problems of lack of market competitiveness;
- 3) Measures aimed at eliminating social prejudice against manufacturing activities, up to the issue of the Royal Order of the 18 March 1783, in which all production activities were legally declared;
- 4) Restriction of the privileges of trade union corporations, which hindered the growth of urban industries as such claims tended to expand the freedom of labour and production, so that manufacturers could adapt flexibly to changes in demand;
- 5) Measures of stimulus and support for private initiatives in the industrial sector:
 - a) the granting of tax exemptions and temporary monopolistic privileges,
 - b) official credits and interest-free grants,
 - c) ease the supply of raw materials and energy products,
 - d) the award of honorary degrees with character of exceptionality.

All these incentives were granted individually, while in the second half of the eighteenth century tended to generalize to all manufacturers of a particular branch of production that presented specific requirements, then called the Sector Development Plan.

However, this broad and generous array of protectionist measures and indirect stimulation of private initiative could not be sufficient to promote the creation of new industries in specific sectors or geographic areas.

In this case, the Government entrusted the State with the role of subsidiary, when the response of private enterprise was inadequate and slow. The State

managed the industrial companies, created many pilot industries, and in other cases took on private firms in crisis, to prevent their extinction, and transformed them into public enterprises.

All these circumstances and the influence of the interventionist practices of French mercantilism, can explain the appearance in Spain of these new types of industrial companies named *Reales Fábricas*.

This category includes all the industries in which there was any type of public intervention, although there exists, within this concept, three different business types:

- 'Privileged' private enterprises, to which the King had given this name as purely honorary, and that had been founded by private contractors whose cargo was entitled to both funding and management of the same while the State reserved the right to the quality of production;

- Companies with mixed commercial characteristics, organized under the corporation, where the State had a minority, but significant quota,²⁷⁰ of the social capital, which enabled it to obtain a high degree of control and management of the enterprise assets;

- *Reales Fábricas* in the strict sense, which are identified by their 3 specific aspects:

1c) the first is that they were public companies, created at the initiative of the State, whose financing fell entirely to the Royal Ministry of Finance, whose administrative and economic management was entrusted, in most cases, to government representatives. So, the greater degree of public intervention differed from the privileged private companies and joint ventures that had the same designation;

2c) in the second place, they were all made of structures and concentrated with a high degree of vertical integration. In fact, the main steps of the production process were carried out in large, isolated buildings constructed or adapted expressly for this purpose, where an enormous

²⁷⁰ The quotes were between 10% and 40%.

number of craftsmen forming large industrial colonies were working together;

- 3c) and the last were the ones exclusively involved in manufacturing, with a low level of mechanization and dominance of the artisanal labour, with limited and imperfect development of the division of work phases, and organization of work activities.

The *Reales Fábricas* had the characteristic of industrial concentration, but this was not due to technological exigencies or technical applications, but responded to the need for tight quality control on production and imposing strict discipline on the workers.

The productive orientation of the *Reales Fábricas* is a criteria that helped to divide the sectors in which they were more present. There were 5 major groups: the luxury companies, military production, companies which were bound to the exploitation of monopolies, pilot industries, and *Reales Fábricas* bound to social assistance. The first three groups of industries were those most directly related to the State as it was one of the main customers, or because they were the natural application of some traditional prerogatives of the State, while the pilot industries were those which corresponded to a modern development policy. The groups created for social assistance consisted of small craft industries for whom the economic goals were secondary, since their creation obeyed the directions of social policy in favour of the marginal classes of the society.

From the micro-economic point of view, the *Reales Fábricas* failed in the role of industrial enterprises. Their lack of economic efficiency is attributable to several factors including:

The geographical position, usually isolated for security and secrecy purposes, created great difficulties in the availability and costs of the supply of raw materials and generated high transport costs for inputs and outputs, which influenced negatively on their efficiency.

The structure of the *Reales Fábricas*, where the disproportionately large size of its facilities and buildings (poorly functional on the one hand, and ostentatiously magnificent cathedrals on the other), with low levels of mechanization and division

of labour, considerably increased the fixed costs of production. This situation generated diseconomies of scale with a negative effect on their economic efficiency.

The management of the *Reales Fábricas*, and their organization, played an important negative role in both economic and manufacturing aspects. It was generally organized in a two-headed management structure. At one head was the economic and administrative direction, and the manager was representative of the government, who too often lacked training and experience to carry out this charge,²⁷¹ while the technical direction, the second head of the organization chart, was given to a expert in the production carried out in the *Real Fábrica*. This situation raised misunderstandings and clashes, which influenced negatively on the production and organization of the *Reales Fábricas*.

These were important factors that influenced negatively on the the *Reales Fábricas*, but the market was the main cause of their failure. The decisions about the production, in both quantity of output and typology, was done without preparation or market research, deciding, under the spell of the idea, that the offer would generate its own demand.²⁷² This situation generated the accumulation of quantities of finished products with no commercial release, which periodically needed to be cleared, by lowering the prices of sale or organizing export trade to America, reducing the profits from the sales of these products.

Furthermore, the lack of economic rationality in the pricing policy worsened the situation. In fact, the prices of the output did not take into account the production costs, but took as reference for their determination the foreign companies prices, mainly French, with the same production. In this way, the prices were estimated on the base of the internal costs of production, but on the basis of the other companies' costs. Furthermore, the goods were sold in different markets, with different consumer preferences, therefore the determination of the prices was completely outside of any rational estimation.

The difficulties of marketing maintained the *Reales Fábricas* in a permanent crisis of overproduction and decreased their chances of self-financing. In fact, in

²⁷¹ See COMIN, F., MARTÍN, P., 1991

²⁷² See COMIN, F., MARTÍN, P., 1991

many *Reales Fábricas* the sales did not even cover half the costs of production²⁷³. The financial situation of deficit of the *Reales Fábricas* made it impossible for them to survive without subsidies from the Ministry of Treasury.

3.1.2 – From the *Reales Fábricas* to the Spanish Civil War

From the late 19th century to the Primo de Rivera dictatorship,²⁷⁴ Spain lived through a modest revival of protectionist and nationalist ideologies, as it was for Europe, and increased their importance during the First World War and under the dictatorship of Primo de Rivera.

The development of State intervention was stronger in some sectors, especially in banking and in the establishment of fiscal monopolies, and it increased during the First World War and the Primo de Rivera dictatorship.

Since the last decades of the nineteenth century a progressive transformation in the conception of the State and the equilibrium among its powers with respect to the economic and social development when new needs raised into economic, social and political areas occurred. The public enterprise, one of the tools of this new interventionism, was subsequently affected by the changed conception of the functions assigned to the State so that from producer of public services in absence of private investment, the public enterprises and the State became the most important actor of the economic policies.

The interior political problems and the conflicts among the groups with different economic interests stopped or reduced State activities during the Primo de Rivera Dictatorship, from 1923, whose idea about the economic organization of the State was that the latter had a role of leadership. This role was facilitated by the concentration of powers established by the dictatorship itself and justified by the

²⁷³ See COMIN, F., MARTÍN, P., 1991

²⁷⁴ See RIAL, J., *Revolution from above: the Primo de Rivera dictatorship in Spain, 1923-1930*, Fairfax, George Mason University Press 1986, BEN AMI, S., *Fascism from above: the Dictatorship of Primo de Rivera in Spain, 1923- 1930*, Oxford, Oxford University, Press, 1983.

failure of private enterprise, which was not able to place the country among the economic powers of Europe.²⁷⁵

During the Primo de Rivera Dictatorship two mainstream of ideology intervention were developed:

- a) Several projects aimed at creating infrastructures, such as road and railway, implementing them according to the needs created by economic development
- b) Promotion of the policy of industry regulation, with which the dictator claims to modernize the industry through processes of concentration, in order to eliminate internal competition, the crisis of overproduction and the mini landlordism business.

Despite the industrial sectors agreeing about the usefulness of such a process of concentration, however, they disagreed about whether this had to be realized under State control. In their opinion, excessive intervention would numb the private initiative and the progress of industry²⁷⁶ and they preferred that the State limited its intervention in those areas where the domestic industry was not present.

3.1.3 – The Spanish Civil War and Francoism

While during the Spanish Civil War the decisions about production and the involvement of the State were influenced by the exceptional circumstances, a sharp change in trend was seen at the conclusion of the Civil War. The public enterprises spread across Spain as across all Europe, where they were again accepted and with

²⁷⁵ BEN AMI, S., *Fascism from above: the Dictatorship of Primo de Rivera in Spain, 1923– 1930*, Oxford, Oxford University, Press, 1983, GONZÁLEZ CALLEJA, E., *La España de Primo de Rivera: la modernización autoritaria 1923-1930*, Madrid, Alianza Editorial, 2005, TAMAMES, R., *Ni Mussolini ni Franco: la dictadura de Primo de Rivera y su tiempo*, Barcelona, Planeta, 2008, TUSELL, J., *La dictadura de Primo de Rivera y la Segunda República*, Barcelona, Folio, 2009, BEN AMI, S., *El cirujano de hierro: la dictadura de Primo de Rivera (1923 - 1930)*, Barcelona, RBA, 2012.

²⁷⁶ TORTELLA, G., *El desarrollo de la España contemporánea*, Madrid, Alianza Editorial, 1994.

them the idea that the State could act as an entrepreneur, even in competition with private enterprise.

Of all the historical stages of State intervention and of public enterprises, this was the most important because it meant their expansion under the legal figure of the state joint-stock companies.

In Spain, the most important public enterprises in term of the application of the concept of State intervention in the economy was undoubtedly I.N.I., a key element for the industrialization policy of the post war authoritarian and autocratic regime of Franco, but before the creation of I.N.I., other previous initiatives were adopted by the National government. At the beginning of its establishment in power the government supported and published 2 laws, in October and November 1939,²⁷⁷ regarding the industrialization of Spain and the roles of the private industries and the control of the State over some of the sectors. In the same laws, there was a special prescription about the maximum percentage of the capital of the company that may be owned by foreigners, indicating the desire of Government to control the national economy and the production factors.²⁷⁸

In 1941, the Franco Government decided to create I.N.I. as a State-owned Company with the aim of covering the absence of private initiative in every area where needed. With the passing of the years, I.N.I. received more power and more goals, in addition to those already defined in 1941. All these new aims and goals transformed the Institute into the country's largest company.

His presidency was entrusted to Juan Antonio Suanzes, former Minister of Industry and Commerce of the first Franco government, in office from 1938 until August 1939, and the most important president in the history of the Institute. His presidency lasted twenty years, the most important years because these were the first two decades in which I.N.I. activities were implemented, and under his leadership the Institute grew in activities and importance in the national economy. Furthermore, this was accomplished thanks to the long leadership of Suanzes, meaning that was able to keep consistent policies and management activities.

²⁷⁷ Other two similar laws were published 1917 and 1924, see SAN ROMÁN, E.

²⁷⁸ See SAN ROMÁN, E.,

I.N.I. was an indispensable instrument for the Francoist Regime in that aimed to implement the self-sufficient economy and pursued interventionist policies as a solution to the problems created by the lack of private investment, and, above all, to the difficult economic situation generated by the control of prices and international isolation.

The limited availability of some intermediate inputs, such as energy and capital goods could have put Spanish production into serious difficulties. For this reason, in response to these needs, and to avoid any future crisis in the production system or bottle necks, I.N.I. determined a list of priorities that the Institute had to achieve.

The aims imposed on I.N.I. were many, some of more general characteristics, some more specific, but the main one was that that the business should have the character of profitability. This requirement was introduced in 1985 and it was indicated that this should become the only goal pursued by the Institute in carrying out its activities.

To better understand I.N.I. it is necessary to understand the influence of the government on the economic decisions and the political ideology that promoted the creation of the Laws of 1939 and, after, of I.N.I. In fact, the Institute was part of the political environment; the purposes the Institute faced had also responded to the influences and pressures exerted by different social, or economic, agents and by the Government; the activities that the Institute carried out throughout its long life had to be considered, including the inabilities and the interests of social and economic agents inside the Spanish state. The aims attributed to it are a direct result of the variety of pressure groups that have used the Institute to meet its interests.

This ability to adapt and respond to any interest or pressure from external agents converted I.N.I. into an instrument of industrial policy and makes it the most important instrument to implement the economic ideology of the Franco Dictatorship, used also as example of the political propaganda of the regime itself.

If the political aspects of I.N.I. have been already considered in the literature, the analysis of the Financial statements of I.N.I. will help to characterize the

industrial policies of I.N.I. with respect to the sub-periods of First Francoism²⁷⁹ and of the autarkic policies in Spain.²⁸⁰

3.2 - The Financial Statement Analysis of I.N.I. features

Here I present the analysis using the ratios of the data collected in Archives of I.N.I.²⁸¹ and books.

The data and ratios I use are related to the special features of I.N.I., defined by the comparison among the Statute Acts and the characteristics of its business activities.²⁸²

3.2.1 - The Third Owned Companies' Shares of I.N.I.

The Statute Act of I.N.I. stated the opportunity to sell the Third Owned Companies' Shares in which the state was not interested, and to manage - adopting the criteria of efficiency - those companies that the state considered important to preserve.²⁸³

²⁷⁹ See Chapter 2

²⁸⁰ See Chapter 2

²⁸¹ The analysis of I.N.I. features under the rules of the international codes will create data that will be reliable and comparable with that of I.R.I. The data I will use to calculate these ratios is collected from I.N.I. Balance Sheets from I.N.I. Archive, *Memoria I.N.I.* from 1941 until 1963, that, in some cases, I will integrate by the elaboration of the data presented in the published bibliography of Comín and Martín Aceña and in the *Apéndice Estadística of I.N.I.*, or of SAN ROMÁN and GÓMEZ MENDOZA integrated by some other documents from Suanzes Archive, or I will use the one from the books of COMÍN, COMÍN, F., MARTÍN ACEÑA, P., 1991 COMÍN, COMÍN, F., MARTÍN ACEÑA, P., *Apéndice Estadístico*, 1991, SAN ROMÁN, E., 1999 GÓMEZ MENDOZA, A., 2000, TORRES VILLANUEVA, E., in BARCIELA, 2003.

²⁸² The selection of the indexes is based on the analysis of the features shared, or not, by I.N.I. and I.R.I. as defined in the Introduction, while talking about the Statutes Act. See the Methodology Annex and Introduction.

²⁸³ English translation: “[...] *la eficiente gestión de las participaciones y actividades a él confiadas y podrá liquidar gradualmente las participaciones y actividades que el Estado no tenga interés en conservar.*”, I.N.I. Act of 1941, Article 2, paragraph 4. See also the paragraph about the Statutes Acts in the Introduction.

The portfolio of companies of I.N.I. included both companies created by I.N.I. itself and those purchased in the market. In the case of the latter, the decisions as to whether to buy companies or not was driven by the main goals pursued by I.N.I.: first, its own industrial policies which aimed at strengthening I.N.I. presence in a specific sector, for example; and, secondly, its intention to further develop its role as ‘hospital of companies’.²⁸⁴

While one of the key roles developed by I.N.I. to implement its industrial strategies was buying companies that fit into its industrial policies,²⁸⁵ the role as ‘hospital of companies’ was peculiar, as it is the process of healing companies that, for some reasons, are incapable to recover themselves from a difficult situation that, if not solved, would have caused their default.²⁸⁶

As suggested by Schwartz, Gonzalez²⁸⁷ and Comín and Martín Aceña²⁸⁸ the activity of I.N.I., as hospital of companies, can be classified depending on the industrial strategy of I.N.I.:

- companies strongly related to the interests that I.N.I. had in the sectors of each of the companies, or to I.N.I. industrial policies,
- companies that marginally interested the industrial strategy of I.N.I., but were related to political strategies of the Spanish Government.²⁸⁹

From 1942 until 1962, I.N.I. bought 18 companies in default, acting as hospital of companies. Among those 18, 12 were purchased to respond to the

²⁸⁴ Schwartz and Gonzalez called the goal of helping companies in default, as the “Hospital of companies”. In this case I.N.I. organized its intervention to ‘heal’ the economic and financial situation of these companies. This activity is also carried on by I.R.I., although in this case it is related much more to the role developed by I.R.I. between 1933 until 1937. The activity of support of companies in difficulties is shared by I.N.I. and I.R.I., and it is specifically included in the Statute Acts as one of the goals of the Institutions. In fact, it is a characteristic that marks the speciality of these Institutions and strongly reinforces the idea of similarities between them. See SCHWARTZ, P., GONZALEZ, M. J., 1978, page 59 and ss. See also COMÍN, F., MARTÍN ACEÑA, P., 1991, page 144

²⁸⁵ This is the opinion of SCHWARTZ, P., GONZALEZ, M. J., 1978 see page 63 and ss, and COMÍN, F., MARTÍN ACEÑA, P., 1991, page 146

²⁸⁶ SCHWARTZ, P., GONZALEZ, M. J., 1978

²⁸⁷ SCHWARTZ, P., GONZALEZ, M. J., 1978, see page 63 and ss.

²⁸⁸ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 144 and ss.

²⁸⁹ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 144 and ss., SCHWARTZ, P., GONZALEZ, M. J., 1978 see page 63 and ss

Government requests and 6 were bought by initiative of I.N.I. for its industrial policies.²⁹⁰

In the general scheme of industrial development desired by I.N.I. for Spain, this group of 18 companies was of lesser importance, as among them there were the 12 companies that I.N.I. bought to answer to private petition and that marginally interested the industrial strategies of I.N.I., disconnected from any I.N.I. goals,²⁹¹ and for which they did not require an important investment by I.N.I.²⁹²

This is the reason why some scholars²⁹³ considered that the function of ‘hospital of companies’ was only a marginal activity for I.N.I.²⁹⁴ Furthermore, the scholars agreed that these companies received a comparatively small part of investments as they were not crucial for the strategic plans of I.N.I. during the period between 1942 to 1959.²⁹⁵

Scholars²⁹⁶ usually look at the financial situation of the companies, whether or not they are in default, in order to consider them a purchase made by I.N.I. to serve its function as hospital of companies.

There is little doubt that the acquisition of the companies in default would save them from bankruptcy, but the role of ‘healer’ developed by I.N.I. may not be the sole reason why it decided to intervene when it bought the 6 companies in default that fit into its goals.

When I.N.I. first looked at these companies, it may have been interested in the use of the companies for the pursuing of its own goals; therefore the decision to buy them might have been a consequence of the preference over the ownership, as

²⁹⁰ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 144

²⁹¹ See I.N.I., *Memoria*, 1962, page 17 cited in COMÍN, F., MARTÍN ACEÑA, P., 1991, page 146-147.

²⁹² See I.N.I., *Memoria*, 1962, page 17 cited in COMÍN, F., MARTÍN ACEÑA, P., 1991, page 146-147. See also TORRES VILLANUEVA, E., in BARCIELA, 2003, page 194

²⁹³ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 140; SCHWARTZ, P., GONZALEZ, M. J., 1978 consider the activity of ‘hospital of companies’ one of the important activities of I.N.I. from 1943 until 1976, page 59

²⁹⁴ It is important to investigate this aspect as it is controversial for the scholars, as seen in the Background of the Research, because some disagree that among the activities carried on by I.N.I. there is the ‘hospitalization’ of the companies.

²⁹⁵ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 140; SCHWARTZ, P., GONZALEZ, M. J., 1978, page 59

²⁹⁶ TORRES VILLANUEVA, E., in BARCIELA, 2003, COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

during this period I.N.I. preferred the total or majority of control over the companies in its portfolio, see Table 3. The fact that these companies were in financial default could be just another aspect that helped I.N.I. to pursue its goals, as it became easier to buy them from the private owners.

While, on the other hand, the 12 companies in default in which the Spanish Government had special interest, were acquired precisely to heal them. These purchases were not useful to I.N.I.'s goals but only to the Government, for the externalities that the companies' ownership would produce for the society²⁹⁷ or other Governmental policies.

For these reasons, I think that the 6 companies useful to I.N.I. strategies may have been bought firstly to satisfy the interest of I.N.I., and secondly because they were in default. The latter was just an aspect that comes in second order for I.N.I.

In my opinion to classify if the purchase of a company was carried out to develop the role of hospital of companies, we should look at the usefulness of the companies for I.N.I.'s goals: the less useful they were, the more I.N.I. developed the activity of hospital of companies. For this reason, the activity of hospital of companies was developed when I.N.I. bought the 12 companies to satisfy the interest of the Francoist Government.

In fact, the marginality of this group for I.N.I. is even more accentuated if we compare these companies to the ones I.N.I. created to foster the development of its goals, from 1942 until 1962.

During this period I.N.I. created 28 companies in order to develop its own goals, corresponding to 45,16% of the total companies. Then I.N.I. saved 6 companies in default by its own initiative, another 16 to pursue its own goals of industrial policies, and 12 to pursue the Spanish Government's interest.²⁹⁸ In 1964 I.N.I. owned 64 companies, 52 of which (81,25%) were owned as a way to carry on its own goals.

²⁹⁷ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 144 and ss.

²⁹⁸ Self-elaboration from the data in I.N.I. Archive, *Memorias*, from 1942 to 1963 integrated by the one in TORRES VILLANUEVA, E., in BARCIELA, 2003, COMÍN, F., MARTÍN ACEÑA, P., 1991, SCHWARTZ, P., GONZALEZ, M. J., 1978

Table 1 - Total number of companies owned (created or bought) by I.N.I.²⁹⁹

Year	Total number of Companies owned by I.N.I.	% with respect to the total of 64
1942	4	6,25
1944	17	26,56
1946	22	34,38
1948	27	42,19
1950	36	56,25
1953	46	71,88
1955	45	70,31
1957	52	81,25
1959	53	82,81
1962	62	96,88
1963	64	100

Sources: Self-elaboration from TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003, integrated by some data from COMÍN, F., MARTÍN ACEÑA, P., 1991

It is also interesting to look at the evolution of how many companies were created or bought by I.N.I. throughout this period, shown in Table 1 . In 1950, only 8 years after the creation of I.N.I., it already owned 36 companies, 56,25% of the companies it would own by 1963.³⁰⁰ Of these 36 companies, 21 carried out the goals

²⁹⁹ Self-elaboration from TORRES VILLANUEVA, E., in BARCIELA, C., Barcelona, 2003, page 191 and COMÍN, F., MARTÍN ACEÑA, P., 1991, page 140.

³⁰⁰ TORRES VILLANUEVA, E., in BARCIELA, 2003 integrated by some data from COMÍN, F., MARTÍN ACEÑA, P., 1991

of autarky and defence:³⁰¹ 6 were of the military industry, 7 for the autarkic program and natural resources, 7 in the transport sector and 1 in the steel sector.

A big part of the investment of I.N.I. was directed into these companies as they carried on its specific goals as written into the Statute Law, and in the program for the development of the business activities of I.N.I. planned by Suanzes.

Furthermore, there is another aspect related the ownership of these companies and change of the understanding of I.N.I. policies: the selling of 4 of the owned companies from 1952. The first was the *Minera Industrial Pirenaica*, (Mining sector) bought in 1943 and sold in 1952, whose ownership was in the minority group; then in 1954 two companies of the Chemical sector: *Organa*, bought in 1952 and totally controlled, and *Hilurgia*, bought in 1949 and whose ownership was majority. The last was the *General Eléctrica Española* (Transforming sector) bought in 1954 and sold in 1962.³⁰²

This is a very important change considering that the decade of the 50's was the so-called *Pivot Decade*, the one in which the economy of Spain started to open up to the international markets.³⁰³

In fact, this period also corresponds to the change in politics of ownership of I.N.I., that from the direct ownership it started to invest also in indirect ownership, see Table 2.

³⁰¹ TORRES VILLANUEVA, E., in BARCIELA, 2003, page 194

³⁰² See TORRES VILLANUEVA, E., "La empresa en la autarquía, 1939-1959. Iniciativa pública versus iniciativa privada, in BARCIELA, C., (ed), *Autarquía y mercado negro. El fracaso económico del primer franquismo, 1939-1959*, Editorial Crítica, Barcelona, 2003, page 193 and COMÍN, F., MARTÍN ACEÑA, P., 1991, page 137

³⁰³ The change in the internal policies and the opening to international markets were marked also by the beginning of new international relation between the U.S.A and Spain, see VIÑAS, A., *En las garras del águila. Los pactos con Estados Unidos, de Francisco Franco a Felipe González*, Editorial Crítica, Barcelona 2003, VIÑAS A., *Los pactos secretos de Franco con Estados Unidos: bases, ayuda económica, recortes de soberanía*, Editorial Grijalbo, Barcelona, 1981, VIÑAS, A., *Política comercial exterior en España 1931 - 1975*, Madrid, Banco Exterior de España, Servicios de Estudios Económicos, 1979. For a more general introduction to the Marshall Plan for Europe, see MILWARD, A.S., *The Reconstruction of Western Europe 1945-1951*, Methuen, Cambridge, 1987

Table 2 - Number of Companies Controlled Directly and Indirectly by I.N.I.³⁰⁴

Year	Directly	Indirectly	Total
1942	4	0	4
1945	19	0	19
1950	37	0	37
1955	18	15	33
1963	64	19	81

Sources: Self-elaboration from COMÍN, F., MARTÍN ACEÑA, P., 1991 and TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003

If we consider the number of companies owned by I.N.I. with respect to the census of the number of companies in Spain, in 1950 it corresponded to 0,45%, while the nominal capital corresponded to 13% of the total investments in Spain.³⁰⁵

In 1962 the census number of companies owned by I.N.I. were 0,4%, while the investment in nominal capital corresponded to 24%³⁰⁶ representing about a quarter of the total investment in the Spanish market. Even if I.N.I. reduced its number of companies by 0,05%, the percentage of I.N.I. investments increased 11%.

These figures help to understand how important I.N.I.'s presence was in the national financial market, and how much financial effort I.N.I. made investing in its own companies. The effort of the investment was directed to the ownership of the shares of the company's capital, as in this way I.N.I. controlled their business activities.

In Table 3 we can see how I.N.I. invested in the capital of its own companies, classified by the percentage of ownership. If we exclude the year 1942 in which the ownership was equally divided between total and minority control, the others years the situation was different and the ownership of the majority was clearly preferred to the other two.

³⁰⁴ See COMÍN, F., MARTÍN ACEÑA, P., 1991, page 146-147

³⁰⁵ COMÍN, F., MARTÍN ACEÑA, P., 1991

³⁰⁶ COMÍN, F., MARTÍN ACEÑA, P., 1991, page 146

Table 3 - Percentage of Number of Companies divided by degree of control and Total number of companies owned (created or bought) by I.N.I.

Year	% Total control	% Majority	Sum % of Total and Majority control	% Minority
	A	B	(A+B)	C
1942	50,00	0,00	50,00	50,00
1944	29,41	17,65	47,06	52,94
1946	27,27	22,73	50,00	50,00
1948	25,93	25,93	51,85	48,15
1950	25,00	33,33	58,33	41,67
1953	30,43	34,78	65,22	34,78
1955	28,89	31,11	60,00	40,00
1957	32,69	30,77	63,46	36,54
1959	33,96	30,19	64,15	35,85
1960	32,76	34,48	67,24	32,76
1962	33,87	37,10	70,97	29,03

Sources: Self-elaboration from TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003, integrated with some data from COMÍN, F., MARTÍN ACEÑA, P., 1991

These percentages of ownership of the Owned Companies are important to understand the politics of control exercised by I.N.I. over the activities of the owned companies.

In fact, even if the sum percentage of Majority and Total control arises from 50% in 1942 to 80% in 1948, the highest value of the whole period, it is important to look at the Minority ownership, which presents a steady decrease from 50% in 1942 to 22,95% in 1962.

Only in 1955 does it seem that the increase in the ownership of total or majority had a break, and the minority ownership seems to increase. This is the year in which the approach to the ownership may have changed, as seen in Table 2, and the year in which I.N.I. sold 4 companies.³⁰⁷ Anyhow, we can see that the preference of ownership for I.N.I. did not change as total or majority ownership were still the preferred ways to invest in the capital of the companies, that in 1962 summed up to 70,97%, even though I.N.I. accompanied this ownership with the indirect ownership of 19 companies in this same year.

Both the solution of ‘totally owned’ and ‘majority owned’ gave the power to I.N.I. to exercise total control over the policies and activities of the owned companies. In fact, the sum of the percentage of the columns A and B, shown in Table 3, column C - ‘Sum of control’, clearly increases during the years at the expense of minority ownership, which means that I.N.I. strongly preferred the control over the companies in Portfolio and their industrial policies.

This condition allowed I.N.I. to run these companies without ties or obligation to respond to other stakeholders or owners,³⁰⁸ which is what interested Suanzes, for whom I.N.I. should pursue the goals of the Government without restraints of laws and taking advantage from the facility to adapt the goals and policies, what Suanzes understand as a typical aspect of the private companies.³⁰⁹

In fact, the aspect of control of the policies of the companies is confirmed also by the balance sheet figures. If we consider that I.N.I., as said, desired to control the owned companies in order to carry on the programs of its industrial policies, it was important for I.N.I. that the investment was not in Credits,³¹⁰ but in

³⁰⁷ As seen above, I.N.I. sold 4 companies from 1952 to 1955: *Minera Industrial Pirenaica, Organa, Hilurgia* and *General Eléctrica Española*.

³⁰⁸ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, *Memoria I.N.I. 1941 y 1942*, page 8 “[...] *coartar en lo más mínimo su libertad de movimiento.*”

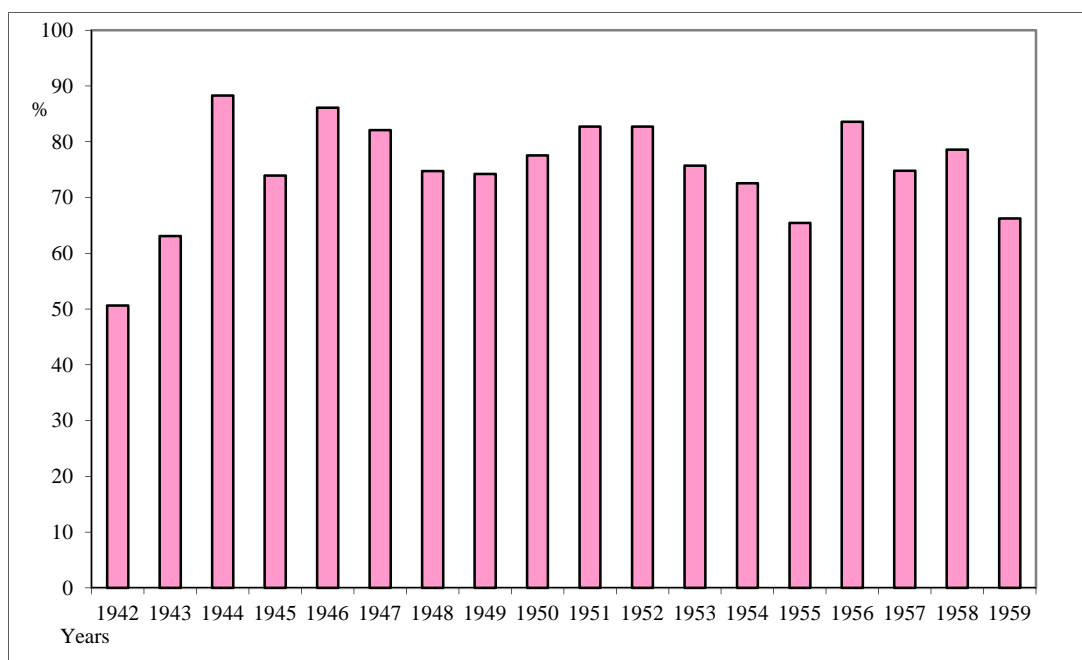
³⁰⁹ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, *Memoria I.N.I. 1941 y 1942*, page 8 and 10

³¹⁰ I use the word Credits with a capital to differentiate it from the general word credit, to identify the Balance Sheet entrance of the Assets, where I.N.I. inserted the values of the money lent to the companies, while for the companies it became a debt inserted in the Liabilities. See also the Methodology in Introduction and Methodology Annex.

the capital of the companies, for the power of control it gives to the owner, features Suanzes liked to reproduce in I.N.I.

In fact, since the companies were in the form of limited companies, the ownership of capital was represented by the ownership of Shares of the capital of the companies - in Table 3 we have seen that I.N.I. preferred the percentages of, at least, the majority of ownership that allowed the control over the companies.³¹¹

Graph 14 – Third Owned Companies’ Shares of I.N.I. related to the Total Assets



Source: Self-elaboration I.N.I., *Memorias I.N.I.*, 1942 – 1959

I.N.I.’s intentions to exercise control over the companies in which they invested meant that the investment in shares of the companies had to be higher than

³¹¹ On the other hand, the minority of ownership does not mean that I.N.I. could not control the companies; for example, if the ownership of the Shares of one company was highly fragmented among investors, the minority ownership of I.N.I. gives control over the company but, conveniently, investing less money into the capital of the company. If this were the case, it would surely give even more force to the theory that I.N.I. desired to control the companies. See I.N.I. Archive, *Memoria I.N.I. 1941 y 1942*, page 66

the investment in financing the industrial programs of the companies using loans or bonds.³¹²

This consideration is confirmed by the percentage of the Third Owned Companies' Shares related to the Assets, shown in Graph 14.³¹³

I.N.I. Third owned companies' Shares are about 50,64% in 1942, at the beginning of its activities, the lowest percentage of the period. These shares were the values of the ownership of 4 companies, 2 of which of total ownership, as seen in Table 1 and in Table 3, while the other part of the balance sheet column corresponding to 49,36%, was formed by Fixed assets, Cash and Credits.

During the years from 1942 to 1944, another entry was included in the Credits section of the balance sheet: the credits of the Ministry of Finance granted to I.N.I. but not collected by it, while from 1945 onward, this entry had been moved among the Memorandum accounts,³¹⁴ where it belongs.

The percentages of I.N.I. Shares of the first three years were affected by the presence of this entry in the Credits one, and it would affect the homogeneity of the data I present. For this reason, I elaborate the balance sheet entries of 1942, 1943 and 1944 moving the credits of the Ministry of Finance from the Credits entry into the Memorandum Accounts entry to generate a homogeneous data.

The percentages of Shares from 1943 are always higher than 60%, and for six years are even more than 80%, and do not present any steady decline at any point within the period, although the period from 1952 to 1955 presents a slight declining of 17%.³¹⁵

On the other hand, the analysis of the Ratio helps to confirm that although this period presents a break, that coincides with the breaks we observed in the ownership of the companies and in the politics of direct or indirect ownership, in the

³¹² I would like to remember that the Shares of Third Owned Companies is part of the Total Assets. See Methodology Introduction and Methodology Annex.

³¹³ Here the Third Owned Companies' Shares are related to the Total Assets, as they are an entry of the Assets column and it measures the percentage of Shares owned by I.N.I. with respect to the Assets column, where all the other Credits are listed. See Methodology Annex for the structure of the Assets and Liabilities.

³¹⁴ I.N.I. Archive, *Memoria I.N.I. 1945*, page 139

³¹⁵ As said, this period corresponds to the Pivot Decade and it may mark a change in the policies of I.N.I., as it is exactly during these years that I.N.I. sold 4 companies during these years. See comments to Table 2 **Table 2** and Table 1.

steady evolution of the values of I.N.I., it cannot be identified as the turning point of the policies of I.N.I., as this period is too short to be significant in the long term as from 1956 the percentages of I.N.I. increased again to 83,59%.

For this reason, looking at the percentage of ownership of the capital of the companies and at the percentage of the Shares of the Companies of the balance sheet entry, I can say that I.N.I. preferred to invest its resource into the ownership of the Shares of the companies rather than grant loans to them,³¹⁶ to exercise control over its owned companies and carry out industrial policies without restraints from external influences.

3.2.2 – The beginning of I.N.I.: the plans of developments for the Groups of National Interests and the Groups of Production

The Law of 25th of September 1941 stated that I.N.I. was created to solve the problems related to the defence of Spain and the development of the autarkic economy.³¹⁷ These goals were very important in the scheme of development of the Franco Regime.

To pursue these goals I.N.I. invested in several companies, 62 at the end of 1962 and 50 of them were involved in the sectors I.N.I. considered important for its industrial strategy.³¹⁸

If, as usual, the classification of the sectors depends of the type of production of the companies, for example Electricity or Oil, I.N.I. did not use this classification when Suanzes presented the strategic plan of development for I.N.I. that covered the period between 1942 to 1949.

³¹⁶ It is by 1959 that I.N.I. changed its policies and this change is reflected also in percentages of owned Shares, that steadily decreased to 48,56% in 1963.

³¹⁷ The goal of the autarkic economy is also reported, and in some way reinforced in its importance, by Suanzes, the President of I.N.I., in the document “Notas en relación a la creación y al desenvolvimiento de este Instituto”, in I.N.I. Archive, *Memoria I.N.I. 1941 y 1942*, page 6 and see also the paragraph of the Background of the research in the Introduction

³¹⁸ See Table 1

In fact, the way I.N.I. classified the sectors in which it was interested in investing reflects the importance of the two goals included in the Law of I.N.I. and the ideology with which I.N.I. was founded and developed from 1942 to 1949.³¹⁹

The elaboration of the strategic plan started in 1941 and was presented at the end of 1942 to the Administrative Council meeting³²⁰ by Suanzes and it found its origin in the “industrial program”³²¹ plan of 1939 of which Suanzes was the author.³²² He considered that it was imperative to have a four-year plan, in this case 2 four-year plans, inspired by the German experience of the four-year plan of 1936.³²³

In fact, the model of classification of the companies used by I.N.I. was not the sector of production, but it classifies the owned companies depending on the importance of the companies’ production for pursuing its own goals and the ones of the Spanish State: national independence, defense (the Military sector production) and pursuing the public interest.³²⁴

For this reason, these are the criteria used by I.N.I. to classify the companies into Groups, not sectors of productions, in the 2 four-year plans, the first from 1942 to 1945, the second from 1946 to 1949.

Here the companies are listed from the least interesting group to the most interesting one, depending of the importance of the production for the National Interest of the Spanish State:

- No classification
- of Production:
 - a. Basic production,
 - b. Special production,

³¹⁹ See I.N.I. Archive, *Memorias I.N.I.*, years 1942-1962

³²⁰ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, in *Memoria I.N.I. 1941 y 1942*

³²¹ “*planificación industrial*”

³²² See SAN ROMÁN, E., 1999, page 165

³²³ See SAN ROMÁN, E., 1999, page 163

³²⁴ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, in *Memoria I.N.I. 1941 y 1942*, page 7

- No Military production but of National Interest,³²⁵
- Transforming production for Military:
 - a. Interest
 - b. Application

In fact, the 6 Groups in which I.N.I. classified the companies were named after their correspondence to the National interest (Group 3) but not for Military production, to Military interest (Group 4) and for Military Application (Group 5), that was inspired by the identification of the companies depending on the adhesion to Military goals, and of Special (Group 2) or Basic Production (Group 1). The sixth group was Miscellaneous, without any classification. The 6 groups are shown in Table 4.

Table 4 – Groups used to classify the companies for the 4-year term strategic plans, (1942-1949)

Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Basic Production	Special Production	No Military Productions but of National Interest	Transforming production of Military Interest	Transforming production for Military application	Miscellaneous (No classification)

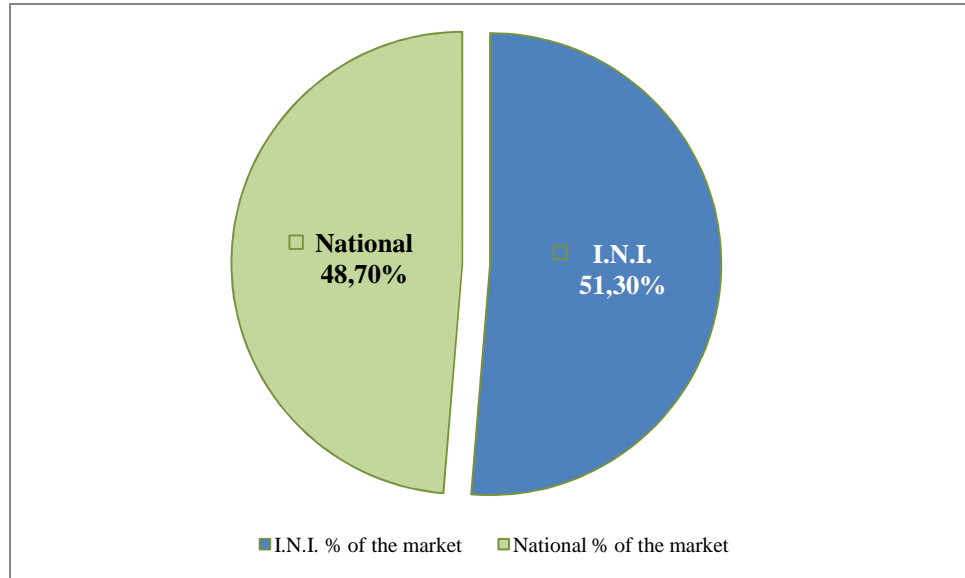
Source: I.N.I., *Memorias I.N.I.*, 1942 – 1949

The planned investments of I.N.I. for these 6 Groups would have represented 51,30% of the expected total investments of the market, as shown in Graph 15. It means that I.N.I. should have been an important agent on the national market in these six groups, although with important differences among the six sectors.

In fact, I.N.I. should have invested its economic resources in these groups as planned, and it is interesting to see how much of these resources were given to each Group by I.N.I. and how much by the Private market.

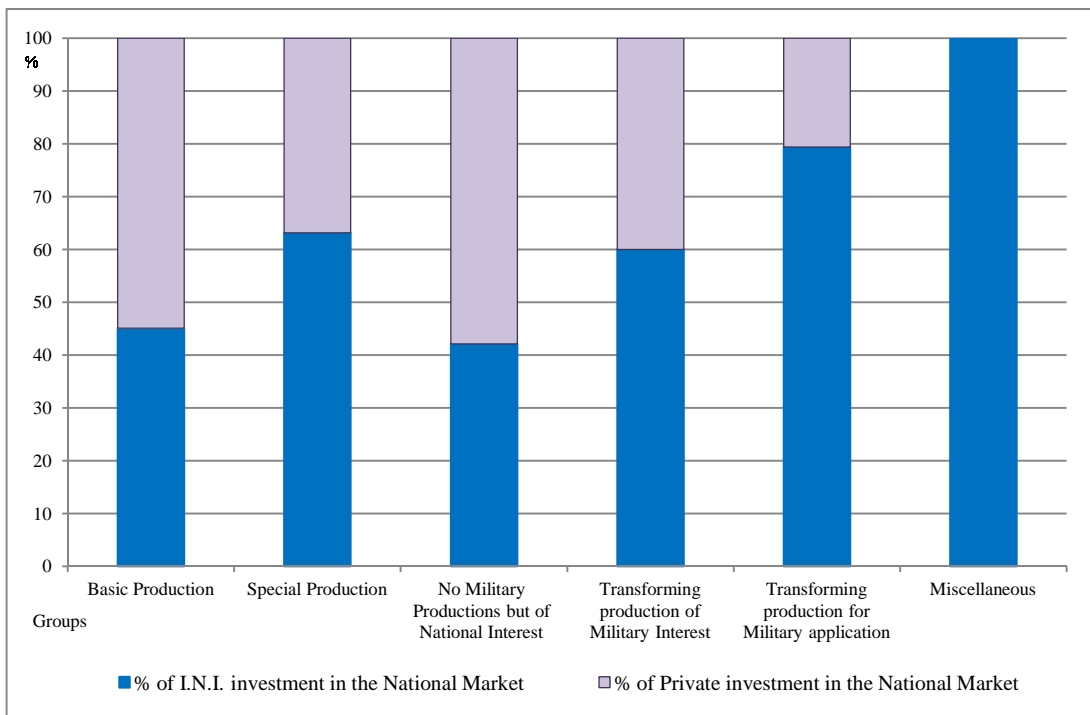
³²⁵ The characteristic for being a company, or production, of National Interest was defined firstly by the law of November 1939. See SAN ROMÁN, E., 1999

Graph 15 – Percentage of Investment of I.N.I. with respect to the Nationals' Investments (1942 – 1949)



Source: I.N.I., *Memorias I.N.I.*, 1942 – 1949

Graph 16 – Percentage of Investment of I.N.I. and the Private investments in each Group. (1942 – 1949)



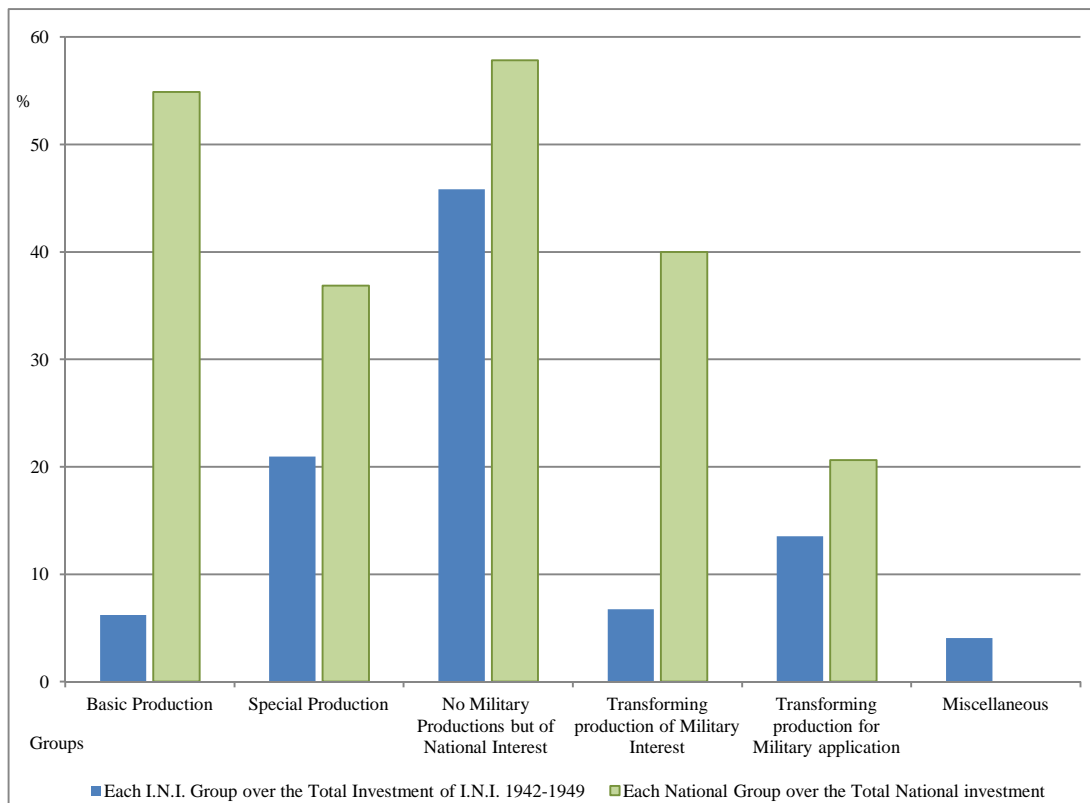
Source: I.N.I., *Memorias I.N.I.*, 1942 – 1949

Shown in Graph 16 are the percentage of I.N.I. investments per Groups related to the National Investments in the same Groups Suanzes planned for I.N.I. to be carried out.

The percentage of investment of I.N.I. is always above 40%, which meant it should have been a very important agent into the economy of each of these groups for this period. The two sectors in which I.N.I. was investing less than 50% were Basic production (Group 1) and the No Military production but of National Interest (Group 3).

Even more attention calls the percentage of the Group 6 that is the highest with 100%. In this case I.N.I. was investing in production in which it thought the private market did not invest at all, transforming itself into monopolist of the sector.

Graph 17 – Percentage of planned Investment of I.N.I. in the different Groups respect to the Nationals’ Investments in each group and of the National Investments in each Groups respect to the Total of the National Investments (1942-1949)



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1949

It is true that I.N.I. should have been the only economic agent in Group 6, but if we look at the same Group 6 – Miscellaneous - and we relate it to the total investment of I.N.I. in the 6 Groups, shown in Graph 17, we can see the percentage of investment for this group was 4,15% of the total investment of I.N.I. - the lowest percentage among all the groups.

On the other hand, this may be because I.N.I. could understand its role as the substitution of the private market and of the private investment that did not care for the interest of the country.³²⁶ This group was formed by the companies of Communication for civil use and other similar productions. This group does not include Communication for military, included in Group 5, as it was considered of National Interest for defense.

Group 3. which included the companies of National Interest but not of Military production, received 47,11% of all the investment, although on National terms it was the group in which the presence of I.N.I. was the lowest, see Graph 16, reaching 42,18% of investment with respect to the National.

The investment in Group 5 – the military sector for application round 80% of the national investment, and it also is an important data because it is an expression of the ideology of Suanzes to promote the autarky and the defense of the nation and of the national interests - as indicated in the same creation law of I.N.I.³²⁷

Some authors³²⁸ thought that the autarkic plan was a response to the historical moment. In fact, Europe was at war, and Spain was courting the idea of entering the war, or was supportive to one side of the war producing war production, or feared from invasion from other belligerent countries.

If one of these reasons were true, I.N.I. should have stopped the implementation of the production in the second four-year plan, which did not happen.³²⁹

³²⁶ See TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003, page 197, SAN ROMÁN and GOMEZ MENDOZA, 2000, SAN ROMÁN, 1999 E., BALLESTERO, A., 1993, COMIN and MARTIN ACEÑA, 1991

³²⁷ BOE, num. 273 of 30th of September of 1941 and I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, in *Memoria I.N.I. 1941 y 1942*

³²⁸ See MOYA (1994) cited by SAN ROMÁN, E. 1999, GOMEZ MENDOZA, 1994

³²⁹ See SAN ROMÁN, E., 1999

Furthermore, the military sector was of strategic importance for the State and its security, mostly in a State where the ideology was to maximize the “national defense for war”,³³⁰ as it was the one of the Franco Regime, strategic ideology shared by Suanzes.³³¹ In fact the latter agreed on the necessity of State control over these productions for the Military Application and promoted the strategy of I.N.I. to carry on these goals.³³²

Group 5 included:

- a. *Empresa Nacional de Fabricación de Corazas y Elementos Pesados*;
- b. Aeronautic Industries, including motors production
- c. *Producción de material de artillería*
- d. *Empresa nacional para la fabricación de carros de combate*
- e. *Empresa nacional para la fabricación de aparatos e instalaciones de dirección de tiro* (included Optical sector)
- f. Production of military instruments of high precision
- g. Production of military communication systems (Telegraphic, Telephone and others)
- h. *Empresa Nacional de Fabricación de Torpedos Automóviles*
- i. Other companies of military production not included in the abovementioned sub-groups.

Group 4 was also formed by companies that produced in military sectors, but in this case for Military Interests, and its percentage covered 60% of the national market.

The sum of the Military productions for interests (Group 4) and application (Group 5) represented 71% of the sum of the national investment in the same sectors,³³³ which means that I.N.I. covers more than 2/3 of the investment in the crucial military productions, confirming the importance of these productions for the policies of I.N.I.

Group 4 included:

³³⁰ “[...] *defensa nacional para la guerra.*” I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, in *Memoria I.N.I. 1941 y 1942*, page 5 and 7

³³¹ See TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003, page 197, SAN ROMÁN and GOMEZ MENDOZA, 2000, SAN ROMÁN, E., 1999 BALLESTERO, A., 1993, COMIN and MARTIN ACEÑA, 1991

³³² See SAN ROMÁN, E., 1999, page 83

³³³ Self-elaboration from the data from I.N.I. Archive, *Memorias, 1941-1942*

- a. *Empresa Nacional de Maquinas-herramientas*
- b. Production of Engines of all kinds: maritime, tanks, rail transportation and others excluding cars and airplane transports, included in other sub-groups.
- c. Cars and trucks transports, including their engines
- d. Electric material

Group 2 was around 63%, and they were the ones without military characteristics, but of Special production and considered fundamental for the Nation, and they were companies working in:

- a. Liquid fuel and lubricants. (Bituminous rocks)
- b. Liquid fuel and lubricants. (Coal)
- c. Refineries
- d. Production of nitrogenous and fertilizers, in general a part of the products included in the sub-group 'g'
- e. Chemical Industries
- f. Production of explosive powder and war explosives
- g. Cellulose production
- h. Artificial Fibres
- i. *Empresa Nacional del Caucho* (Rubber)

Group 3 was around 40% and they were the ones without the military characteristics, but important for the goal of the independence of the Nation, and they were companies working in:

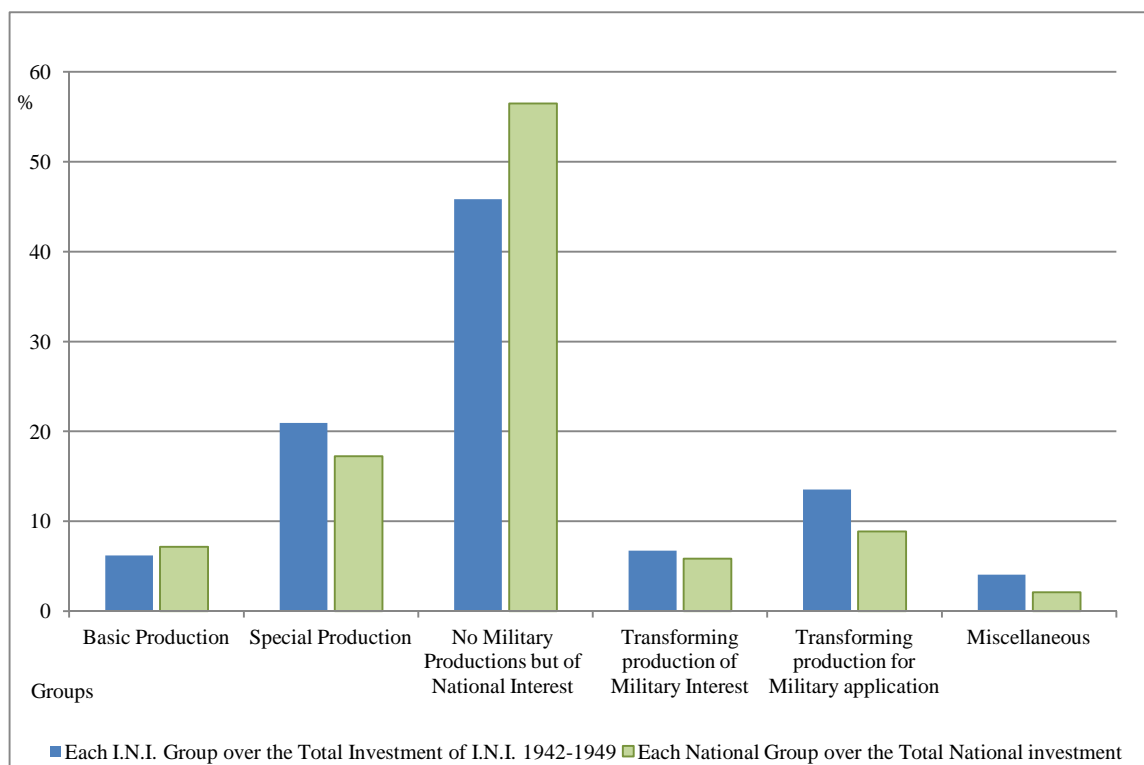
- a. *Empresa Nacional de Producción y Distribución de Energía Eléctrica*, (all the activities are included here from the production to the implementation of the net)
- b. Sea Transports, including production of the boat and the Maritime transports
- c. *Empresa de Adquisiciones y Suministros*

Group 1 was around 40%, that of Basic production, working in :

- a. *Empresa Nacional de Investigaciones Mineras*
- b. Production of solid fuel
- c. Production of Iron and Steel (Excluding military production for the tanks)
- d. Production of copper and no iron production and other production from mining (excluding aluminum)
- e. Production of aluminum

The percentage of the presence of I.N.I. as investing agent in the sectors help to understand that I.N.I. should have been an important agent of the national economy, in competition with the private market, such as the case of Group 1, and in substitution of the private investment in the case of Group 6.³³⁴

Graph 18 - Investment in different groups for all of Spain and I.N.I.



Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Basic Production	Special Production	No Military Productions but of National Interest	Transforming production of Military Interest	Transforming production for Military application	Miscellaneous

Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1949

³³⁴ See TORRES VILLANUEVA, E., in BARCIELA, C., (ed), 2003, page 197, SAN ROMÁN and GOMEZ MENDOZA, 2000, SAN ROMÁN, 1999 E., BALLESTERO, A., 1993, COMIN and MARTIN ACEÑA, 1991

To better understand the policies of Spain and of I.N.I. it will be useful to look at Graph 18 where the percentage expressed for each Group is the quantity of investment which should have been received as part of the total for I.N.I. and related to the expected National investments in the same group.

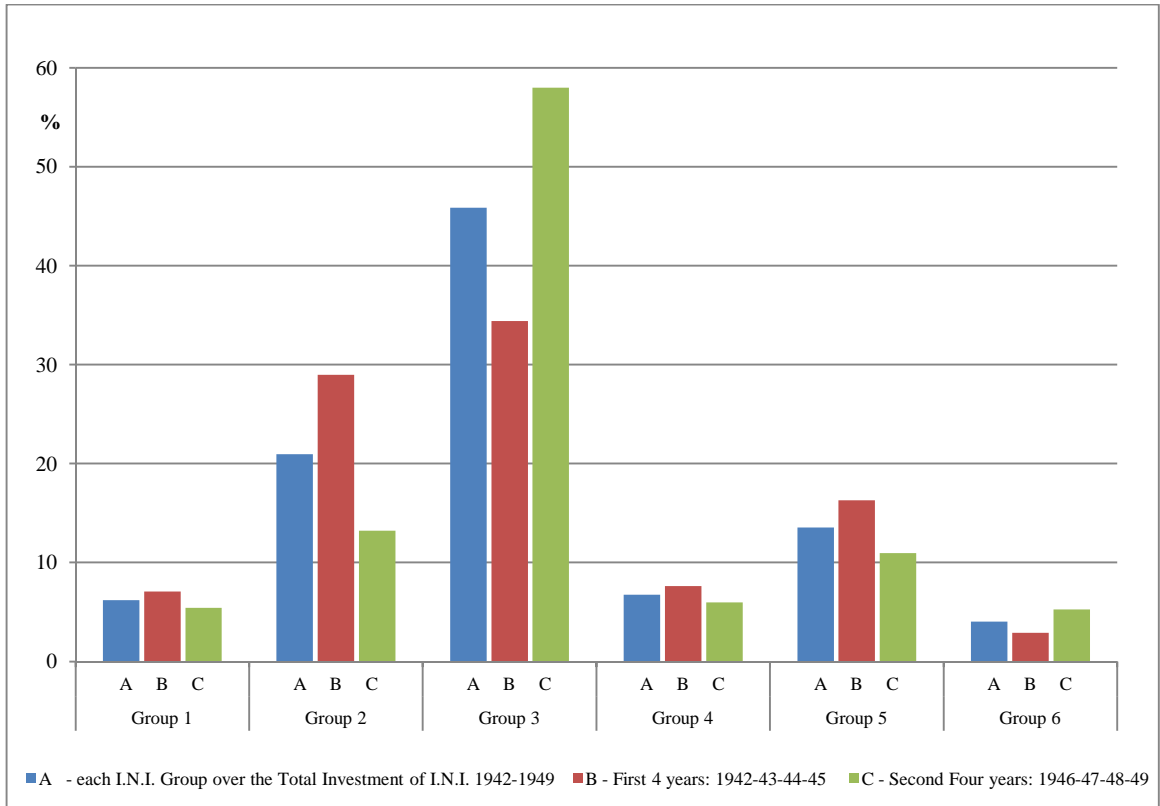
Group 3 is the one that received the highest percentage of investments by I.N.I. As we have seen this group is the one of important for the goal of the independence of the Nation, and it gives the idea that the goal of I.N.I. was compatible and very similar to that of the Regime. It calls to attention the fact that in this group are included the Electric group and Maritime transport companies, because these are two sectors that were very important for the President of I.N.I.: the first because it is one of the sectors of the '*Trilogía industrializadora*', together with Steel and Coal, and considered very important for the promotion of a strong industry. The Maritime transports, and Boat production, were considered important because of its specialization and the fact of the extremely extensive coast of Spain that required an important Maritime sector for the control of the national territory.

The Sub-group of the *Empresa de Adquisiciones y Suministros* was useful to the Francoist Regime to control the process of acquisition and distribution of the inputs as it desired to control the sector production because through this Company the State could control the internal economy, reinforcing the Regime power that, we should not forget, was still fighting against internal conflicts.

The expected investments from 1942 until 1949 were planned in two four-year terms, from 1942 until 1945 and from 1946 until 1949, shown in Graph 19.

Of the total amount I.N.I. planned to invest in the 8 years, given 100%, the first four years' percentage expected was 49,62%, while on the second four-year term should receive 50,38%. As we can see the investments were equally divided among the two periods.

Graph 19 – Percentage of Investment of I.N.I. among the Groups of I.N.I. for the Total period considered 1942 – 1949 (A), the First 4 years 1942-45 (B) and the Second 4 years 1946-49 (C)



Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Basic Production	Special Production	No Military Productions but of National Interest	Transforming production of Military Interest	Transforming production for Military application	Miscellaneous

Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1949

We can observe that in Group 6 – Miscellaneous, the least important in the division of resources by I.N.I., and where I.N.I. covered 100% of the amount of investment of the national market, during the first 4 years I.N.I. invested 50% of what it decided to invest during the second four year term. It meant a complete substitution of the private market.³³⁵

If we compare the small I.N.I. investment in Group 6, that represents 100% of the national Group, we can see that I.N.I. decided to increase the investment in

³³⁵ See above

the Group, which surely meant it wanted to strengthen the Group. In this case the investment of I.N.I. in the Group rose, even in numerical terms and it became 55% more than during the first four-year term.

Group 6 and Group 3 were the ones that, during the second term, increased the resources received. Group 3 received the most important part of the total resources of I.N.I., about 45% of the total investment, during the first 4 years it received 34,42% of the resources, 6% more than Group 2 of Special Production, the second most important with 28,98%. During the second four years it rose to 57,97%, by far the most important percentage among the Groups.

The second best was still Group 2 with 13,22%, more than 40% of difference among both Groups. Group 2 passed from 28,98% to 13,22%, 15% less between the first and second period.

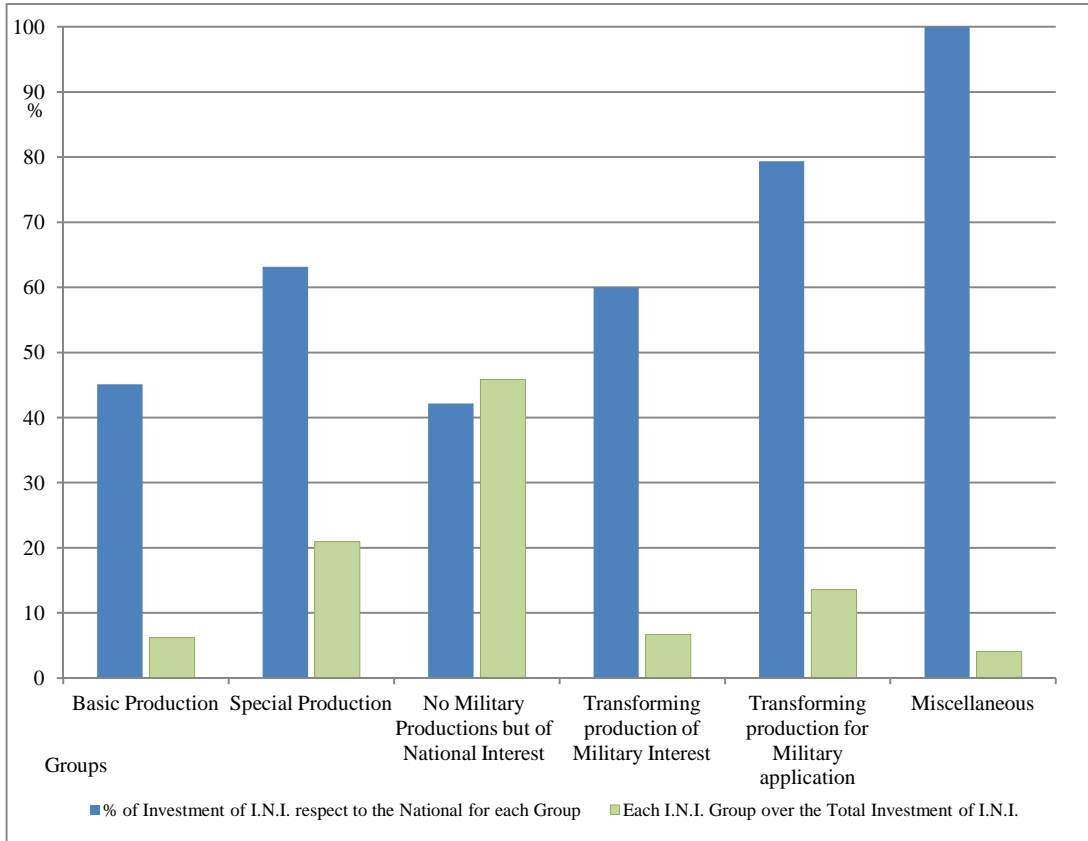
In the first four years, it was preferred to invest in the Groups with companies of production for National Interests (Group 3) and of Special Production (Group 2) that together were in receipt of 63% of I.N.I. resources, while the sum of Groups 4 and 5 was only 23%.

In the second term the situation changed and, while Group 3 was the highest with 57% by itself, Groups 4 and 5 summed up 17%, 6% less than before, while Group 2 only 13%.

While the investment of I.N.I. with respect to the National ones in Group 5 were the 80% of the National Investment Group and 60% was Group 4, in terms of internal distribution of the resources they are third and fourth in terms of importance.

The comparison between I.N.I. internal investment quotas and the ones that I.N.I. represented in the National market are shown in Graph 20.

Graph 20 – Percentage of Investment of I.N.I. among the Groups of I.N.I. and its Percentage of each Group with respect to the National Group (1942 – 1949)



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1949

The special classification of the sectors used by I.N.I. helps to highlight how strong the goals of National interests were, of national defense and autarky for war, and how much this way of understanding the role of I.N.I. into these Groups of companies marked the organization of the policies and the industrial policies carried on by I.N.I. in application of the guidelines of the Government.

3.2.3 - The Investments and Production by Sectors of I.N.I.

As we have seen, the classification of the groups by I.N.I. in the strategic plan of development was related to the ideology of the Spanish government and to the goals settled for I.N.I.

The companies listed in each group differed for its production, and in the classical divisions of sectors depending on the production, they would be included in the different sectors of production.

In this case, we can see that the regrouping depended on their usefulness to the goals and it helps to understand how much investment I.N.I. was interested to finance the military productions and the companies of National interests but not of military production.

As we have seen in the planning of the sectors of investments I.N.I. used formed Groups depending on their interest for I.N.I. and Spanish Government goals, while when I.N.I. carrying out its activities I.N.I. used the classic classification by sectors.

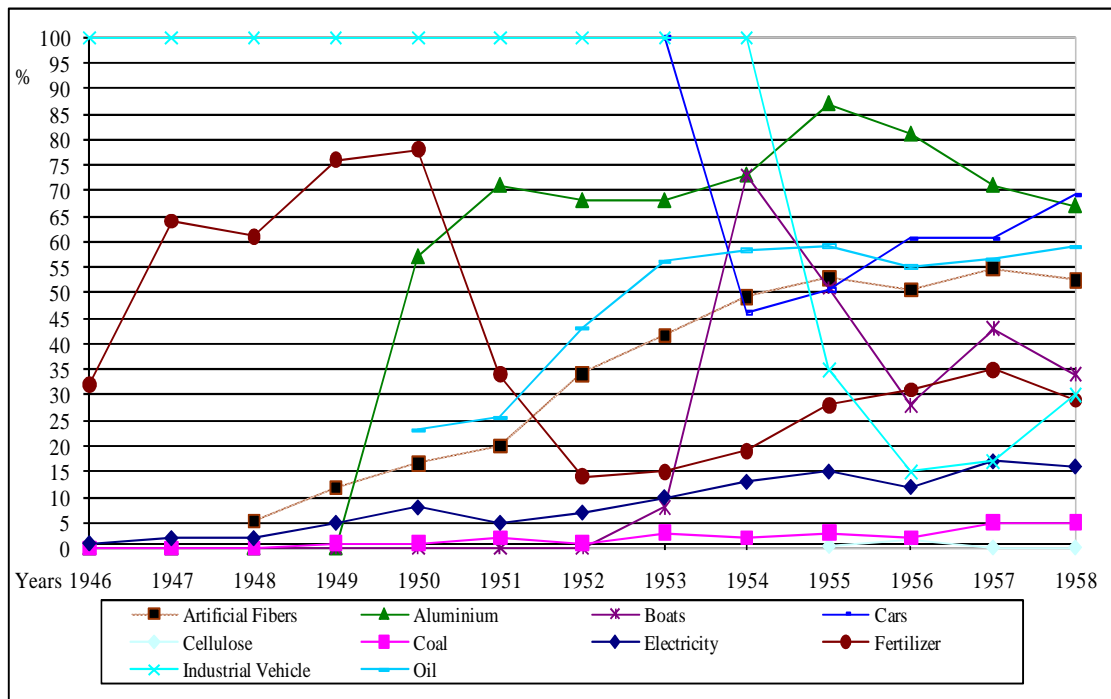
Also in this case the analysis of the production of I.N.I. can be related to the national production of each sector, and it will help to understand how much production was done by I.N.I. and how much by the private market.

The Production in each sector by I.N.I., related to the national one, see Graph 21, suggests some consideration about the amount of I.N.I. investments into each sector, about its preferences of investments but also how I.N.I. faced the goal of increasing the energy source production, the most important problem faced by Spain after 1939, that in I.N.I. plans of 1942 was included in the Group 3 – National interest but no military production.

In Graph 21 we can see that I.N.I. produced 100% of industrial vehicles, while the Aluminum production was between 65% and 85%, fertilizers presented a high rate until 1950, while after then reduced its importance over the national production to around 15%.³³⁶ While in the energy power sectors Electricity and Coal productions of I.N.I. were lower than 10%, and the Oil sector in 1950 was around 23 and in 1958 was about 60%.

³³⁶ During the beginning of 1942 Granell, one of I.N.I. advisors, traveled to Italy to look at the solution adopted in this country and to visit the production plants. These sectors of production of I.N.I. were the ones that the advisor Granell studied when he traveled to Italy, visiting Fiat, Montecatini for chemical and Montecatini for Aluminium, , Terni, Ansaldo, Breda, Marelli, General Electric and the *Grandes talleres de reparación de la Red Ferroviaria*, I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 14 de abril de 1942, 12 de 1942

Graph 21 – Percentage of the Sector Production of I.N.I. compared to the National one (1946 - 1958)



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1946 – 1959

Spain was trying to recover the capacity of production of energy resources after the end of the Spanish Civil War, but the shortage in their production reduced the output capacity of Spanish companies in all the other sectors.

Already in 1939, the demand for energy for production was higher than what was on offer, and in 1942 I.N.I. considered the problem of shortage of energy resources as the most important and as something that needed an urgent solution.³³⁷

Furthermore, the Spanish Government and I.N.I. considered “*the problem of the electric production in Spain intimately related to the autarkic goal*”.³³⁸ For I.N.I. the shortage of energy power was an added problem on the way to reach its goals.

³³⁷ See I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

³³⁸ “[...] *el problema de la producción eléctrica en España [tiene] íntima relación con el de la autarquía*”, see I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

The ideology of the President of I.N.I. considered the energy power, especially the electric one, as fundamentals for the development of the Spanish economy, especially considering the future development of the national sectors.³³⁹

In fact, I.N.I. was planning the creation and development of new companies in other sectors that would increase the need of energy power to let them work, increasing the demand of energy power already unsatisfied by the production of that period.

For these reasons I.N.I. considered the energy sector as the most important production as the capacity and the reliability of the productions of the other sectors depended on the energy sector. I.N.I. centered its attention especially on the electric sector, in which I.N.I. considered necessary its intervention, and control, by “*creating new companies and nationalizing the companies owned by foreigners*”.³⁴⁰

I.N.I., since 1942, was in charge of the organization and development of the plans related to the electric sector and decided to invest to obtain the electric production to be cheap, reliable and flexible in terms of the amount produced, an opposite situation with respect to those years.³⁴¹

Even though the high demand should have pushed the private investments in these sectors, the low prices of the energy costs paid by the companies and private consumers, added to the long economic return in investments meant that it was not appealing to private investors to put economic and financial resources in this sector, as the Spanish market was a small one with a lot of uncertainty in its development.³⁴²

³³⁹ Granell traveled to Italy and visit the productions plants, including Terni, to take advantage of the knowledge and experience of Italy to manage the electric sector, I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 14 de abril de 1942, 12 de 1942

³⁴⁰ “[...] creando nuevas industrias, ayudando a las actuales, o [...] las de capital extranjero hasta nacionalizarlas” I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

³⁴¹ “[...] barata, ágil y segura” I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

³⁴² I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

Furthermore, I.N.I. considered the opportunity to invest into the production line of the goods related to the electric production mechanisms, such as cables, wires, and electrodes,³⁴³ and into the distribution of energy to consumers.³⁴⁴

In fact, from 1939 to 1963, the declaration of National Interest to companies or projects carried on by companies, in application of the law of November 1939 of “*Ordenación y defensa de la industria*”, were in total 162, among which 59 (36,42%) were the activities related to the production and distribution of electric sector: 11 were I.N.I. companies and 48 were private companies that received the declaration and the special protection of the activities.³⁴⁵ The second sector for importance, by far, were the Mining sector, 12 total declarations as it was for the Iron and Steel industry Sector.³⁴⁶

The importance of energy production for I.N.I., and Spain, besides the declaration of National interests, can also be seen in Graph 22. The Electric and coal sectors were very low although they increase their importance along the period. Oil production also increased its importance and reaches the 60% of national production.

The development of the electric sector was slow during the period from 1946 to 1949, when from 26.000 Kilowatts in 1946 passed to 116.200 Kilowatts in 1949 and 122.000 Kilowatts in 1950. During this period I.N.I. created a few companies and its major activity was concentrated in the plans of development that started becoming reality from 1949, when 2 of the biggest production plants for electric power started working.³⁴⁷

³⁴³ “*Nacionalizar la fabricación de electrodos base fundamental de las industrias siderúrgicas y electro-químicas y cuya carencia tanto se deja sentir en la actual producción española [...] proponga si conviene la actuación del I.N.I. en esta importante materia, en la que parece difícil y ya demostrada la imposibilidad de la iniciativa privada de resolverla por sí sola, ante las dificultades de tipo económico en relación en un mercado relativamente restringido*”, I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes, 17 de Abril de 1942, 13^a de 1942

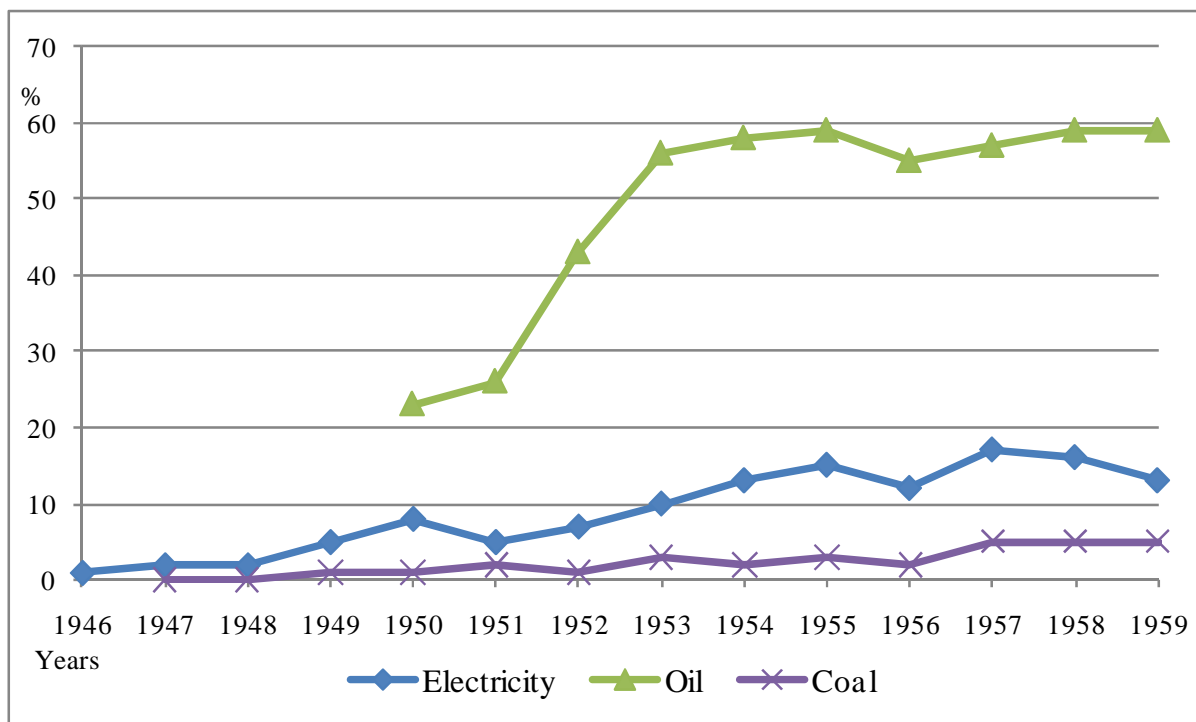
³⁴⁴ I.N.I. Archive, *Actas del Consejo de Administración*, Sesión del viernes 13 de marzo de 1942, 9 de 1942

³⁴⁵ SÁN ROMÁN, E., 1999 page 84

³⁴⁶ SÁN ROMÁN, E., 1999 page 84

³⁴⁷ See COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, page 189 and ss.

Graph 22 – I.N.I. Production in Electricity, Oil and Coal compared to the National ones.³⁴⁸



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1946 – 1959

Although after 1949 the energy power increased, as we can see also in Graph 22, in 1953 the Spanish Government had to accept that production was still scarce for the necessities of the Spanish economy, and approved a new plan, the *Plan Eléctrico Nacional*, to increase energy power production over the next 4 year period. The result was that, in 1953, I.N.I. produced 186.986 Kilowatts and after 4 years it produced 438.624 Kilowatts.

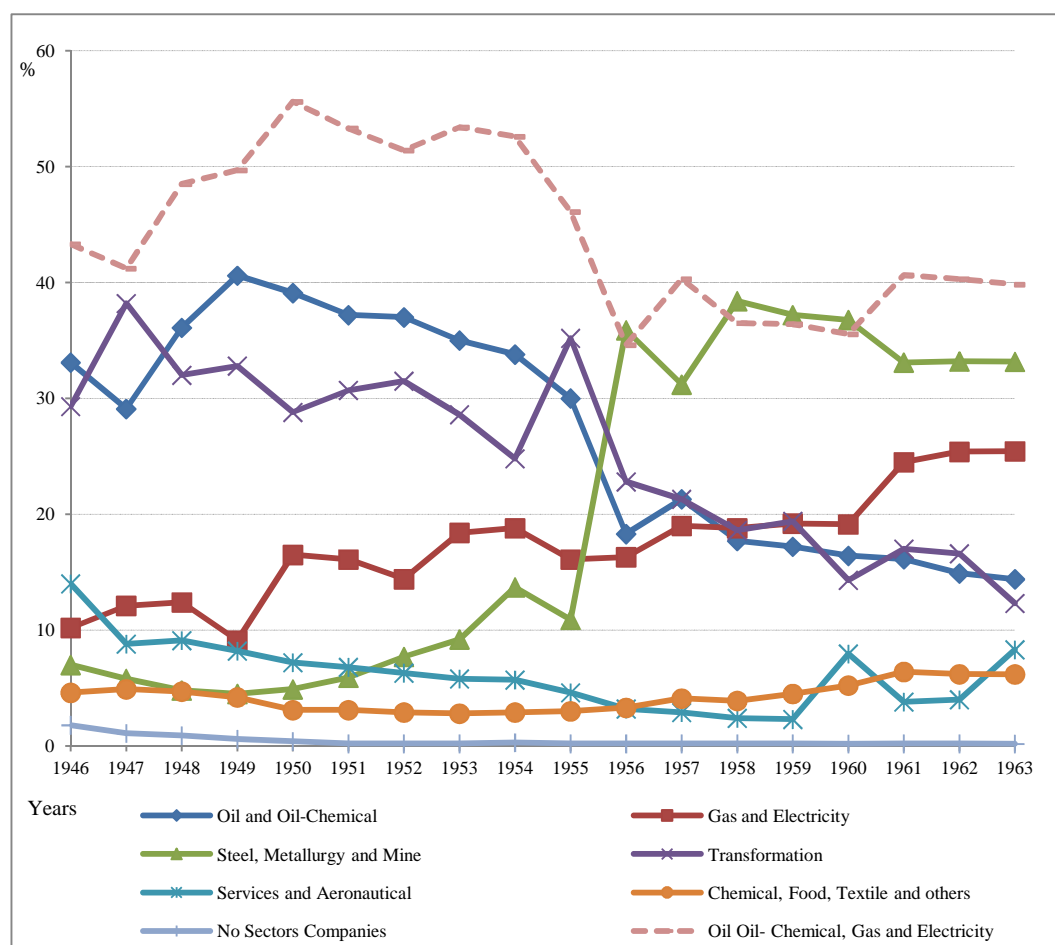
Anyhow, from 1946 to 1959 I.N.I. productions in those 3 groups increased with different success, the investment of I.N.I. in Capital Shareholders in the sector of electric power passed 10% to 25% of total investments in Capital Share, as shown in Graph 23.³⁴⁹

³⁴⁸ I.N.I. Archive, *Memorias I.N.I.*, 1946-1963.

³⁴⁹ As we have seen, the investment ownership of the capital of the companies was the way used by I.N.I. to control the business activities of the companies. For this reason it is important to look to the percentage of ownership of the different sectors to measure the importance of the sector for I.N.I.'s goals.

The sum of the Energy Sectors, Gas³⁵⁰ and Electricity and Oil and Oil-chemical collected the biggest part of the Investments in Shares (in Graph 23 this is represented by the dotted line). The values of the energy sector were 43.3% in 1946, the lowest percentage, 34.6%, in 1956 and again 39.83% in 1963.

Graph 23 – Investments in Shareholders Capital by I.N.I. per Sectors



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1946 – 1963

These values confirm that this sector had always been of importance for I.N.I. throughout this period, as for I.N.I. the energy sector was the key to create

³⁵⁰ The Gas sector was a total failure and of short duration that did not influence the homogeneity of the data presented in Graph 22 and Graph 23. See BUESA, *El Estado en el proceso de industrialización*, Universidad Complutense de Madrid, Tesis Doctoral inédita, cited by SAN ROMÁN, 1999, page 84, note b

independence from the foreign markets, to pursue the autarky, and I.N.I. considered that the necessity of the Spanish economy could not be covered by the private investments, and in this case, it acted as a substitute of the private initiative.³⁵¹

Although in this sense Suanzes was not exactly considering its activity as substitute of the private initiative.³⁵² It was true he was diffident toward the private initiative he considered “*insatiable, incompetent, inconsistent and powerful*”,³⁵³ but, in his words, I.N.I. was never a subsidiary organization, it was the center of the industrialization slowed down by the influence of the lobbies, of small and big companies, on the Spanish Government.³⁵⁴

Anyhow, for substitution or own decision, I.N.I. looked to increase its importance in these sectors, to cover the gap between demand and offer, although the results in outputs were scarce or not enough to cover the necessity of the Spanish economy.

The other sector that received more investments, since 1956, was Steel, Metallurgy and Mining. These sectors were also considered important for the development of industry in Spain, and the sector of Coal Mines were included in the industrialization trilogy by Suanzes.

The Steel sector was considered fundamental for industrial development, but also for the military production of war boats and panzer. In 1942 the sector was controlled by the *Altos Hornos de Vizcaya*.

In the opinion of I.N.I., this situation was the cause of the scarce technological dynamism of the sector, the scarce capacity to export the outputs and was also the culprit of the contrast among the companies of production and the ones of processing.³⁵⁵ For these reasons, the investments in the sector were intended also to break up the monopoly of the *Altos Hornos de Vizcaya* company.

³⁵¹ See COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991

³⁵² SAN ROMÁN, 1999, page 82

³⁵³ “*insaciable, incapaz, incongruente y todopoderosa*”, SAN ROMÁN, 1999, page 83

³⁵⁴ Letter to García Chamorro, 6/6/1974, AS, R. 3421 cited in SAN ROMÁN, 1999, page

83

³⁵⁵ See COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, from page 169

The presence of I.N.I. in this sector was considered necessary and it would have been carried on even against private interests.³⁵⁶ For this reason I.N.I. started its plans of development of Steel production in 1942, a stage that ended in 1950 with the creation of *Ensidesa*, and in 1955 it was decided to increase the Shareholders Capital from 1000 to 7000 million *pesetas*. This increase in investments is the reason for the change in the percentage of investment in this sector with respect to the others seen in Graph 23.

3.2.4 - The Return on Equity Ratio and the Costs of production

The fostering of the sector productions, acquisition and managing of companies in order to carry out the goals of I.N.I. and, when requested, of the Spanish Government, required an important investment in economic and financial resources that, if we were in the presence of a private owned company, these investments were expected to produce profits.

The Return on Equity (R.O.E.) expresses the ability to generate profits, and it can be measured by the Profits related to the Shareholder's Equity or/and to Shareholder's Capital.

The profits were constituted by the dividends. This is the money every company redistributes at the end of every year to the owners of the certificates of the Shares of their Capital, and I.N.I. receives the Dividends distributed by the Third Owned Company Shares in its portfolio. For this reason, the Dividends are revenues for I.N.I. and we can find them in the Income Statement, where entries of Profit and Loss are registered, and they are one entry of the Profits of the Income Statement.

As we have seen when talking about the Statute Act³⁵⁷ and even more when I presented the characteristics of the autarkies,³⁵⁸ in the presence of the autarky for war, the investments in production or in fostering the sector production did not consider the costs of production. In other words, the company did not carry on its

³⁵⁶ See COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, from page 169

³⁵⁷ See Introduction, paragraph of the Statute Act.

³⁵⁸ See Chapter 2.

business activities to obtain profits at the end of the year, but only to increase production.³⁵⁹

For this reason, it is interesting to look at the Ratio Return on Equity (R.O.E) as it measures the fiscal year profit with respect to the investments of I.N.I. into the business activities.

In Graph 24 the percentages of Return on Equity and Return on Shareholders Capital are reported. In the case of I.N.I. both are the same values because I.N.I. could not increase the reserve fund as the year profit from the business activities was very low, or in some years it was not a profit, but a loss.

The R.O.E. ratios for I.N.I. shows that profitability was very low, not more than 1.2% and it was even negative at the beginning of I.N.I.'s life, registering a negative leverage from 1942 to 1960, for the profitability did not cover the financial costs.³⁶⁰

In this case the profitability is even lower than the national debt, as it meant that the money invested by I.N.I. would have produced more profits if invested in State bonds or other private activities would have produced more profits than if invested in I.N.I.'s business activities.

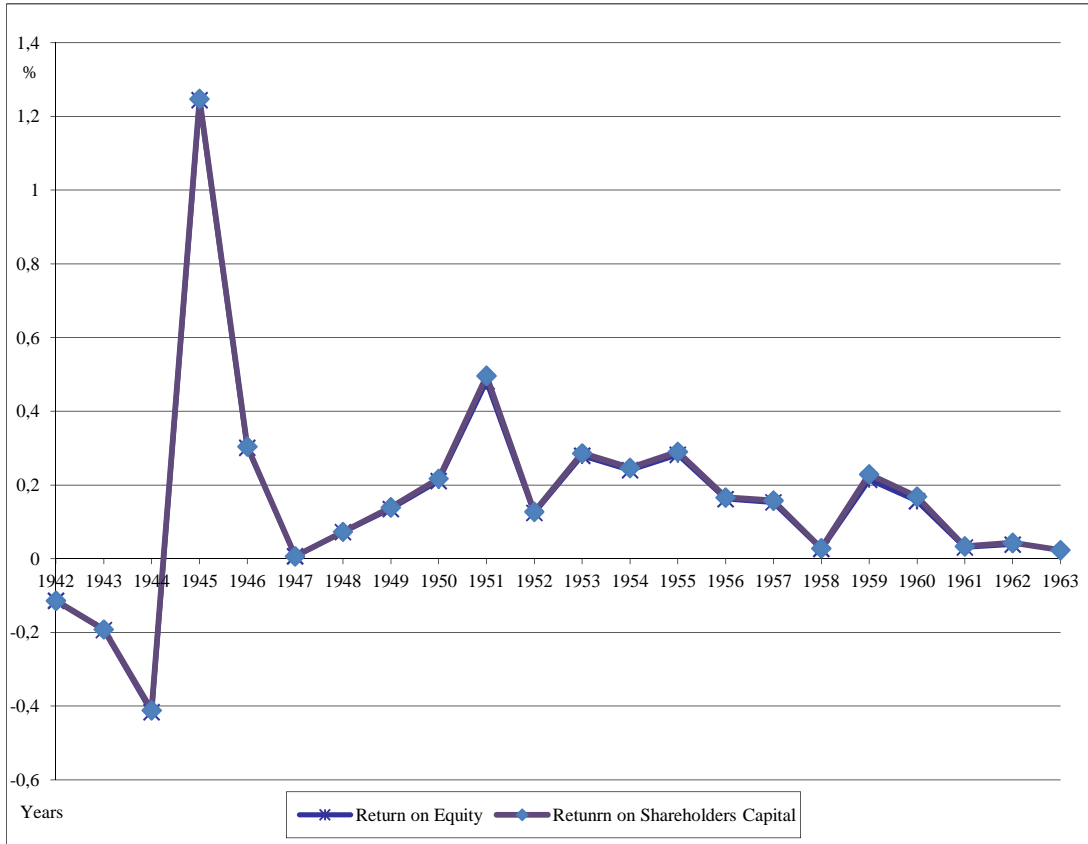
It is true that low profitability was also promoted by the same Law of the 25th of September 1941 as the law was expecting I.N.I. to have invested in the productions in which the private companies did not invest as they were not lucrative.³⁶¹

³⁵⁹ The energy sector is an example of these policies.

³⁶⁰ See also COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, from page 270

³⁶¹ See also COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, from page 270

Graph 24 –R.O.E. Ratio for Net Income related to Shareholder’s Capital and Shareholder Equity



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1963

Concerning profitability and the autarkic policies that I.N.I. pursued,³⁶² the result of the R.O.E. confirms that I.N.I. produced at any cost, at least in the sectors where the private investments were scarce or non-existent. This is the special feature of autarkic policies for war, while normal autarkic policies require consideration of the costs of production and investments,³⁶³ and this characteristic confirms that I.N.I. did not look for profitability as private companies do.

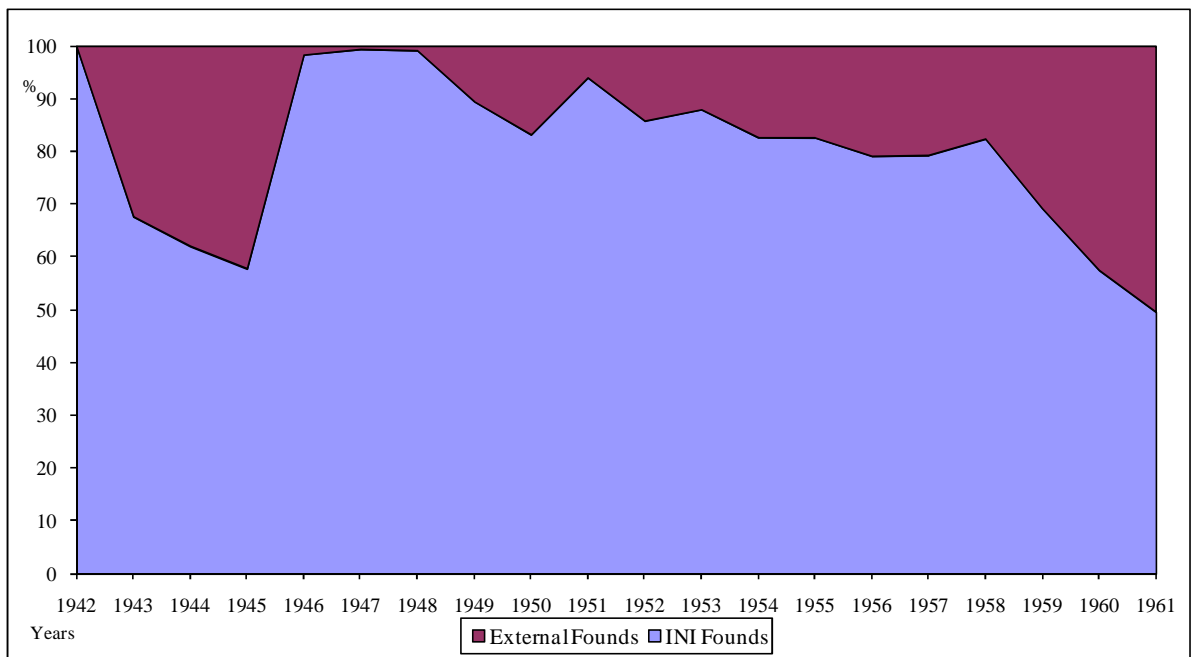
³⁶² See I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, *Memoria I.N.I. 1941 y 1942*

³⁶³ See Chapter 5 for a comparison of the Ratio percentages calculated for I.R.I..

3.2.5 – Company Independence: The Internal and External Funds of I.N.I.

Another aspect to consider when talking about the features of I.N.I. is the origin of the funding of the business activities of I.N.I. The interest of the Spanish Government and of President Suanzes were the same: to work without any external restraints which might hinder the development of I.N.I. goals, that in some cases were the same as the goals of the Spanish Government, thanks to the companies that I.N.I. bought for political purpose.³⁶⁴

Graph 25 – Percentages of I.N.I. External and Internal Funds



Sources: I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1961

³⁶⁴ In this case I refer to the companies that I.N.I. had to buy in order to fulfill the Government requests.

The change in the relation among the resource of financing can be seen in Graph 25 and is calculated as the Ratio of Solidity of Equity.³⁶⁵

For I.N.I., in 1941 the Shareholders' Equity is the only type of financing and hence equals equity. But then, from 1942 to 1944, the percentages varied between 30 to 60%. Next, we observe that starting from 1945 to 1947, the percentages around 99%, the maximum level of the Equity of all the period considered, excluding 1933. This variation is due to the increase in the Shareholders' Equity because the president of I.N.I. Juan Antonio Suanzes³⁶⁶ also became Minister of Industry during this period and could invest a great deal of funding to the I.N.I. to finance its development.³⁶⁷

Until 1946 I.N.I. received funds for budgetary credits, while from 1947 until 1957 the non-repayable Public Debt had been the way through which I.N.I. was financed by the Spanish Government.

From 1948 to 1957, the percentages stabilized between 80 and 90%, although with a slight negative trend that became important from 1957 onwards, during the Pivot period, from 1951 to 1959, in which the Spanish economy opened up. Therefore, during the First Francoism period, from 1941 to 1952, the percentages of internal financing differed depending on the year, but they were always around 90%, a trend that excluded any external intervention in the Company, as was the intention of President Suanzes and I.N.I. Act.³⁶⁸

At the end of 1957 the State decided that I.N.I. should look for a way to finance the business activities, looking at the private market instead of relying on State funds. In fact, in 1958 I.N.I. received funds from the *Banco de España*, in order to smooth the passage from State Funds to the new way, the Convertible Bonds. These Funds granted by the *Banco de España* were guaranteed by the values of the Third Owned companies' Shares owned by I.N.I..

³⁶⁵ The Ratio Solidity of Equity, or also called the Solidity of Shareholder's Equity, expresses in quantitative terms the relation between internal and external funds. The internal funds equal the Shareholder's Equity of I.N.I. and are used as synonyms.

³⁶⁶ See SAN ROMÁN, 1999 and BALLESTERO, A., *Juan Antonio Suanzes 1891-1977. La política industrial de la posguerra*, León, LID, 1993

³⁶⁷ See Chapter 3 paragraphs 3.2.2 and 3.2.4

³⁶⁸ See in the Introduction the paragraph "The Statutes Acts: a comparison"

Before 1958 I.N.I. Funds were the most important resource to finance the business activities, although from 1949 to 1958 the percentages were steadily reducing. From 1958 the financial structure of I.N.I. started to change drastically and the external funds started to increase, and passed from 20% to more than 40% in less than 3 years.³⁶⁹

For these reasons the relationship between the internal and external funds confirm the intention of I.N.I. to act freely from any external control over its business activities, profitability or any other aspect a private investor would consider important.

³⁶⁹ The percentage kept a steady increase until 1970, when the Internal Funds reached 18%, the lowest value of the considered period. See COMÍN COMÍN, F., MARTÍN ACEÑA, P., 1991, from page 46

Chapter 4

Public intervention in Italy, the origins of I.R.I. and the Financial Analysis of I.R.I. from 1933 to 1959

4.1 - The history of I.R.I. and the roots of public intervention in Italy – 4.1.1
- The creation of I.R.I. in 1933: the savior of the bank and industrial sector –
4.1.2 - Characteristics of I.R.I. from 1937 to 1939 – 4.1.3 – I.R.I. and the
Second World War - 4.2 - The Financial Statement Analysis of I.R.I. – 4.2.1
- Third Owned Companies' Shares and Credits – 4.2.2 - The Third Owned
Companies Shares – 4.2.3 - The Third Owned Companies Credits - 4.2.4 -
The Settlement of the Third Owned Companies Shares and Credits - 4.3 -
The Sectors of Third Owned Companies' Shares of I.R.I.– 4.4 - The Sectors
of Third Owned Companies' Shares of I.R.I. revisited by the classification
used by I.N.I. – 4.5 - Return on Equity (R.O.E.), Profits and Dividends – 4.6
- The profitability of the typical activity of I.R.I. - 4.6.1 - The profitability of
I.R.I. as a Company

This chapter starts by introducing the history of I.R.I. and its roots, then I carry on the analysis of the characteristics of the different roles I.R.I. developed for the Italian economy.

I start by portraying the legal characteristics and the business activities that I.R.I. developed between 1933 and 1959, aspects that are important to categorize the sub-periods in which I.R.I. was carrying out different policies and pursuing variable aims. I will focus, also, on the differences that existed between the period between 1933 and 1937, of partial autarkic policies, to the one from 1937 to 1940, of total autarkic policies, from 1940 to 1945, of war and then from 1945 to 1959, the recovery and developing period.

To obtain this result, I will merge the analysis of the formal aspects and business activities, the quantitative outcomes of the analysis of the Balance Sheets of I.R.I., for which I will use original data from the Archive.³⁷⁰ I will define the characteristics

³⁷⁰ In 2015 the 5th volume of the *Storia dell'I.R.I.* was published in which the author Giovanni Di Meo carries out a quantitative analysis of I.R.I. using the data from the Balance Sheet of I.R.I. The author carries on a different analysis of the data with respect to the one I

of these sub-periods through the Ratios Indexes which will help to describe the quantitative characteristics of each sub-period, integrated by the documents of the Administrative Council Meetings of the same Institute.

The structure of the chapter will respect the categorization of the Ratios.

4.1 - The history of I.R.I. and the Roots of Public Intervention in Italy

At the beginning of the twentieth century, Italy was not yet a developed country from the industrial point of view. In addition to this industrial backwardness, one should consider the challenge posed by new technology as an essential element for Italian progress. Such a process had started with Italian Unification, and it had registered a positive evolution, mainly toward the end of the nineteenth century.³⁷¹

To maintain the pace of development, the Italian economic system had to carry out interventions in highly capital-intensive economic sectors. However, the companies that wanted - or needed - to develop their activity in these new sectors required financial resources that only foreign banking companies could provide.

Thus, the necessity to find financial means was originated by the characteristics of the Italian market itself, and especially in the necessity to find an

propose in the thesis, but, most importantly, he used as sources of the data the archival documents from 1948 onward, as he specified on page 526. For the previous period, from 1933 to 1947, he used the data from the published book *MINISTERO DELL'INDUSTRIA E DEL COMMERCIO, L'Istituto per la Ricostruzione Industriale, I.R.I. - Vol. III Origini, ordinamenti e attività svolta*, (Rapporto Saraceno), Utet, Torino, 1956. To carry out the part of quantitative analysis of my investigation, on the opposite, I collected the data from the original documents kept in I.R.I. Archive: the complete series of Balance Sheets, from 1933 to 1959, that are more exhaustive, detailed and whose figures are comparable for all the period, as they were drawn up according to the accountancy principles. In addition, I also used the Balance Sheet preparatory documentation that accompanied the Balance Sheets, the Administrative Council Meeting, and other documents that were helpful for the investigation. All these documents present the comparable data I needed to carry on the Financial Statement Analysis. See DI MEO, G., "Indicatori di lungo periodo del gruppo I.R.I., (1933-1990), in RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un Gruppo singolare*, Bari, Editori Laterza, 2015, and DI MEO, G., "I bilanci dell'Istituto dal 1933 al 1973" in RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un Gruppo singolare*, Bari, Editori Laterza, 2015.

³⁷¹ See Chapter 1.

appropriate distribution channel. This resulted in the introduction of a new conception of industrial organization that implied the separation of capital property from the power of managerial control.

Until then, the industries had been characterized by small or medium dimensions, by low capital intensity and by the fact that their links to capital markets were neither extended nor developed, which meant that less resources were available to them. Historically, the issue of Italian capitalism had always been the “*capitalismo senza capitali*”.³⁷²

Therefore, to respond to the lack of an Italian capital market,³⁷³ which was absolutely not appropriate to solve the demands of the new economic challenges, different banking actors and public financial institutes became the most important support for Italian companies.³⁷⁴

While the former, i.e., banks qualified as mixed - also defined as Germanic banks - had already spread in Italy at the end of the nineteenth century, the latter originated at the beginning of the twentieth century, for example the CSVI - *Consorzio sovvenzioni su valori industriali*, in December 1914, the Crediop³⁷⁵ in 1919, the ICIPU - *Istituto di credito per le imprese di pubblica utilità* and I.M.I. - *Istituto Mobiliare Italiano*, in 1931.³⁷⁶

The latter was created to help the *Banca Commerciale Italiana - Comit*, to face the consequences of the crises that involved the Italian firms still in a process of recovery after the crisis they had suffered in the aftermath of the World War I, as was Italy.³⁷⁷

³⁷² See ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990; CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977.

³⁷³ CIOCCA, P., *Storia dell'IRI. L'IRI nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015

³⁷⁴ See ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990; CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977.

³⁷⁵ DE CECCO, M., ASSO, P.F., *Storia del Crediop tra credito speciale e finanza pubblica 1920-1960*, Bari, Laterza, 1994.

³⁷⁶ All these new Institutions were created by Alberto Beneduce, as it was with I.R.I.

³⁷⁷ In the opinion of Anna Maria Falchero, I.M.I. was a prelude to the mixed big banks as it could not respond to the financial troubles of the Banca d'Italia and the medium and long

In fact, the Wall Street crash triggered a dramatic decrease of industrial production in the European economies, and as a reaction to the crisis, the European countries progressively started to close their national economies. This situation led to an increase in the number of conflicts between countries, which was an important factor leading subsequently to the outbreak of the Second World War.

As for Italy, the main effect that is dealt with in this research is the fact that the 1929 crash was decisive for the end of the pattern of mixed banking that had previously financed the economic development from the end of the nineteenth century in Italy³⁷⁸.

The Italian industrial system had seen significant growth during the First World War - especially in some sectors - due to the Government's participation in the war. With a market that was not yet very developed, the crisis of excess of production was automatic and most importantly, it had a great impact on the restructuration process, which caused an important internal crisis. This also involved the banks that supported the companies in difficulties and found themselves involved more and more in the problems of the industrial sector.³⁷⁹

Indeed, the great anomaly of this system consisted in the excessively close relationships between banks and industries. This was caused by the great number of financing orders made by companies with the objective of increasing their productive capacity in the war sector, and after the war, to face their restructuration costs.

The banks granted the financial orders because their involvement with the companies had reached critical levels, and a possible lack of financial resources for

term credits sector. FALCHERO, A.M., "Stato e mercato, i precedenti: dall'interventismo ai salvataggi degli anni Venti", in CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012

³⁷⁸ See TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza 1980, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990, CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977.

³⁷⁹ For a synthesis of the problems of Italian banking system: CONFALONIERI, A., *Banche miste e grande industria in Italia: 1914-1933*, Milano, Banca Commerciale Italiana, 1994, CASSESE, S., *Come è nata la legge bancaria del 1936*, Roma, Banca Nazionale del Lavoro, 1988

the industrial companies would have resulted, in many cases, in their crash with even greater difficulties for the banks to collect the credits owed to them.

In exchange for new investments in the companies, the banks requested a part of their capital shares, with two objectives: first, to guarantee the investment as it aimed at restructuring the companies and secondly, to control the activities carried out by the industrial companies from the inside.

As for the companies, they used part of the financial resources they received to buy capital shares of the banks in order to influence the bank management's decisions on financing the industrial sector, especially of those banks to whom they owed debts.

This resulted in a vicious circle, defined as bank “*catoblepismo bancario*”³⁸⁰, whereby banks and companies controlled each other: the former interfered with industrial management, while the latter did the same for financial decisions.³⁸¹

It was in this context that the Italian economic system had to face the 1929 crisis that was more important for the financial sector in Italy because the activities of industries and banks were intertwined, which led to a critical spiral putting both sectors in crisis.

The 1929 final situation was caused by the fact that during the decade of 1920, the companies tried to recover from the difficulties they faced as a result of the post-First World War crisis, and they involved the banks that financed them in their industrial activity.

This happened not only because the banks had difficulties financing the companies, or because the companies faced reduced markets to sell their products, but also because the situation of mutual control between both sectors meant that the crash of one of the two would extend to the other sector, with a significant impact on the Italian economic system.

³⁸⁰ See Introduction. See AAVV, *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma, Laterza, 1986. See TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza 1980, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990, CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977

³⁸¹ See AAVV, *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma, Laterza, 1986.

Furthermore, from the First World War onwards, the banks had been known for specialising in certain types of investment: they had never applied the theory of diversifying the risk of the investment and, the other way around, they had committed to finance companies and specific sectors. Table 5 shows the situation in 1920 very well.

Table 5 - The participations of the four mixed bigger banks in 1920³⁸²

Comit	Credit	BIS – SBI	Banca di Roma
Steel: Falck –Terni	Chemical: Montecatini	Steel	Colonies: Libia
Transports: Breda	Steel	Mechanic: Ansaldo (40% del capitale della banca)	
Electric: Edison	Sugar - Food		

Table 5 shows that each bank had a maximum of three investment sectors for *Banca Commerciale Italiana* (COMIT) and *Credito italiano* (CREDIT),³⁸³ two for the *Banca Italiana di Sconto*³⁸⁴ and only one for *Banco di Roma*.³⁸⁵

When observing the figures, the Iron and steel sector industries are present as an investment in three of the four banks, but it is necessary to specify that this refers to three different companies, one for each bank.

Besides, the four more important mixed banks for the Italian economic system represented 27% of the assets for the total assets of the bank sector. From

³⁸² Self-elaboration from ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990.

³⁸³ For the history of Credito Italiano and Banca Commerciale Italiana, see CONFALONIERI, A., *Introduzione, l'esperienza della Banca commerciale italiana e del Credito italiano*, Milano, Banca commerciale italiana, 1994, in CONFALONIERI, A., *Banche miste e grande industria in Italia: 1914-1933*, Milano, Banca Commerciale Italiana, 1994, BANCO DI ROMA, *Banca e industria tra le guerre*, Bologna, Il Mulino, 1981, AAVV, *Credito Italiano, 1870-1970: cento anni*, Milano, Credito Italiano, 1971

³⁸⁴ See FALCHERO, A.M., *La Banca Italiana di Sconto, 1914-1921: sette anni di guerra*, Milano, F. Angeli, 1990.

³⁸⁵ For the history of Banco di Roma, see DE ROSA, L., *Storia del Banco di Roma*, Roma, Banco di Roma, 1982

1921 the three that are left after the crash of the *Banca Italiana di Sconto*, only kept 20% of the quota.³⁸⁶ The *Banca Italiana di Sconto* collapsed in 1921 because of the crash of the *Ansaldo* company that, as consequence, was bought by the State.

In this case, the Italian State decided to intervene, and in support of its help, it requested the intervention of the Bank of Italy, requesting the necessary capital resources to finance the companies controlled by *Banca Italiana di Sconto*, discharging its scarce monetary liquidity on the Bank of Italy.

This crisis of *Ansaldo* and of all the other industrial companies involved in the First World War economy was due to the fact that at the end of the war, the companies that were specialized in warfare production faced high costs for achieving the objectives of the productive restructuration programs. The Italian *Banca Italiana di Sconto* had to face even higher costs because the *Ansaldo* company had made extremely important investments to finance its increase in war production.

Therefore, the *Banca Italiana di Sconto* bank had a higher motivation for not giving up on financing the company during the crisis and it was still under an obligation to make the same financial investments, as previously explained.

This situation revealed the consequences of what the crash of the other 3 banks would mean for the Italian economic system and for the State.

For this reason, the 1929 crisis had important consequences for the Italian banks, the major part caused by the *catoblepismo bancario*³⁸⁷ that amplified the “domino effect” between banks and companies, for the detention by the banks of shares of the capital of industrial companies that ended up constituting, at the

³⁸⁶ See ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990.

³⁸⁷ See Introduction. See AAVV, *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma, Laterza, 1986. See TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza 1980, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990, CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977

beginning of the year 1930, 94% of Comit's assets, 78% of *Credito Italiano's* and 94% of the assets of *Banca di Roma*.³⁸⁸

However, with the outbreak of the 1929 crisis, the banks had to face two problems: the first one, common to all European banks, the values of the share prices on the market, that obliged the banks to act on the capital market to keep a good value of the prices of the capital shares; the second one was caused by the support they had to provide to the financed companies as a result of being their owners, which brought them closer to the crash they had tried to avoid.

It was true that neither banks nor companies could survive any longer in this complex situation that involved the major part of the Italian economic system, as the percentage of ownership of the companies' capital by the banks had represented 21.5% of the corporations existing in Italy.³⁸⁹

Faced with the crash of the whole economic system – the currency and the central bank, the savings, the industrial companies³⁹⁰ - the State decided to intervene by setting up a new institution, I.R.I., founded in 1933. The aim of this institution was to solve the intertwined situation of *catoblepismo bancario*,³⁹¹ through a complex process that allowed the banks to discharge the Companies' shares from their assets and gain liquidity becoming ready again to operate on the financial market.

The founder of this institute was Alberto Beneduce who initially conceived of the Institute as a temporary entity whose objectives were to bring the situation back into order and, at a later stage, to return to the private market the capital share

³⁸⁸ See ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990

³⁸⁹ See D'ANTONE, L., "Da ente transitorio a ente permanente", in CASTRONOVO, V., (ed.), *Storia dell'I.R.I., vol. 1 Dalle origini al dopoguerra 1933-1948*, Bari, Laterza, 2012, pages 184-186 and ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990

³⁹⁰ CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015, page 43 and ss.

³⁹¹ See Introduction. See AAVV, *Donato Menichella. Testimonianze e studi raccolti dalla Banca d'Italia*, Roma, Laterza, 1986. See TONIOLO, G., *L'economia dell'Italia fascista*, Bari, Laterza 1980, ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia (1861-1990)*, Milano, Il Mulino, 1990, CASTRONOVO, V., *L'industria italiana dall'Ottocento a oggi*, Milano, Mondadori, 1990; MORI, G., *Il capitalismo industriale in Italia: processo d'industrializzazione e storia d'Italia*, Roma, Editori Riuniti, 1977

owned and financing those companies that had been in difficulties until that moment in substitution of the credit market.³⁹²

Beneduce's original plan to create I.R.I. as a temporary institution changed during the first 3 years of the Institution's existence. In fact, in 1937, I.R.I. became a permanent Institution. Other changes happened in the following years, for example in 1948, but all confirmed its role for the Italian economy as a permanent Institution.

In fact, the first 15 years of I.R.I.'s life, from 1933 to 1948, are the most interesting because it changed its role for the Italian economy several times. The scholars had been arguing about two major questions:

- the creation of I.R.I., if it had to be included in a long path of policies that had been already started long before 1933, or if it is a new way of understanding the Economic policies of the Italian State.

- the reason(s) that drove the Government to transform I.R.I. into a permanent institution in 1937.³⁹³

For the first topic - the origin - some scholars share the idea that a path of economic policies subdued to the political interest started already at the end of the XIXth Century with a steady increase of the presence of the public administration in the economic sphere to the point of the creation of I.R.I., identified as the top point reached by this long and steady change in the economic policies and state intervention in the economy.

On the other hand, some others think that I.R.I. is the symbol of a change in perspectives and understanding of economic policies, and even more in the ways and procedures with which it was carried out.³⁹⁴

Castronovo³⁹⁵ considers that both hypotheses are reasonable and in what Castronovo, and the scholars,³⁹⁶ think I.R.I. meant a difference in the procedures and

³⁹² In exchange for help from the State the banks should never own in their assets shares of industrial companies. In 1936 the credit sector was regulated by the Bank Law as the final step of the reorganization of the sector. See CONFALONIERI, A., 1994, CASSESE, S., 1988

³⁹³ See paragraph 4.1.2

³⁹⁴ CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015.

³⁹⁵ See CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 3 and ss. He refers to the scholars that wrote in the book he directed: Adriana Castagnoli, Leandra D'Antone, Marco Doria, Anna Maria Falchero, Gianpiero Fumi and Gian Luca Podestà.

ways of applying the economic policies as I.R.I. was not created as a corporative Institution.³⁹⁷

I.R.I. changed the way of the industrial credit granted by the State, that should not have been anymore “*a fondo perduto*” but it should be coordinated to the reorganization of the credit sector.³⁹⁸

This was the innovative aspect of I.R.I. where the management of Shares was not intended as government control over the companies, but as the way to break up the *catolepismo*, to avoid the breakdown of the banks, and thus of the industrial sector, and to reform the credit sector.

Once the connection was broken up and liquidity was inserted into the credit system, the *Smobilizzi* section of I.R.I. managed the Shares and companies owned in what it considered the best way to let them recover and become of interest to be bought by the private market. Here, in my opinion, is also the innovative aspect of I.R.I.: reforming the companies to give them back to the private market with specific plans of reorganization and investments, if needed.

While in 1935 the 3 banks involved in the process of I.R.I. could be considered financially recovered, the reorganization of the companies by the *Smobilizzi* section was not completed yet. In 1936 some of the owned companies needed further help to recover.

In this situation, the Government decided to transform I.R.I. into a permanent institution even if, in 1934, Beneduce reported that the head of the government was still of the opinion that I.R.I. should be a temporary institution, created to solve a situation of emergency.

³⁹⁶ As it stands out from the last works collected in the volume.³⁹⁶ See CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012

³⁹⁷ See CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015, page 46 and ss. Anyhow, also during the temporary period, I.R.I. may be anyway subjected, and used, in order to carry on the political interests, of national or international nature.

³⁹⁸ Beneduce and Menichella's aim was to avoid these activities as reported by Castronovo. He agrees that one of the aims of the creation of I.R.I. was the reorganization of the credit sector. See CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 3 and ss. and CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015.

Beneduce reinforced the idea of the activities of I.R.I. that reflected the desire to resell the companies to the private market with principles of fair price evaluation, even if the major interest is to sell the companies because “[...] being part of a state institution does not push the management of the companies to invest in innovation and new industrial activities”.³⁹⁹

Beneduce also accepted the idea that, even if the process of selling the companies will go at a fast pace and it will be optimal, there will always be some leftover.⁴⁰⁰

In my opinion this is the key point that influenced the transformation of I.R.I. into a permanent institution in 1937.⁴⁰¹ Since 1937, I.R.I. changed its industrial policies and the role developed for the Italian economy, as specified in the different Statute laws emitted contemporaneously to those changes, adapting its business activities, aims and goals accordingly.

The timing of the changes of the roles of I.R.I. are important in order to define the characteristics of aims, goals and industrial policies of each sub-period of the I.R.I., especially for the period in which I.R.I. was temporary, and then when it became permanent, in 1937,⁴⁰² until 1940, to look at the different approach during peacetime, and then from 1940 to 1945 for the war-time period and onward.

To better understand the timing of these sub-periods of I.R.I. I will carry on the analysis of the financial statements,⁴⁰³ as a more technical evaluation of the political decisions - analysing a broader period of reference, until 1959.

In addition, before starting this analysis, it is interesting to look at the differences among the sector investments between the temporary institution, the

³⁹⁹ “[...] appartenere ad un grande istituto statale non è il [clima] più adatto perché i dirigenti si sentano spinti nelle innovazioni e nelle iniziative che sono il fondamento delle aziende industriali”, To see the original documenti s in I.R.I. Archive, *Relazione del presidente al Consiglio di Amministrazione sul bilancio al 31 dicembre 1934*, page 20. It is also cited by D’ANTONE, L., “Da ente transitorio a ente permanente”, in CASTRONOVO, V., (ed.) *Storia dell’I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012.

⁴⁰⁰ I.R.I. Archive, *Relazione del presidente al Consiglio di Amministrazione sul bilancio al 31 dicembre 1934*, page 30.

⁴⁰¹ See paragraph 4.1.2

⁴⁰² The thesis looks especially at the similarities between the permanent I.R.I., from 1937, as this is the Statute Act the Spanish Institution copied, as seen when I compared the Statutes Acts in the Introduction.

⁴⁰³ See this chapter, from paragraph 4.2 onward.

permanent one and during the period of war, to define some aspects that the financial statements cannot highlight.

4.1.1 - The creation of the temporary I.R.I. in 1933: from the savior of the bank and industrial sector to the permanent Institution in 1937

L'Istituto per la Ricostruzione Industriale was constituted with the R.D. L. of January 23rd 1933, n. 5 (converted into law on May 3rd 1933, n. 512) with the purpose: “[...] *to complete the reorganization of the credit system with regards to the technical, economic and financial reorganization of the industrial system*”.⁴⁰⁴

I.R.I. was divided in two sections, *Smobilizzi* and *Finanziamenti*, legally autonomous, with separate balances and separate patrimonies, in charge of different aims and goals, clearly defined: the section *Smobilizzi* was created specifically to intervene in the crisis of the bank system and to act in support of the banks, while the *Finanziamenti* had been created to help the companies in difficulties and that they were entangled with the three banks in crisis, reasons for which I.R.I. was created.

The intervention that I.R.I. carried out through its Sections should have been as:

a) Internal to the Companies, through the section *Smobilizzi*, to normalize the patrimonial consistency and increase profitability, as well as help to solve the situation of scarce liquidity of the banks in crisis; this section was organized in fact

⁴⁰⁴ “[...] *completare l'organizzazione creditizia in rapporto alla riorganizzazione tecnica, economica e finanziaria delle attività industriale del Paese*”. See premise of the RDL 23rd of January 1933, n. 5, GU. N. 19 of 24th of January 1933. For a good resume of the process of creation of I.R.I., see also Catronovo, “Un profilo d'insieme”, in CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012 e CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015, AMATORI, F., (ed), *Storia dell'I.R.I., Il miracolo economico e il ruolo dell'I.R.I.*, vol. 2, Roma, Laterza, 1998, AVAGLIANO, L., *La mano visibile in Italia. Le vicende della finanziaria I.R.I., dal 1933 al 1980*, Roma, Studium, 1991, AVAGLIANO, L., *Stato e imprenditori in Italia: le origini dell'IRI*, Salerno, Palladio, 1980.

as a holding whose aim was to provide financial help to the banks in difficult situations;

b) External to the Companies, the Section *Finanziamenti* should develop its work granting loans to industrial companies to pay back the Bank loans received and restore the financial equilibrium to restart their own activities. Thanks to the loans to the Private Companies the *Finanziamenti* section, that operated as an institute of industrial credit, introducing liquidity in the economic system.

In fact, the Private Companies received the loan and paid the debts the Company had with the banks, and the Banks, that at the same time, reduced its credits toward the Private Companies when they repaid their loans, and this way the bank's assets found a new equilibrium and resolved the liquidity problems.

In sum, the important and innovative role given to the *Finanziamenti* section was the role of the lending of long term loans in substitution of the Bank system.

On the contrary, to the *Smobilizzi* section was attributed the role of intervention with the banks in difficulties and to manage the Shares, Credits and other participations of which I.R.I. could have become the owner during the activity of saver, or while reorganizing the financial structure of the banks.

The major part of the Shares acquired by I.R.I. in 1933 proceed by the financial assets and shares of the bank in difficulties. The agreement was that all the banks should pass the ownerships, credits and loans of the companies in its Portfolio to the I.R.I.,⁴⁰⁵ and I.R.I. would lend a loan with the 4% of interest rate to the bank.

Since the one of the main goals of the creation of I.R.I. was the recovery of the banks and industrial system, the price of the titles received by the banks were paid to a superior price with respect to the effective evaluation that the same title may have in that moment in the market.

In addition to those received by the banks, I.R.I. received also those in portfolio of the *Istituto di Liquidazione*.⁴⁰⁶

⁴⁰⁵ The concept of Portfolio is used when I talk about the sum of both the Third Owned Companies' Shares and credits, while I will use the concept of Total Portfolio when I will also include the value of the settlements of shares and credits.

⁴⁰⁶ See COMEI, M., *La regolazione indiretta. Fascismo e interventismo economico alla fine degli anni venti. L'Istituto di Liquidazione (1926-1932)*, Napoli, ESI, 1998.

Of all these shares received the percentage of ownership for the single company runs from the minority to the totality of the property of the companies, and for some Sectors it meant the ownership of the all the companies involved in it:⁴⁰⁷

<u>Sector</u>	<u>Percentage of property</u>
War Iron and Steel Industry	100%
Iron and Steel Industry	40%
Shipbuilding	90%
Maritime Transport and Railway engines	80%
Electricity	30%
Telephonic	(almost) 100%

From 1933 to 1937 I.R.I.'s percentage of ownership increased, passing to 21.5% of the Shares⁴⁰⁸ and to 42% of the Shares of the joint-stock companies⁴⁰⁹ thanks to the purchase of Shares into the market to complete the reorganization of some sectors, during the first 4 years.⁴¹⁰

As we can see, the objectives of the complex operation carried out in 1933 were:

⁴⁰⁷ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale, november 1937. The same values are presented by ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990 but without any reference note to where she found the information.

⁴⁰⁸ As seen in paragraph 4.1 this percentage corresponds also to the Total Porftfolio of the companies, see D'ANTONE, L., "Da ente transitorio a ente permanente", in CASTRONOVO, V., (ed.), *Storia dell'I.R.I., vol. 1 Dalle origini al dopoguerra 1933-1948*, Bari, Laterza, 2012 page 184-186 and ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, page 298 and ss.

⁴⁰⁹ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale, november 1937. See ZAMAGNI, V., *Dalla periferia al centro. La seconda rinascita economica dell'Italia 1861-1981*, Bologna, Il Mulino, 1990, page 298 and ss.

⁴¹⁰ After 1937, it bought shares with the aim of reorganizing the sectors for the State economy or to buy companies considered of absolute importance for the State economy and goals, as we will see later.

a) to purchase from the banks all the shares and credits of the companies of the industrial and agricultural sectors and, in general, of all that was not specifically related to the exercise of the short-term credit. This decision was made with a double objective:

- To introduce to the financed companies an entity that exercised control and that at the same time assumed the financial role carried out by the deposit banks;

- To put the deposit banks in the condition of dedicating their resources to the ordinary credit and not to the industrial ones;⁴¹¹

b) to transfer the industrial Shares to restore the economic and financial balance of the banks that owned them;

c) to eliminate from the assets of the Banks the titles that created the liquidity crises;

d) to calculate the value of the losses suffered by the State in their interventions in favour of the credit companies, in order to be covered by the State.

After the year 1933 in which I.R.I. concluded the process of receiving the shares and credits, it started the second part of its aims, the reorganization and reselling of the Shares in its Total Portfolio,⁴¹² with the aim of obtaining “as much cash as possible”.⁴¹³

Then I.R.I. started its special activity toward the owned companies, to restore the balance sheet equation and to prepare them to be sold into the market, as planned, to stop the losses and make profitable the ones that I.R.I. decided to keep.⁴¹⁴

⁴¹¹ From 1934, the agreement the banks and I.R.I. signed up to included not only the final step of the transfer of the Shares and Credits to I.R.I., but also the regulation of the activities of the banks, that were completely reorganized thanks to the Bank law of 1936. See I.R.I. Archive, *Relazione al Consiglio di Amministrazione sul bilancio al 31 dicembre 1936*, 30th of April 1937, page 5

⁴¹² The Total Portfolio is the sum of both the Third Owned Companies' Shares, Credits and the Settlements of shares and credits.

⁴¹³ “[...] *Contemporaneamente si inizia l'azione di smobilizzo, intesa a far denaro, [...]*” See I.R.I. Archive, *Relazione al Consiglio di Amministrazione sul bilancio al 31 dicembre 1936*, 30th of April 1937, page 5

⁴¹⁴ “*Si inizia pure [nel 1934] l'opera di deciso intervento nelle singole aziende industriali per sistemare i bilanci, ai fini di preparare lo smobilizzo delle aziende da cedere e di far*

The Shares and Credits passed by the banks were differentiated in the the Balance Sheet of I.R.I. in 3 entries, depending on their collectability.

The 3 entries are:

- a: Third Owned Companies' Shares,
- b: Third Owned Companies Credits,
- c: Settlements of the Shares and Settlement of the Credits.

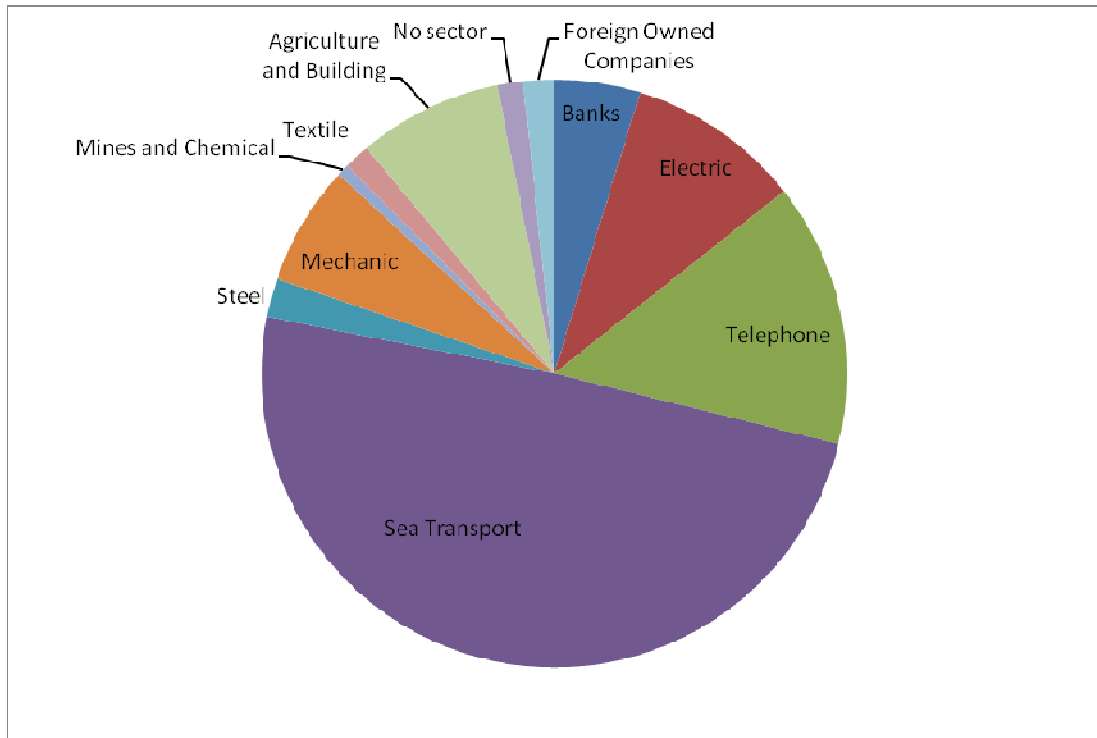
In fact, if the necessity to solve the crisis of the banks and industrial sectors was the reason for the creation of I.R.I. in 1933, the second, but not least, aim was the reorganization task, management, reparation and sale in the private market of the owned companies.

In opinion of Pasquale Saraceno,⁴¹⁵ the birth of I.R.I. did not put an end to the process of reorganization of the economic sector, but rather it would have been the beginning of a broader process that was composed by the group of activities carried out between 1933 and 1936 by the same I.R.I., the activities of the Ministry of Finances, of the Bank of Italy and of the deposit banks. This whole activity was carried out keeping in mind economic aims and the profitability to pursue the goals that the Institute had been created for.

cessare le perdite e di rendere attive quelle da conservare". See I.R.I. Archive, *Relazione al Consiglio di Amministrazione sul bilancio al 31 dicembre 1936*, 30th of April 1937, page 5

⁴¹⁵ See Ministero per l'Industria e il Commercio, *I.R.I. vol III Origini, ordinamento e attività svolta (Rapporto Saraceno)*, Utet, Torino, 1955-1956, page 5; SARACENO, P., "I.R.I.: Its Origins and Its Position in the Italian Industrial Economy (1933-1953)", *The Journal of Industrial Economics* 3, n. 3, 1955; CIANCI, E., *Nascita dello Stato imprenditore in Italia*, Mursia, Milano 1977.

Chart 1 – Percentage of Investment of I.R.I. in the different Sectors, (1933 – 1937)



Source: Self-elaboration of the data from I.R.I. Archive, *several documents*, years from 1933 to 1937

The budget of the first four years of I.R.I., reveals how the small and medium companies were those that were sold more easily⁴¹⁶ and they provided an economic favourable return since the Institute didn't have to invest financial resources in them. The investments of the I.R.I from 1933 to 1937 were directed to reorganize the Sea transport sector (as required, and in collaboration with the Government),⁴¹⁷ the Telephone sector - thanks to the reorganization of this sector owned by the S.I.P. Company (in serious difficulties) and the creation of the S.T.E.T. Group⁴¹⁸ - and the

⁴¹⁶ Self-elaboration of the data from I.R.I. Archive, *Balance Sheets, Partecipazioni*, years from 1933 to 1937

⁴¹⁷ See I.R.I. Archive, *Verbale del Consiglio di Amministrazione N. 26, Adunanza del 16 giugno 1936*, page 6

⁴¹⁸ I.R.I. tried to engage in the process the most important representatives of the Italian industrial sector, offering also favorable financial condition, but they declined the invitation. See I.R.I. Archive, *Relazione al Consiglio di Amministrazione sul bilancio al 31 dicembre 1936*, 30th of April 1937, page 4. For a detailed list of the companies involved see D'ANTONE, L., "Da ente transitorio a ente permanente", in CASTRONOVO, V., (ed.)

mechanic and electric sectors that needed special investments to become competitive for the private market investors, as we can see in Chart 1.⁴¹⁹

On the other hand, the profit suffered from their selling and profitability dropped severely during these years.

4.1.2 - Characteristics of I.R.I. from 1937 to 1939

In 1937 I.R.I. was transformed from temporary into a permanent institution. The transformation of I.R.I. into a permanent Institution doesn't modify the activity of the *Smobilizzi* section, while it did make a difference to the *Finanziamenti*'s one, which was closed. At the same time, a new bank law⁴²⁰ was emanated to regulate the way the banks could concede credit to the industrial sector, as the way to control the credit sector.

The reasons why I.R.I. become permanent are still not clear, although the fact that there were some “leftovers” of Third Owned Companies' Shares and credits, as defined by Beneduce,⁴²¹ could be a reason why the State decided to make a change in its plans.

In addition to this, we have to consider that Mussolini that changed the idea expressed in 1934 about the temporariness of I.R.I., and considered that I.R.I. could develop the new policies of the State controlling some of the industrial sectors useful for the autarkic aims, such as the Iron and Steel sector for war.

Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948, Vol. 1, Bari, Laterza, 2012, page 200 and ss.

⁴¹⁹ The last work on the major sectors owned by I.R.I. is presented in the books AMATORI, F., (ed), *Storia dell'I.R.I. Il miracolo economico e il ruolo dell'I.R.I.*, vol. 2, Roma, Laterza, 1998, and RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un gruppo singolare*, vol. 5, Bari, Laterza Editori, 2015

⁴²⁰ See CONFALONIERI, A., *Banche miste e grande industria in Italia: 1914-1933*, Milano, Banca Commerciale Italiana, 1994 and CASSESE, S., 1986

⁴²¹ I.R.I. Archive, *Relazione del presidente al Consiglio di Amministrazione sul bilancio al 31 dicembre 1934*, page 30. See also paragraph 4.1

The political power more inclined to organize a partial autarkic economy⁴²² was, in fact, a positive environment in which the change happened. Without it, I.R.I. could not be transformed, but nor could it be transformed without the ‘leftover’.

In my opinion the strongest reason that generated the change was the fact that the amount of the companies Beneduce planned to be leftovers were not exactly what I.R.I. owned at the beginning of 1936, as they included some groups that I.R.I. had found impossible to sell to the market.⁴²³

While until 1937 I.R.I. limited its activities to deal with the sectors and companies that formed the legacy of the agreements of 1933, after 1937 these activities of I.R.I. were integrated into the aims of the economic policies of the Government,⁴²⁴ who promoted several policies and projects in order to fulfil their aims⁴²⁵, including:

- 1) Autarkic economy;⁴²⁶
- 2) Economic Development of the Colonies;
- 3) Productions related to the National Defence and War.

These new aims for I.R.I. were added to the original ones that the *Sezione Smobilizzi* already carried out since 1933:

- 1) Investment in new industrial activities, in collaboration with private capital if needed,⁴²⁷
- 2) the creation of technical courses for professional preparations.

⁴²² Of the same opinion is Castronuovo in CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 31 and Ciocca in CIOCCA, P., (ed.), *Storia dell'I.R.I. L'I.R.I. nell'economia italiana*, vol. 6, Bari, Laterza Editori, 2015

⁴²³ Ciocca also thinks the selling of the Third Owned Companies' Shares was inappropriate or impossible.

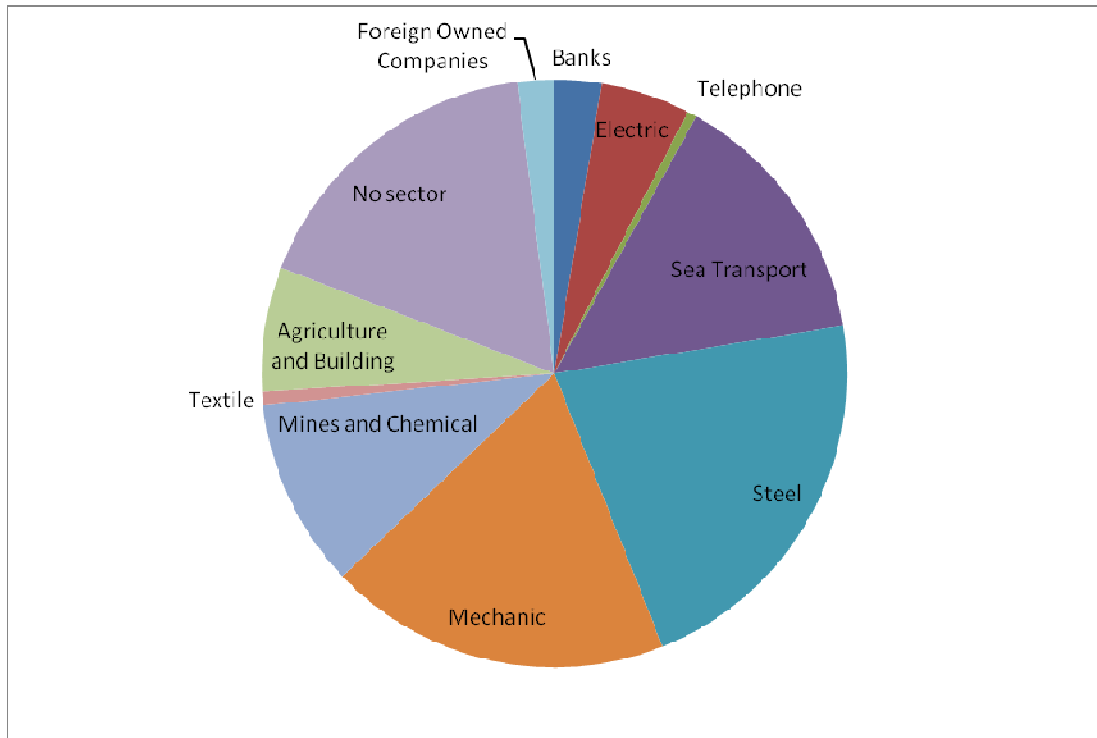
⁴²⁴ ZAMAGNI, V., 1990

⁴²⁵ See CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 24

⁴²⁶ The dates of the “Plans of autarkic development production” had already started by 1936 in the agricultural sector, such as wheat. See I.R.I. Archive., *Piani autarchici*, 1938

⁴²⁷ See art. 3 a) R.D.-L. 24 giugno 1937, n. 905

Chart 2 – Percentage of Investment of I.R.I. in the different Sectors, (1937 – 1940)



Source: Self-elaboration of the data from I.R.I. Archive, *several documents*, years from 1937 to 1940

For the industrial companies still owned by I.R.I. in 1937, it decided to invest preferably in the iron and steel industry, more exactly the *Ilva* and *Dalmine* Societies, owned since the beginning, that with *Cogne*, *Terni* and *Ansaldo* Societies created a homogeneous sector group for War Iron and Steel.⁴²⁸

The same action was taken toward the Shipbuilding and Mechanical industries.

The new initiatives started during this period and directed to help the private capital, or in substitution of it, interested the sectors of Synthetic rubber, cellulose, refractory materials, optical glass, and professional school, as we can see in Chart 2.⁴²⁹

⁴²⁸ I.R.I. Archive, *Relazione del Presidente al Consiglio di Amministrazione sul bilancio al 31 dicembre 1934*, page 13

⁴²⁹ The last work on the major sectors owned by I.R.I. is presented in the books AMATORI, F., (ed), *Storia dell'I.R.I. Il miracolo economico e il ruolo dell'I.R.I.*, vol. 2, Roma, Laterza, 1998, and RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un gruppo singolare*,

4.1.3 – I.R.I. and the Second World War and Post War period

The war strongly influenced I.R.I.'s activities and closed a period in which I.R.I. developed technical and financial reorganizations that were the aims of the Institute during its first 7 years of activities.

Since 1939, when Beneduce resigned as president of I.R.I., the Institute changed its internal organization and its aims became more permeated by autarkic ideology and I.R.I. was transformed into the economic arm of the State to carry out these policies.

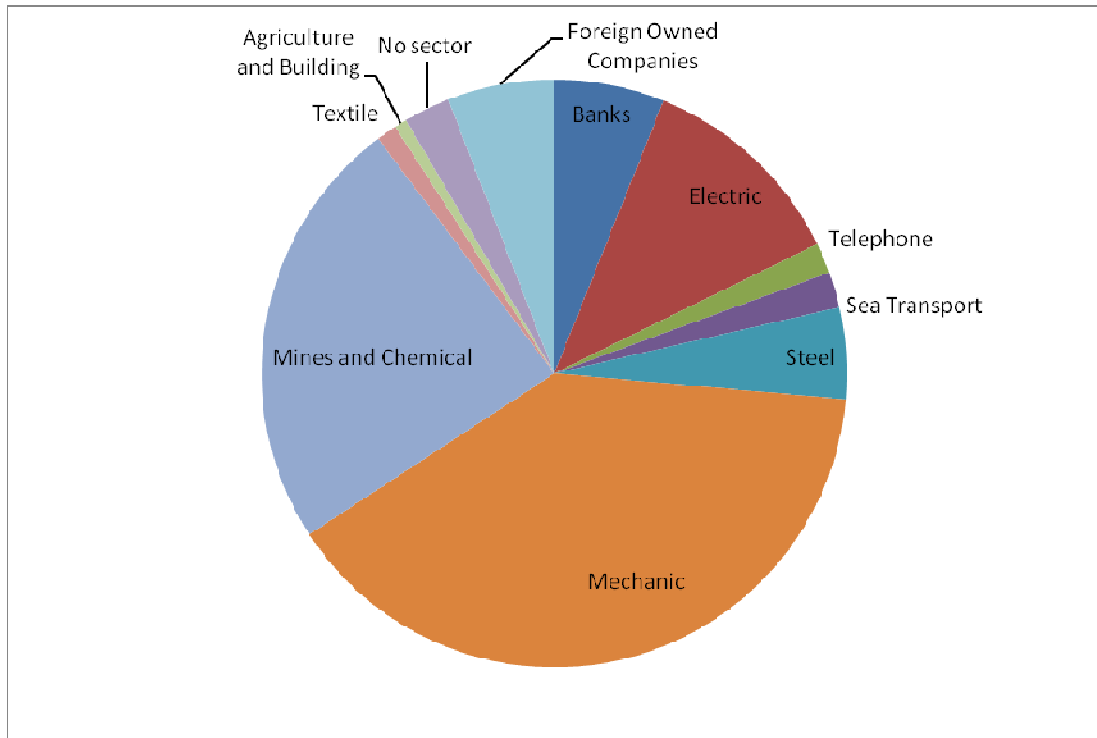
During the war period the most important investments were in the mechanical and chemical sectors where the managerial organizations ran under different rules, it did not include the economic efficiency or cost reductions. On the contrary, the first aim was increasing production until output was maximised, in order to satisfy the war necessities.

The new acquisitions were just a few if compared to the financial resources that I.R.I. could use for this purpose. In fact, they were only used to increase the productive process of the already owned companies without any consideration of the costs and profitability.⁴³⁰

vol. 5, Bari, Laterza Editori, 2015 and RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un gruppo singolare*, vol. 5, Bari, Laterza Editori, 2015

⁴³⁰ MINISTERO PER LA COSTITUENTE, *Rapporto della commissione economica, II Industria I.- Relazione, Vol. 1*, Roma Istituto poligrafico dello stato, 1947, page 27

Chart 3 – Percentage of Investment of I.R.I. in the different Sectors, (1940 – 1945)



Source: Self-elaboration of the data from I.R.I. Archive, *several documents*, years from 1940 to 1945

The war caused imbalances and more serious damages to I.R.I. and the mechanical and steel industries were devoted to develop their activity with warlike purposes and therefore the post-war reconversion to peace production needed further financial resources that I.R.I., and the State, had to pay.

4.2 – The Financial Statement Analysis of I.R.I.

The timing of the different roles of I.R.I. influenced the management of the Third Owned Companies' Shares and Credits depending on the aims pursued in each sub-period: for example, the aim from 1933-1937 was to re-sell them back to the market, while from 1937 it changed to managing them, until 1939, when it started the new management and began to collaborate to the autarkic policies until 1943, and in 1948 started to rebuild the Italian economy.

For this reason, the analysis of the values of the Financial Statement related to these two aspects are very important to determine the characteristic and the activities of I.R.I., as it carried on its aims through the ownership of the Credits and Shares of Third Companies, and their management and evolution will be helpful to define the sub-periods of I.R.I.

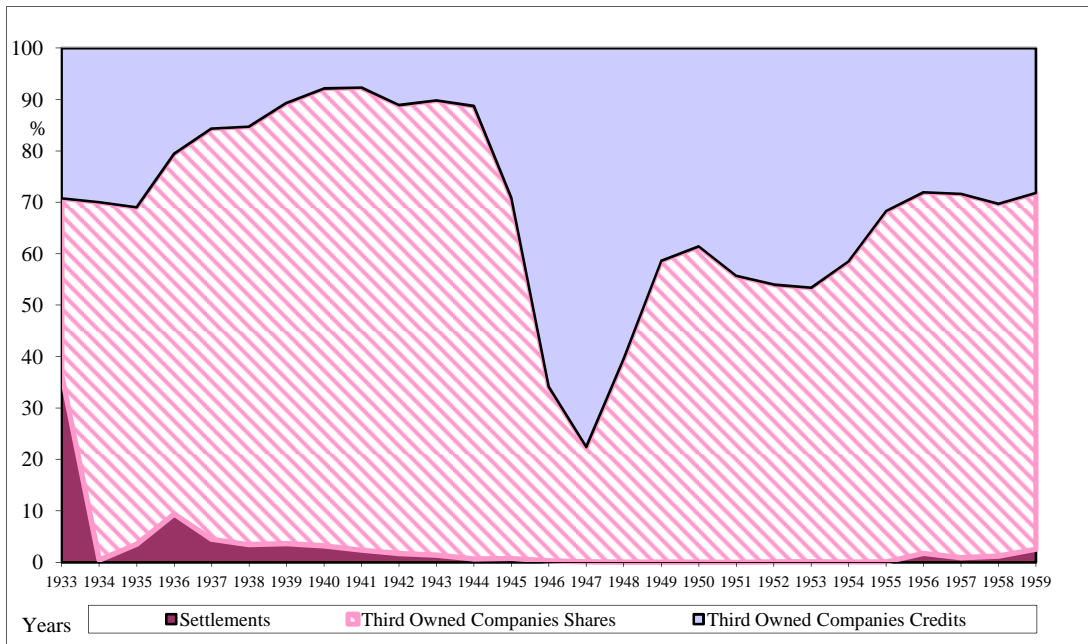
In the Balance Sheet, among the Assets, we can find the entry of the Shares and Credits of Third Companies owned by I.R.I., the ones passed by the Banks to the Institution, entry of the Assets column called Third Owned Companies' Shares, to differentiate them from the Shares of I.R.I.'s Capital, indicated as Shareholders' Capital, or, on the occasions when the reference is not strictly related to the entry and the Balance Sheet, I will also use the synonym State Funds.

4.2.1 - The Third Owned Companies' Shares and Credits

It is useful to remember that the business activity of I.R.I. included the management, reorganization and financing of companies of the industrial sector of Italy, and more importantly, the ones in its Portfolio. The goals to pursue were the development of these companies and/or of the sectors considered important for the goals of the nation. I.R.I. developed its work to obtain the aims, not only by the ownership of Shares, but also of Credit toward the Third Owned Companies' Shares.

The major part of these Credits had been inherited together with the Shares during the passage of property from the banks toward I.R.I. and part of them were included in the entry Settlements of Shares and Credits, all together, as they were the ones that I.R.I. considered difficult to be paid back, if Credits, or to be bought back, or survive the situation, in case of Shares. The Percentages of these entries are shown in Graph 26, and as we can see the percentage of the Settlements are very low, as in the Balance Sheet the entry is registered at the end of the year with the value that I.R.I. expects to receive from their selling.

Graph 26 – Percentages of the Shares, Credits and Settlements in Portfolio, 1933 - 1959



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

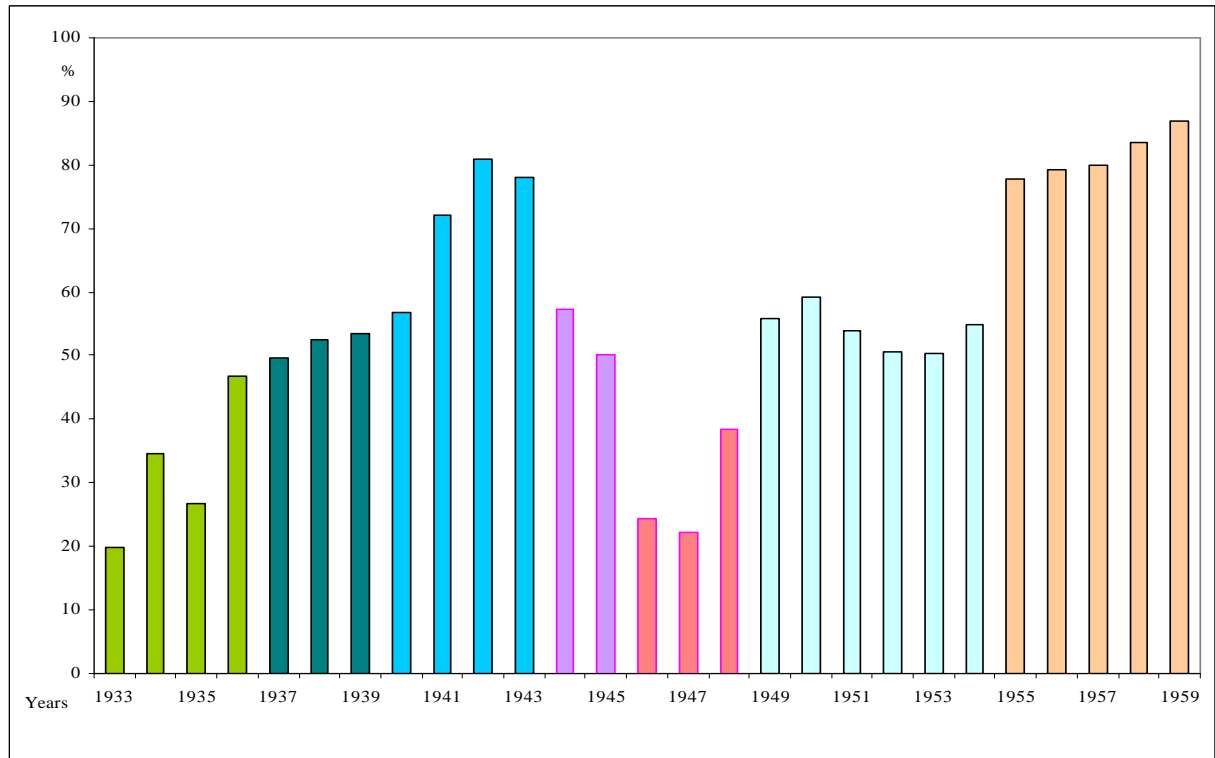
As I.R.I. differentiates the entries among Credits, Shares and Settlements, the latter includes Shares and Credits, it is interesting to look at, individually, the Percentage of the Shares and the ones of the Credits that I.R.I. owned of the Third Owned Companies, and the Settlements by themselves.

4.2.2 - The Third Owned Companies' Shares

The entry Third Owned Companies' Shares is part of the Assets column and it measures the how important the Third Owned Companies' Shares are for I.R.I. with respect to its Assets. The Ratio I calculate and present in Graph 27, relates to the value of the entry with respect to the Total Assets, and it measures how important the aim of ownership and control over the Companies along the period had been.

In fact, the ownership of Shares is important because I.R.I. could influence the business activities, the aim and industrial policies of the Companies controlled by the Shares.

Graph 27 - Percentage of Third Owned Companies' Shares over Total Assets, 1933 - 1959



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

As we can see, I.R.I. percentages of Third Owned Companies' Shares changed several times and marked the different periods in which I.R.I. roles' changed in the Italian economy. The trend and differences in the percentages were strictly dependent on the different sub-periods. Graph 27 shows the percentages of Third Owned Companies' Shares from 1933 to 1959 related to the Total Assets.

In fact, Graph 27 shows that from 1933 to 1936, the temporary period, the percentages of Third Owned Companies' Shares are less stable as they depend on the positive outcome of the settlement⁴³¹ of the Third Owned Companies' Shares,

⁴³¹ The process indicated by Settlement is intended here as the process of selling the credits and shares back to the market and also to clear them off in the case that it was impossible to be paid off by the debtors or it was impossible to be sold on the market. The revision of the values had been carried on for the major part at the beginning of this period, during 1933 and then in the years after the process had been repeated to revise the job already done and to update it to the new analysis of the situation of the Companies.

that was the commitment for that period of I.R.I., as indicated in the Statute of I.R.I..⁴³²

From 1937 to 1939, the partial autarkic period, they are increasing in a moderate way. Instead from 1941 to 1943, during the war time, the percentages increased and reached the highest values of the considered period, then diminished and after 1948 increased and stabilized into a percentage of around 50%, then 80% from 1955. As we can see the percentages of shares are different depending on the period of I.R.I. we refer to, and they marked them with different trends in the percentages. During the period of war and after 1955, I.R.I. was called to help Italy to develop, and for this reason it increased its efforts for the national economy.

The years of 1936 and 1940 are turning points: the first because the I.R.I. had already begun the process of changing from temporary to permanent; and the second because the industrial politics changed due to the direct intervention in the war for Italy that drove the total autarkic policies.

If we observe the Graph 27, it seems that a trend exists from 1936 until 1940 inclusive, as if they were a sub-period itself. On one hand, the percentages of 1936 may be considered the foundation on which the policies of 1937 were developed, because the process of transformation had already started in this year to obtain the permanent I.R.I. On the other hand, 1940 had to be included in the plans of the total autarkic policies as is evident reading the *Relazioni del Consiglio di Amministrazione*, beginning from September 1939,⁴³³ but in this case to carry out these policies needed more than just one year of re-organization. For these reasons the years of 1936 and 1940 can be included in the other two sub-periods.

The year 1942 is a key point in the trend of I.R.I. percentages of the Third Owned Companies' Shares and it demonstrated that there existed a pre-1942 trend and a post-1943 one. In 1942, the weight of I.R.I. Shares signed a break in the positive trend after 8 years of uninterrupted tendency to increase; after 1943, the shares started a trend of decreasing until 1947, and then again, we can observe a

⁴³² As we have seen in Introduction, paragraph about the Statute Act

⁴³³ I.R.I. Archive, *Relazioni del Consiglio di Amministrazione*, September 1939

quick increase in the percentages that stabilized around 50%, from 1948 until 1954, and then 80% until 1959.

In fact, the trend before the key point of 1942 shows that from 1933 until 1936, it varied each year due to the aims of the temporary I.R.I. the reselling to the private market of these same Third Owned Companies' Shares and Credits, as with the changing in the Settlements of the Shares and Credits.⁴³⁴ However, in mid-1936, the difficulties in accomplishing I.R.I. commitments became evident for the Director and their entourage.⁴³⁵ Since then, the values of the Third Owned Companies' Shares started to increase slightly each year until 1940, when again the tendency suffered a quick increase due to the investment for World War II.

An important aspect of this same sub-period is the fact that I.R.I. started to be considered by the Fascist Government as a way to realize the Partial autarkic policies.⁴³⁶ In fact, in this period the Third Owned Companies' Shares that I.R.I. may have owned in some of the sectors that the Fascist Government declared of national importance obliged the Italian Institution to keep up with the State directives. In fact, the first reports for partial autarkic production are dated 1937, and the plans about the production necessary to respond to the demand of the national economy had been redacted since 1937 for different sectors of production, such as Food – rice and wheat, for example, or steel production. These plans had to be carried on in 5 years.⁴³⁷

In 1940 Italy became directly involved in World War II and from then on needed to take care of war production and the Autarkic Policy for war, which by definition was not concerned with costs, unlike the Partial Autarkic Policy that was.⁴³⁸

⁴³⁴ See I.R.I. Archive, *Relazioni del Consiglio di Amministrazione, Sezione Smobilizzi e Sezione Finanziamenti*, years from 1933 to 1937.

⁴³⁵ See I.R.I. Archive, *Relazioni del Consiglio di Amministrazione*, June 1936.

⁴³⁶ I.R.I. Archive, *Relazioni del Consiglio di Amministrazione*, 1937 and 1938, I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale, November 1937.

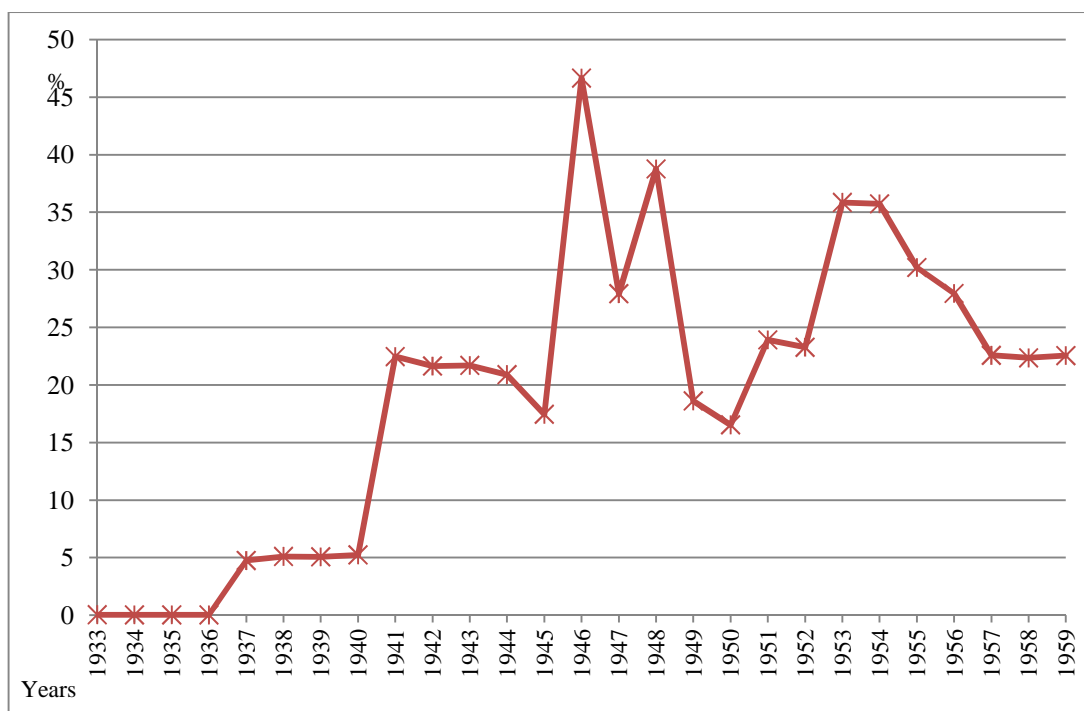
⁴³⁷ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale, november 1937.

⁴³⁸ I.R.I. Archive, Numerazione Nera, Documento 4130, ACS, Fondo I.R.I., Numerazione Nera, b. 81, Relazione riassuntiva dei piani autarchici al Comitato Corporativo Centrale, november 1937.

Values from 1944 until 1947 should be considered as a period under the aspect of an unknown future life expectancy for I.R.I. In this case, these 4 years represented a moment of reflection for the future of this Institution that was identified as a creation of the Fascist Ideology, no longer in power.

After 1943, Italy changed Allies and during the following two years, the Italian territory had been the place in which the war was fought, and the values of the Stock Market and of the companies across Italy rapidly decreased, as we can see from 1944 to 1945.

Graph 28 – Shareholders Capital over Total Liabilities⁴³⁹



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

During this period, the part of Italy under US Army control already started to be interested in I.R.I. and they were formally against maintaining I.R.I. functionality after the end of World War II. Then, from 1946 to 1947, after the end of World War II, I.R.I. awaited to know its future. From 1949 onward, the tendency line of the

⁴³⁹ As explained in the Balance Sheet Equation, the value of the Total Liabilities is equal to the Total Assets.

Shares, see Graph 27, found a steady position, as a response to the new aim that I.R.I. was called to accomplish: the recovery and reconstruction of the Italian economy system and of its companies.

The years of 1946 and 1947 have a very low percentage of Third Owned Companies' Shares with respect to the other years, as seen in Graph 27. The rate is determined by the increase in the Shareholders Equity, determined by the increase in the Shareholder's Capital,⁴⁴⁰ that from 2.000.000.000 Lira, passed to be 12.000.000.000 and to 20.000.000.000 Lira in 1947, see Graph 28.

For this reason, the exceptionally low level for the Ratio of the Third Owned Companies' Shares, in Graph 27, is due to the special moment of increase of the denominator of the Ratios, the Total Liabilities, as the Shareholders Equity is an addend of the Total Liabilities, that, in the Balance Sheet equation, the sum is equal in value to the Total Assets.⁴⁴¹

In Graph 29 is shown the percentage of the Shareholders Capital related to the Total Liabilities, that express the percentage of how much of the Total Liabilities is formed by it.

The percentage of the Shareholders Capital related to the Total Liabilities, in Graph 29, helps to understand the importance of the change in its values of 1946, that more than doubled the percentage of 1945, becoming about 47%. Also in 1948 there was an increase of the Shareholders Capital.

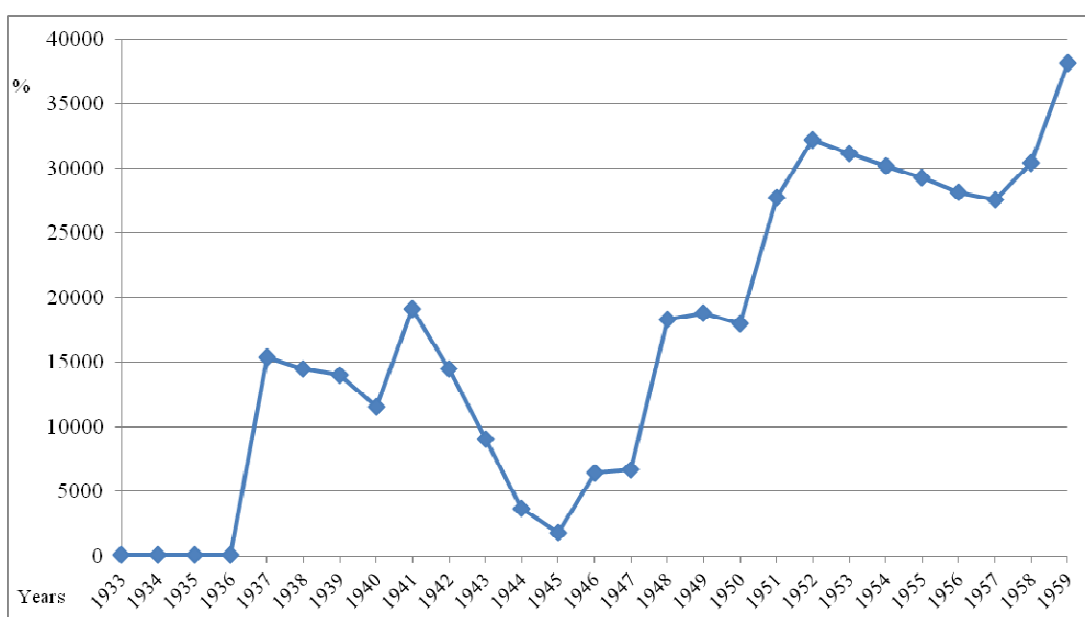
Furthermore, the changes in the Value of the Shareholders Capital clearly stated the changes in the years of 1937 and 1941, and marked the sub-periods 1933-1936, 1937-1940 and then the years from 1941 to 1944. Inside these sub-periods the rate kept a similar percentage, also during the war period. The other sub-periods are not marked as the ones before and during the war. This may let us think that after the war, the importance of the investment by the state in the Shareholders Capital was not the only way to finance the business activities of I.R.I.

⁴⁴⁰ The Shareholders Capital is one of the entries of the Shareholders Equity. See Table 6 in Methodology Annex.

⁴⁴¹ See Table 7 in Methodology Annex.

However the rate is calculated, it is still of importance because it helps to understand that the exceptional reduction in the values of the Thirds Owned Companies Shares, in Graph 27, is due to the increase in the values of the Total Assets due to the increase in the Shareholders Capital, as confirmed in Graph 28, and not to a decrease of the values of the Shares owned.

Graph 29 – I.R.I. Shareholders Capital deflated⁴⁴²



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

On the contrary, in 1937, there had been a re-evaluation of the Third Owned Companies' Shares values, and it was a process connected to the transformation of the Institution to permanence, and a reconsideration of the opportunities to use the Owned Companies for the different goals that I.R.I. was then committed to.⁴⁴³

Instead, in 1948 the Institute reconsidered values of the Thirds Owned Companies Shares using the Surplus of the Settlements (*Sopravvenienze attive su*

⁴⁴² The Shareholders' Capital values from the Balance Sheets had been deflated by the Price index, year of reference 1939, calculated using the Vecchi Series of the Pil per capita and 1939 as reference year, VECCHI, G., *In ricchezza e in povertà: il benessere degli italiani dall'unità a oggi*, Bologna, Il Mulino, 2011

⁴⁴³ See I.R.I., *Relazione del Consiglio di Amministrazione*, 1937, approved in April 1938

Titoli), a fund required by the statute of I.R.I., that was part of the Equity and at the same time was used to re-evaluate the Shares owned. This process increased the Equity and the Shares entries at the same time. The increase in the Shareholder Capital had been carried on by the State in the years 1937, 1941, 1946, 1947, 1948, 1951, 1952, 1958 and 1959, see the changes in Graph 29. The increase in nominal value of the Shareholder Capital was obligated by the change in the real value of the Lira, influenced by a strong inflation, and for this reason I.R.I. needed financial help to keep up with its aims. Furthermore, during the World War II years (1940-1945) and after 1948, I.R.I. increased its financial necessity due to the special goals pursued during these two periods: in the first one, war production and self-sufficiency due to the special situation, in the latter because of the new role of I.R.I. in the economic development of Italy.

Although, as we have seen, the Ratio of the Third Owned Companies' Shares suffers from the changes in the Shareholder Capital, it is still able to give information about the evolution of the periods of I.R.I. and it helps to demonstrate that the exceptional reduction in the values of the Thirds Owned Shares is due to the increase in the values of the Total Assets due to the increase of the Shareholder Capital, and on the other hand, it also put evidence on the importance for the State to finance I.R.I. to allow it to pursue its goal.

4.2.3 - The Third Owned Companies Credits

It calls a special awareness the classification used by I.R.I. for the Credits toward Companies in Portfolio.⁴⁴⁴ They are considered as part of the Thirds Owned Companies Portfolio, although they are Credits for loans toward owned companies, not to be mistaken for the Bonds that are included in the Section Debits of the

⁴⁴⁴ When I use the word Portfolio I intend to include the Third Owned Companies entries, the Shares and the Credits. See also footnote 405.

Liabilities, if emitted by I.R.I. or Credits, Assets, if bought as a form of financing Private Companies.⁴⁴⁵

This situation is due to the role of I.R.I. related to the recovery of the Companies and their privatization. For this reason, the interest of I.R.I., at the beginning, was not the total control over the companies that could have been carried out through the possession of the majority of the shares of the Thirds Companies, but the financial help to allow them to recover from the difficulties and be independent.

In fact, Shares and Credits toward Companies in Portfolio are two ways to give financial help to the same Companies, but while the latter leaves the Company independent in its decision making, the first allowed I.R.I. to control the Company.

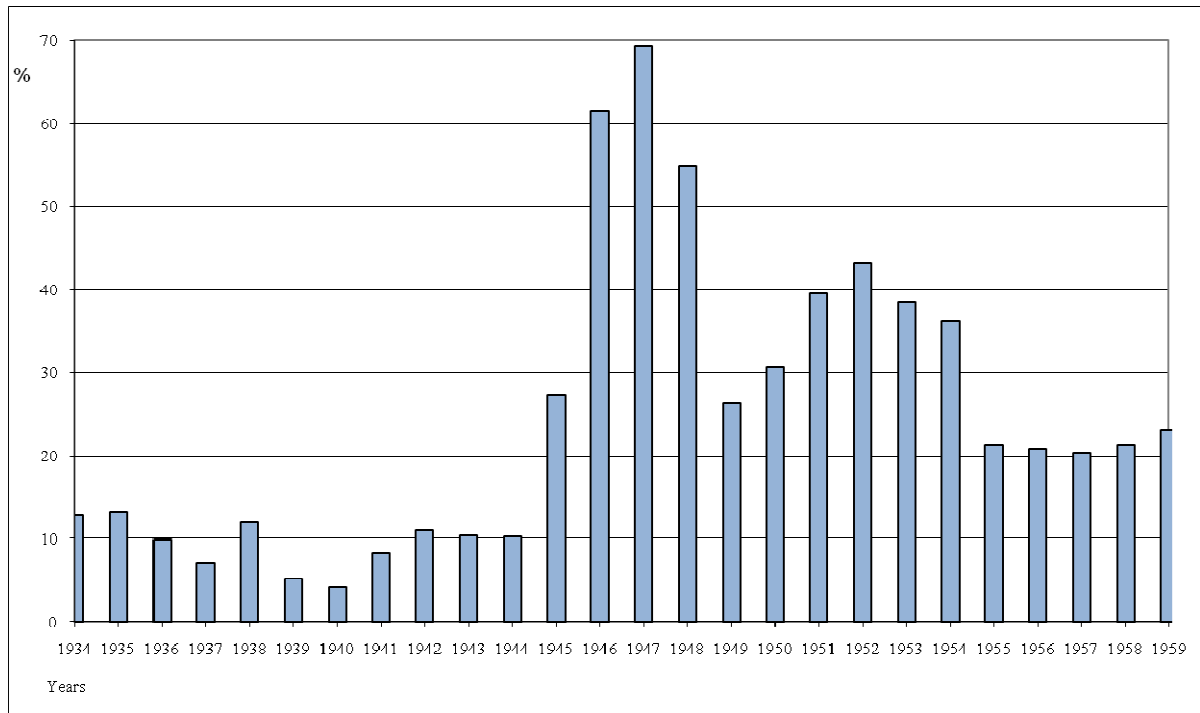
Graph 30 shows the percentage of the Third Owned Companies Credit over the Assets, as in Graph 27 for the Shares. In this case, we can see that I.R.I. was not interested in financing the Companies until 1945.

In fact, throughout the considered period the Credit shows two different trends: the first one from 1933 to 1944, when its percentage is around 10%, while from 1945 to 1948 the percentage is very high because the activity of I.R.I. was reduced due to the sabbatical period that the new State took to consider whether to keep I.R.I. alive or to close it up. For this reason, I.R.I. was not allowed to increase its Shares but it was allowed to finance the Company in order to help them to manage themselves and produce goods that may be necessities, until the decision of what to do with them had been taken.

After this, when the decision was taken and it was decided that I.R.I. would be kept, the Credit of Third Owned Companies acquired importance, and its percentage had been around 40% until 1954 and then 20% from 1955.

⁴⁴⁵ The data I use here is elaborated by Financial Statement Analysis of I.R.I. and calculate the Shares and the Credits separately.

Graph 30 – Third Owned Companies Credit over Total Assets



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, 1933 - 1959

For better understanding of the change in the importance of the use of the Credit⁴⁴⁶ instrument instead of the Shares, it is useful to compare the percentage of each of the instruments over the total amount of ‘Investment on Third Owned Companies’, understood as the sum of the values of Financing and Shares into Third Owned Companies indicated in the Balance Sheet in the column of the Assets.

Graph 31 shows the percentage of the Credits and of the Shares over the Total Portfolio. As we can see, the Credits were lower than the Shares, until 1944, and their percentage is moving from 70% to 80% in 1937, and then it increases to reach the level from 84% to 89% until 1944.

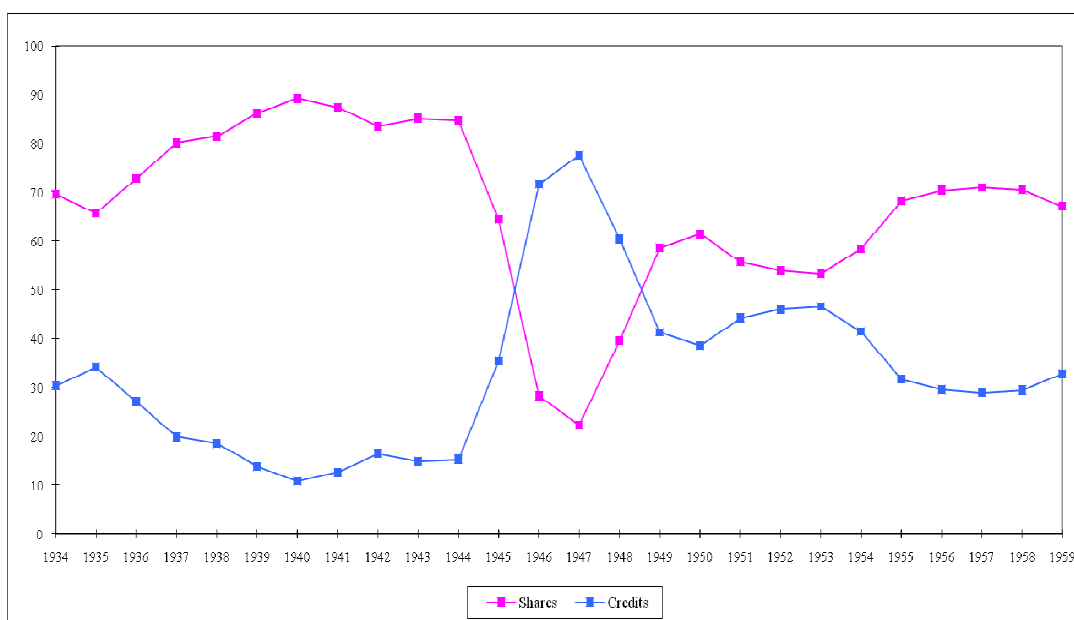
Then in 1945, it decreases to 65% for the shares and increases to 35% for the Credits, and during the period from 1946 to 1948 the percentage was completely the opposite, with 70% of the Credits and 30% of the shares. This period is the complete opposite of the one before and of the one after. In fact, from 1949 the percentage of

⁴⁴⁶ The Third Owned Companies Credit indicates the financing that I.R.I. was conceding to the Companies they want to help, or promote, in their activities.

the Shares are again more than the Credits but with a lesser gap, the shares moving from 53% to 61 % and the Credits from 37% to 45%.

During the period from 1946 to 1948 I.R.I. used the opportunity to finance through Credits more instead of investing in the Companies buying Shares. In fact, the increase in the values of the Credits during this period comes from the concession of new Credits. This activity was coherently carried on with the new goal of helping the Companies but not increasing its ownership on Thirds Owned Companies.

Graph 31 – Percentage of Third Owned Companies’ Shares and Credits over Portfolio



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

Instead, we observe that, from 1936, I.R.I. increased its Shares to 90% in 1940, while during the period from 1936 to 1944 the percentage rounded out to 80-90%. The ownership of the Shares is important because it allowed a complete control over the Companies.

So, during the period in which I.R.I. was mostly the hand of the State in the economy and played the role of the Institute for the Autarkic policies, the percentage of shares were higher because this was the way through which I.R.I. was developing its role and at the same time exerting its decision-making power over the Companies

in Portfolio. After the end of the Second World War, we can see how the use of Credits and Shares change and even if the use of the Shares instruments is still important it is more equal to the Credits one.

4.2.4 - The Settlement of the Thirds Owned Companies Shares and Credits

As seen, the Statute of I.R.I. stated the opportunity to sell the Third Owned Companies' Shares in which the state was not interested, or introduced the idea to use uniformed criteria to manage the companies that the state has no interest in preserving.⁴⁴⁷ For I.R.I., the action of liquidation also meant the process of settling the Credits or Shares that it was not able to sell back to the market - the first of the aim of I.R.I..⁴⁴⁸

In fact, the major goal of I.R.I. indicated in the statute was reorganization to settle the Companies and sell them back to the private market or, if not possible, to close them up, the solution adopted in the case that the Shares had no value on the market, and in the case that the Credits were considered uncollectible.

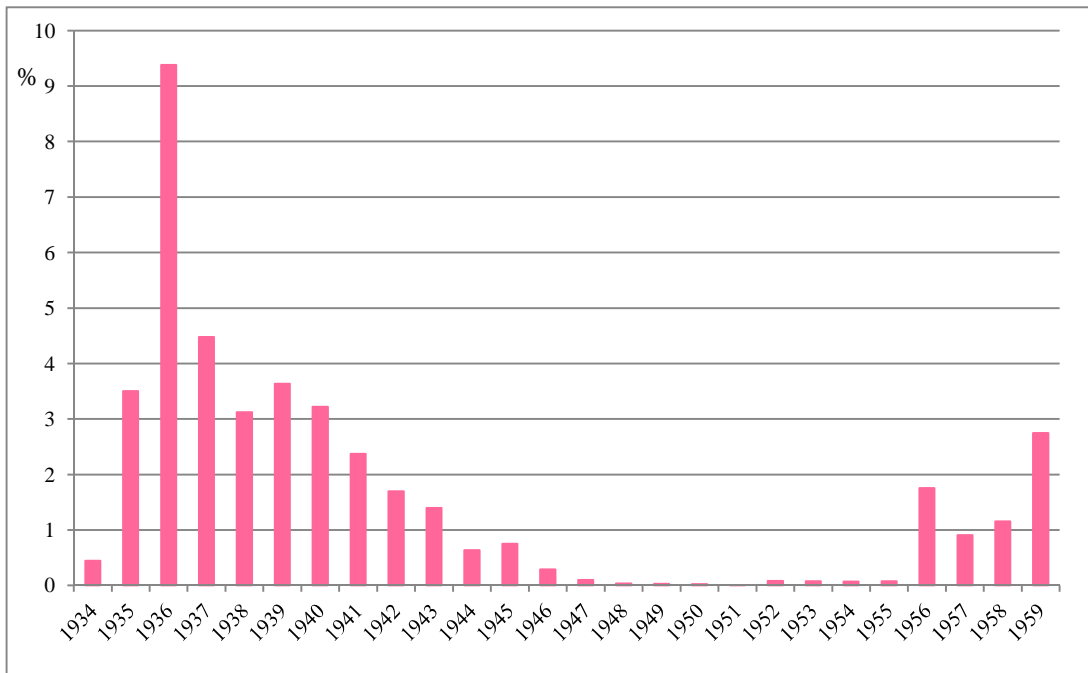
The percentage of Total settlement is shown in Graph 32.⁴⁴⁹ As we can see the highest percentage was in 1936, just before the transformation to a permanent Institution, while the other years from 1937 to 1940, I.R.I. carried on a modest activity of Settlement, and contemporaneously I.R.I. bought some new companies to meet its goals, and increased the Portfolio.

⁴⁴⁷ See article 1, paragraph 3, of I.R.I.

⁴⁴⁸ See article 1, paragraph 3, of I.R.I.

⁴⁴⁹ The percentage of Settlements is calculated Total Settlements over the Total Portfolio, that is equivalent to Third Owned Companies' Shares added to Third Owned Companies Credits, in which are included also the Shares and Credits that are to be settled. In the Balance Sheet there are the 3 separated entries. See also footnote 405

Graph 32 – Percentage of Total Settlements over Total Portfolio, 1934-1959

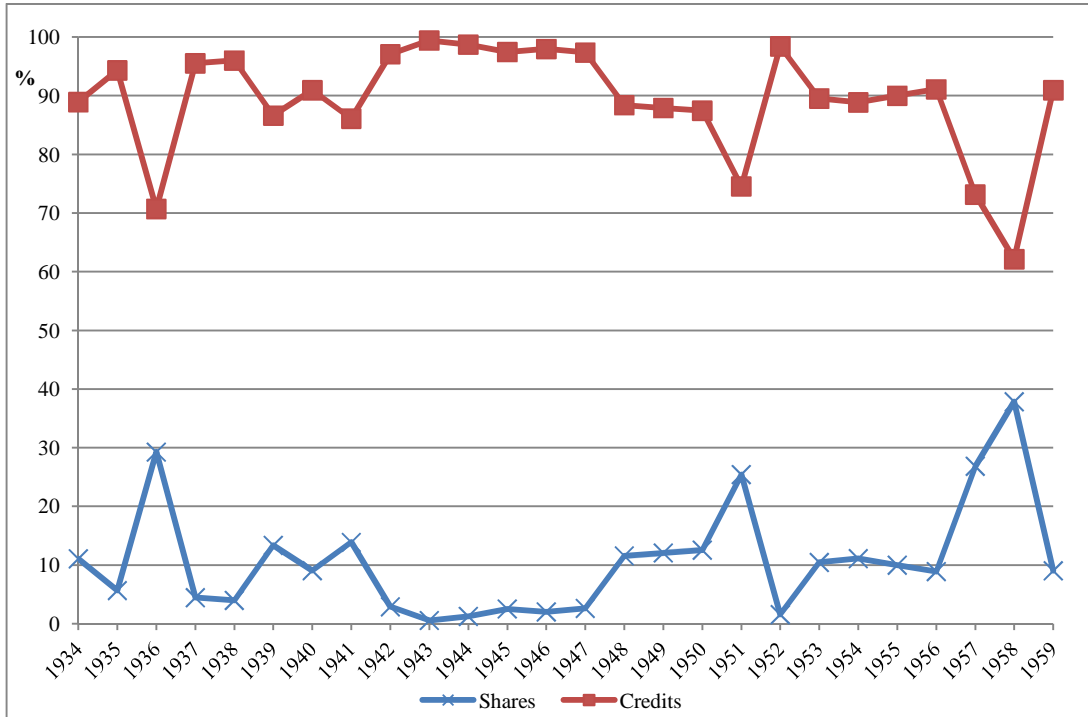


Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

Furthermore, an important aspect of the Settlement process is the redistribution between the Credits and Shares, as shown in Graph 33: the highest percentage of Settlements was carried on for the Credits and not the Shares. This meant that I.R.I. was reducing more the Credits of Third Owned Companies inherited by the Banks, than the Shares, and consequently the control over the Thirds Owned Companies.

The fact the reduction of the Portfolio had not been in the selling of the Companies Shares to the private market, but the reduction of the Credits, that in some way is contrasting the idea of the temporary I.R.I. already in 1936, but it can also introduce the idea that Third Owned Companies' Shares were much more difficult to settle for the difficulties of the national economy and industrial sector to buy and invest in some sectors.

Graph 33 – Percentage of Settlements in Shares and Credits related to the Total Settlements Portfolio

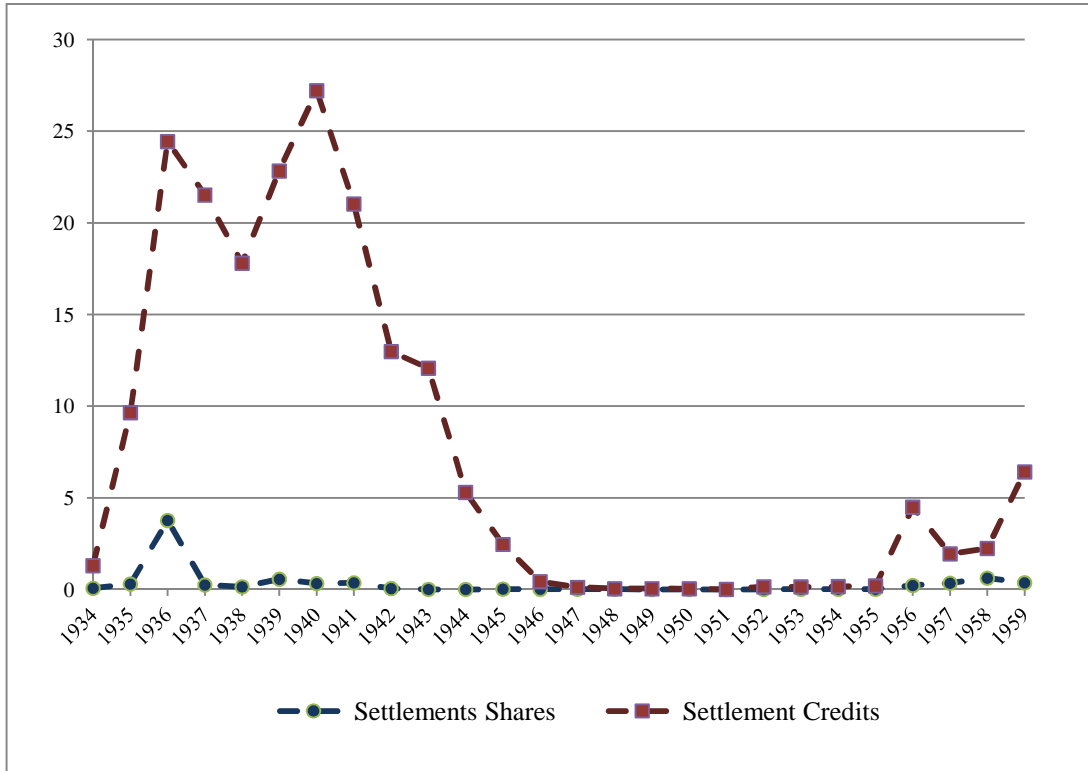


Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

In Graph 34 the percentages of settlements are calculated related to their correspondent Total in Total Portfolio, the Settlement of the Shares related to the Third Owned Companies' Shares and the Settlement of the Credits related to the Third Owned Companies Credits, both including the Settlements in their total sum.

This graph also shows that the percentages of the Credits are higher with respect to the values of the Total Credits in Portfolio, while the settlements of Shares are very low. The activity of Settlements has in itself influenced the portfolio, starting from 1937. On the other hand, the year of 1936 present in this case and for all the data considered a pick, confirming to be the year with important decisions taken with the Portfolio.

Graph 34 – Percentage of Settlements of Credits and Shares related to their Total in Total Portfolio



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

The reason that drove I.R.I. to take this decision and this path may have been the difficulties the experienced in regaining the Credits from the Thirds Owned Companies, or on the other hand, and in my opinion more realistic,⁴⁵⁰ is the fact that I.R.I. faced difficulties to resell to the market the Shares owned. If the latter would be case, I.R.I. would find itself becoming permanent due to the difficulties in selling the companies.⁴⁵¹

Although in Graph 33, the Shares in 1936 were 30% of the Settlements, the highest value ever, and being 1936, the year in which the Total Settlements were the

⁴⁵⁰ See D'ANTONE, L., "Da ente transitorio a ente permanente", in CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 167

⁴⁵¹ See D'ANTONE, L., "Da ente transitorio a ente permanente", in CASTRONOVO, V., (ed.) *Storia dell'I.R.I. Dalle origini al dopoguerra 1933-1948*, Vol. 1, Bari, Laterza, 2012, page 167

highest, see Graph 32, it suggests that I.R.I. was facing a definitive reorganization of the Institution getting ready to transform itself from temporary into permanent.

From 1943 the only activity of Settlements interested the Credits, although the decisions taken during this period were regulated by Law, due to the special situation of Italy that was divided in two parts by the war and also I.R.I.'s Third Owned Companies were divided depending on the geographical position.

The Settlements may generate a Surplus in case the selling price was higher than the entry value of the Company Share or Credits registered in the Balance Sheet, fund required by the Statute of I.R.I., in Art. 20, and that had to be added in the Special Reserve Fund art. 20, as an addendum to the Equity.

The surplus is calculated by the difference between the selling price and the values of the Credits or Shares present in the accountant's books at the moment the Third Owned Companies' Shares were sold.

The entry Surplus of the Settlements significantly increased the values of its entry and in 1948 was used to re-evaluate the Shares in the Portfolio. This process increased the Equity, entry of the Total Liabilities, and the Third Owned Companies' Shares, entry of the Assets, at the same time.

Although these values may present some distortion created by the sudden changes in the Total Liabilities, for the years in which the Institute had been less influenced by the external situations and managed responding to the rules, the Ratio is still reliable⁴⁵² to be used in the analysis and comparison.

On the other hand, this special situation of the years 1946-1948 shows that when the Institution acts in an economy in difficulties after the end of a war, the State is the most important financier of these Institutions.

⁴⁵² See FRIDSON, M., ALVAREZ, F., *Financial Statement Analysis*, 3rd Edition, New York, Wiley & Sons, 2002

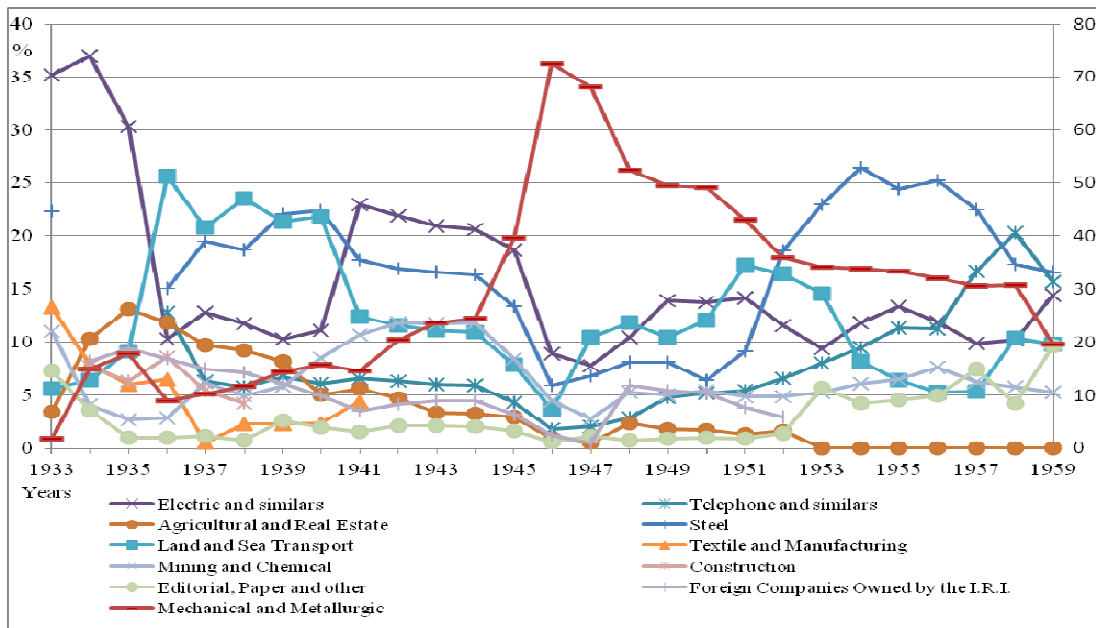
4.3 - The Sectors of Third Owned Companies' Shares of I.R.I.⁴⁵³

The Sectors of Third Owned Companies' Shares in Graph 35 shows the percentage of the Shares for each sector in which I.R.I. invested, from 1933 to 1959. The evolution of the percentage shows the changes in ownership suffered by any sector.

As we have seen, from 1933 to 1936 the Sector of Sea Transport had major investments, as I.R.I. was trying to reorganize the sector. But after 1936, the Mechanic and Steel sector had the major role in the investment made by I.R.I. until 1945.

Graph 35 shows the percentage of Third Owned Companies' Shares for each sector.

Graph 35 – Percentage of Sectors of Third Owned Companies' Shares (1933-1959)
(Mechanical and Metallurgic on the Right Axes)



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

⁴⁵³ The last work on the major sectors owned by I.R.I. is presented in the books AMATORI, F., (ed), *Storia dell'I.R.I. Il miracolo economico e il ruolo dell'I.R.I.*, vol. 2, Roma, Laterza, 1998, and RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un gruppo singolare*, vol. 5, Bari, Laterza Editori, 2015

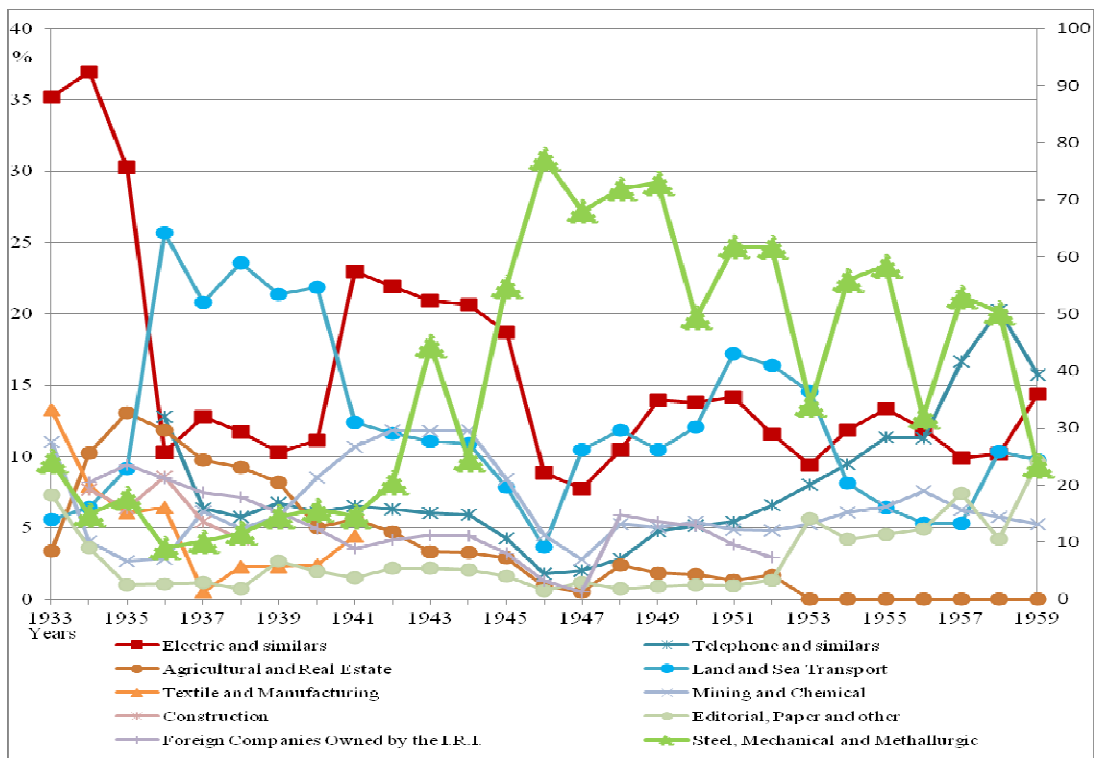
As we can see, the Land and Sea transport and the Steel industry are the most important groups during the period from 1936 to 1940, while the electric and Mechanical and Metallurgic are second in equal position.

During this period these sectors received a higher percentage of investments than the other sectors, as seen in Chart 1 and Chart 2.

4.4 - The Sectors of Third Owned Companies' Shares of I.R.I. revisited by the Classification used by I.N.I.

As said in Chapter 3, I.N.I. classified its companies by other rules. The lists of the companies help to understand and remake a classification of the ones of I.R.I., that I present in Graph 36.

Graph 36 – Percentage of Sectors of Third Owned Companies' Shares revisited with the Classification of I.N.I. (Steel, Mechanical and Metallurgic on the Right Axes), 1933-1959



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

The changes suffered by percentage of the Steel, Mechanical and Metallurgic sectors shows how important the sector became for I.R.I. after World War II, starting from 75% in 1946, while in the period before the war the percentages were around 10-15%, and the most important were the Land and Sea Transport and the Electric ones.

From Graph 35 we can also see that the Mechanic and Metallurgic had about the same percentage of the Steel industry in the period before war, while during the war until 1950 Steel reduced its importance and the Mechanic and Metallurgic were the major sector throughout this period.

After 1950, the Steel sector started to increase its importance and reached the same percentages as the Mechanic and Metallurgic.

4.5 - Return on Equity (R.O.E.), Profits and Dividends

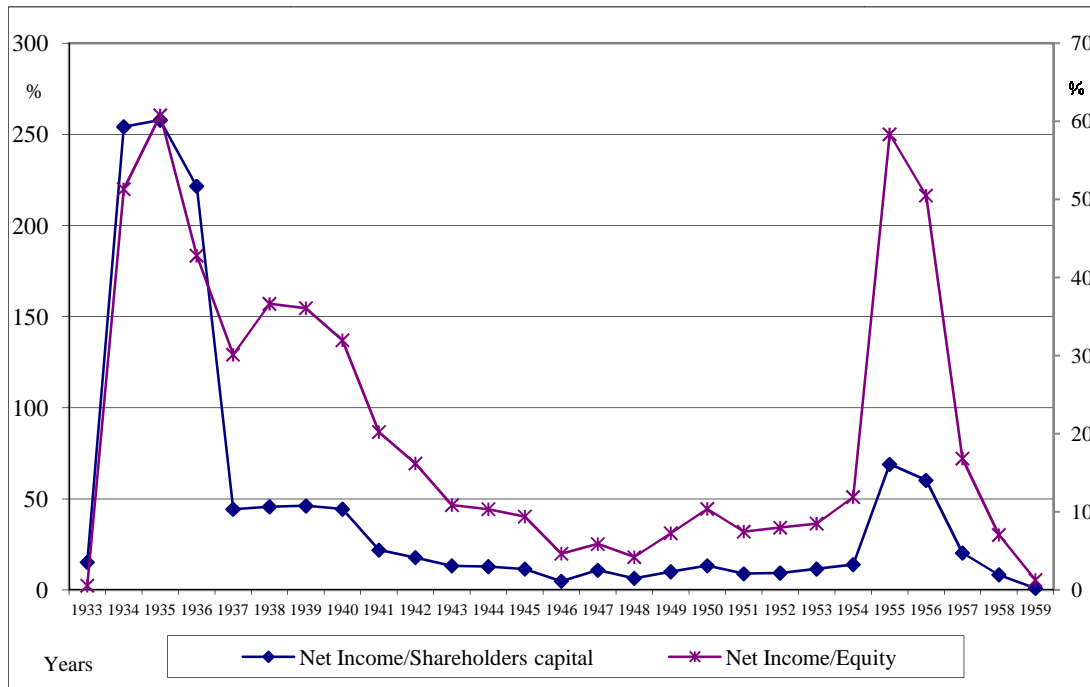
The Return on Equity (R.O.E.) as measure of the profitability is important as the Profitability is the most important goal of private corporations. In the case of I.R.I. it had always been considered as one of its aims, although, in practice, with different degrees depending of the periods.

This ratio is also important because during the Total Autarkic polices for war,⁴⁵⁴ profitability is not pursued and the production had to be done at any cost. The understanding of the R.O.E may help to identify if any period may respond to this definition.

This is also true for the sub-period between 1933 and 1959, for which I calculate the Ratio and present it in Graph 37.

⁴⁵⁴ See Chapter 2.

Graph 37 – I.R.I.: R.O.E. Ratio for Net Income related to Shareholder’s Capital and Shareholders Equity (Right Axis)



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

As we can see, the Return on Equity calculated in both ways shows that from 1937 the trend was negative for both during the period of partial autarky, from 1937 to 1940, and then when Italy got involved in the war, both reduced their values to under 10%, from 1943 to reach 5% or even less from 1946-1948.

The ratio presents a high percentage during the period of the temporary I.R.I., when the most important role of I.R.I. was the reselling of the Third Owned Companies’ Shares to the market. Those percentages also meant that the process of reselling to the market interested the companies in good condition and who were profitable, while the drop of 1937.

The reason had to be looked at the amount of Third Owned Companies’ Shares sold into the market, as they were surely more profitable than the one left in the Portfolio of I.R.I. The percentage drop after 1936, the last year in which I.R.I. carried on the original aim as a temporary institution.

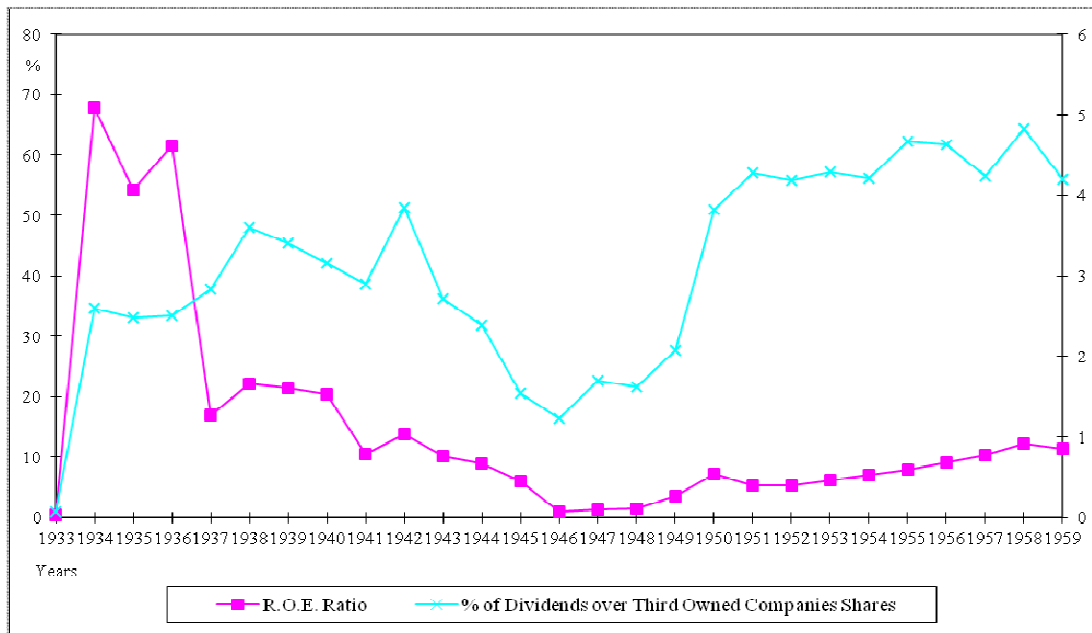
As for I.R.I. the major goal is the managing and reselling of the Third Owned Companies’ Shares, it will be useful also. In fact, in Graph 38 we can observe the percentages of the Dividends over the Third Owned Companies’ Shares. These

values decreased in 1935, but as Dividends decreased more than Shares, the profitability in 1935 was lower than in 1934. This situation may confirm that during 1934 the Companies or shares sold were wealthier than the ones which remained in portfolio.

In fact, the trend of the percentage of the Dividends respect to Third Owned Companies' Shares, in Graph 38, tend to decrease until 1948, when both start to increase again, even if with striking differences from 1954.

So, these trends put in evidence that during the war autarkic periods, or even a partial autarkic one, the profits of the investment are not a goal anymore, as production at any cost is the new goal.

Graph 38 – I.R.I.: R.O.E. Ratio for Dividends related to Shareholder's Equity and Percentage of Dividends related to Third Owned Companies' Shares (Right Axis)



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

Instead, the increase in the year 1936 that is observed is due to the rise of benefits from the selling the Third Owned Companies' Shares and from the Reserve

funds that were diminished and redistributed,⁴⁵⁵ that incremented the Dividends values, while the Shareholders Equity was the same. Nevertheless, the percentage of the Third Owned Companies' Shares in 1936 is slightly more than the previous year.

On the other hand, the percentage of R.O.E. dropped drastically in 1937, and it was caused by the increase of the Shareholder's Capital - part of the Shareholder's Equity - which, thanks to I.R.I. Act of 1937, became 1000 billion lire. This change in the Capital was related to the change of the goals of I.R.I. due to the process of transformation into a permanent Institution. From the goal of selling the shares or Companies it passed to carry out one of managing the Third Owned Companies' Shares in portfolio in the year of 1937, with the new aim of organizing them into instrument of the partial autarkic policies that Fascist Government planned to carry out for all Italy.

Then, from 1938, the trend of the R.O.E., as shown in Graph 38, presented a negative result, until 1946. During this period the year 1941 presented an important drop in the percentage, as it was for 1937. This was again caused by the increase of Capital Share, that became 2000 billion Lira. In fact, the other percentages decrease constantly, creating the sensation of a constant diminishment.

For the R.O.E. Ratio we can observe, in Graph 38, an increase in the values of 1938 with respect to 1937 and in 1942 with respect to 1941. These were the result of changes in the regulation of the use of Reserve funds that became at the disposal of I.R.I. and were redistributed as Dividends, increasing their values.

The increasing in the values of the Dividends is reflected also in the percentage of their values in relation to the Third Owned Companies' Shares, Graph 38, that in 1938 and 1942 show a peak in their percentages, that differ from the other years.

I.R.I.'s downward trend in the percentage of the R.O.E., reached its lowest point in 1946, around 1%, and from 1946 to 1948 the percentages were stable around 2%. These are the first three years of the post-war period, when I.R.I. goals were limited to manage the business activities still owned, awaiting the final

⁴⁵⁵ See MINISTERO DELL'INDUSTRIA E DEL COMMERCIO, 1956

decision of the State about its future. For this reason, one may understand why the R.O.E did not present any variation.

As anticipated above, the profitability appears also in the definition of the autarkic features: in fact, it is by definition that during the autarkic periods the profitability of the Company decreases its importance, or disappears completely. Besides, the degree of importance of profitability is the element that differentiates the total autarkic policy to the partial one, an aspect that is important for this comparison, because two to the sub-periods of I.R.I. – from 1937 to 1939 and from 1940 to 1943 - were of an autarkic type.⁴⁵⁶

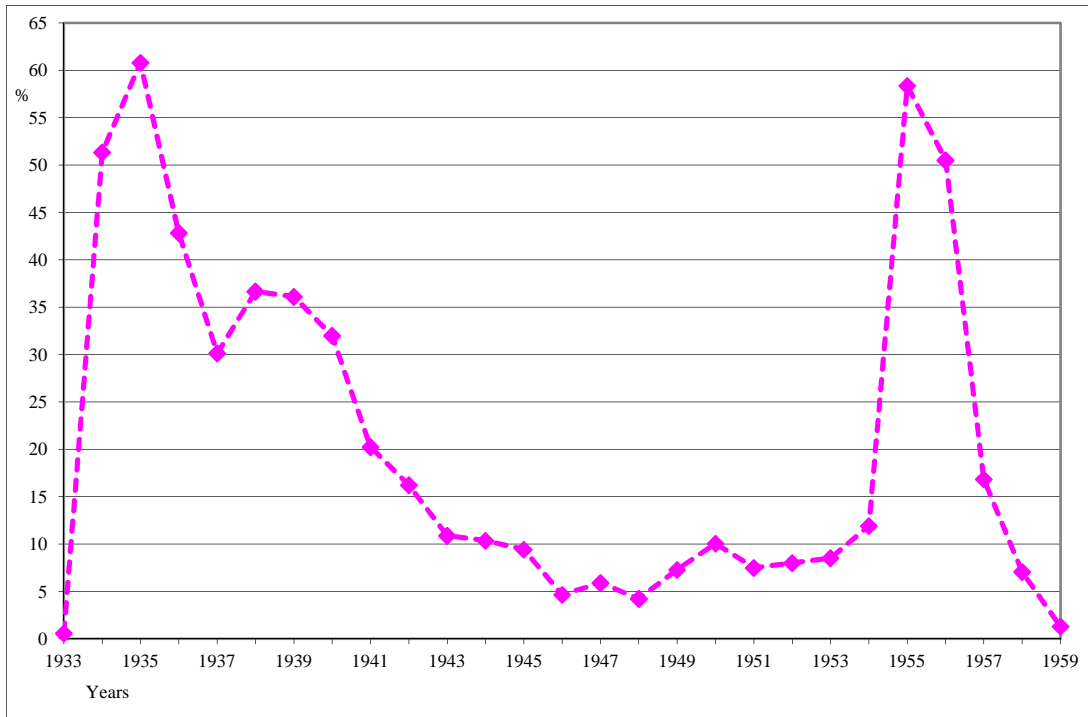
I.R.I.'s percentage experienced important changes during the period under consideration. In Graph 39, we can observe that I.R.I. presents sub-periods in the evolution of the percentages: while in 1933 the percentage is zero, from 1934 to 1936 the trend had an unstable evolution, different from any other. A second sub-period is the one that started from 1938, with a negative trend, and finished in 1946. After that year, a third sub-period begins, with a positive trend that continued until 1954, although this is a very difficult moment in the post-war period.

The years of temporariness for I.R.I., from 1934 to 1936, present higher percentages of profits. This is due to the returns from the sales of the owned shares to the private market, complying with the goal for which the institution was created.

The percentage of 1934 is understandable because it was the first year in which I.R.I.'s activities were directed to carry out its major goal to sell the Third Owned Companies' Shares to the market. It is in this year when I.R.I. carried out an important sale of Companies or shares of Third Owned Companies, in portfolio since 1933. These shares or Companies sold during this year, were the ones that the market could buy with less economic effort or that were in better economic conditions with respect to the ones which remained in portfolio.

⁴⁵⁶ For these reasons, the comparison of I.N.I. Ratio to I.R.I.'s one is important to determine if I.N.I.'s percentages were similar to ones of the autarkic periods of I.R.I. See Chapter 5.

Graph 39 - R.O.E. of I.R.I. with respect to the Shareholders Equity



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

In fact, in Graph 38 we can observe the percentages of the Dividends over the Shares of Third Owned Companies. These values decreased in 1935, but as Dividends decreased more than shares, the profitability in 1935 was lower than in 1934. This situation may confirm that during 1934 the Companies or shares sold were wealthier than the ones remaining in portfolio.

From 1948 the R.O.E started a positive trend that did not stop until 1954, stabilizing around 8%. However, even if the percentage of the R.O.E seems to go back to the war period level, more exactly as in 1944 and 1945, there is another feature of the trend that is important for the analysis of the degree of importance of profitability. The autarkic period, both total and partial, from 1937 to 1943, presented an important decrease in the R.O.E percentages. This may arguably be the result of a diminished importance of profitability as an aim for I.R.I.

From 1946 to 1954 R.O.E started a positive trend that slowly increased the percentage from 0,5% to 7%. The same increasing trend was the one of the index of the Dividends related to the Third Owned Companies' Shares. It seems that in the

post-war period of I.R.I. the Third Owned Companies' Shares were diminishing in their values. This aspect may suggest that in the post-war period the goals of I.R.I. were realized by another type of methodology – probably through the concession of loans to Third Companies instead, rather than buying them.

However, analysing the trend under the aspect of the importance given to profitability as an aim, the trend of I.R.I., when the percentages passed from being around 20% to 10%, differentiated itself during the autarkic period and the other periods, at the beginning of the war in 1941, to 5% in 1945, and to almost 1% in 1946, which confirms the existence of a special management of I.R.I. depending on the sub-periods.⁴⁵⁷

4.6 - The profitability of the typical business activity of I.R.I.

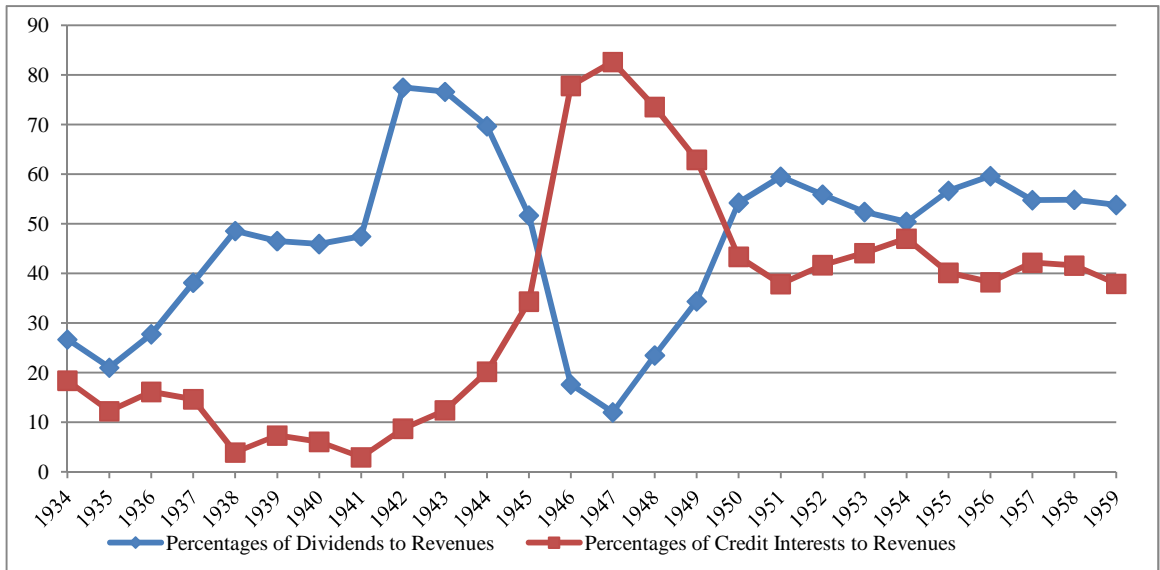
As the activity of I.R.I. is the management of the Owned Shares and their Credits, it may help to understand better the activities of I.R.I., considering the importance of the Dividends of the Third Owned Companies' Shares, because it is the profit of the typical business activity of the Company, with respect to the Revenues,⁴⁵⁸ but also the Interests produced by the investment of I.R.I. in the Third Owned Companies Credits.

In Graph 40 the percentage of the Dividends and the Interests from Credits are related to the Revenues, both of which are entries in the Income Statement.

⁴⁵⁷ For this reason it is a useful Ratio to compare I.R.I. and I.N.I. See Chapter 5.

⁴⁵⁸ Dividends are an entry of the Income Statement, among the Revenues, in the Profit Column.

Graph 40 - Percentages of Dividends and Credit Interests over Total Revenue



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

As we can see, the Interests of the credits are very low until 1945, in correspondence to the increase in the Credits conceded, as we have seen before in Graph 31, while until 1945 the dividends of the Shares were the most important profit for I.R.I., if not the only one in 1942.

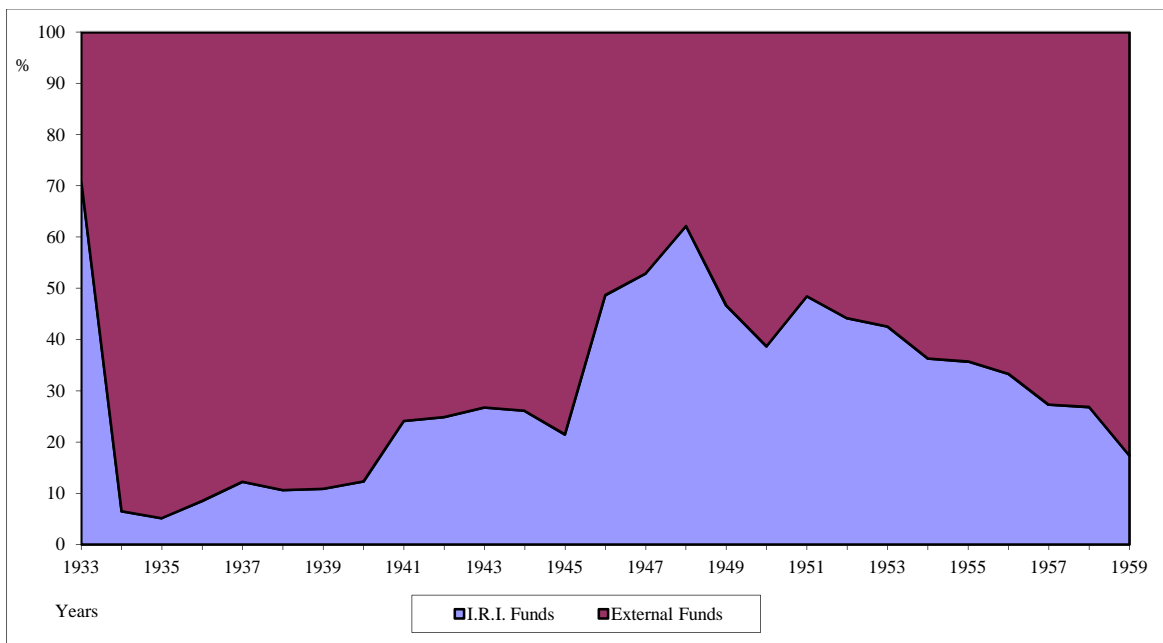
We can observe that from 1938 to 1941 the Dividends were one of the most important sources of income, and also after 1949. But, while in the first period the Credit Interest was not important, less than 20%, after 1949 the percentage doubled. In fact, the Credit instrument was used much more than before, as seen above.

The importance of the Dividends decreased and the ratio of the Dividends over the Third Owned Companies' Shares explain how poor the performance of the Companies owned by I.R.I. was, and how much it was costing the Equity investment in Third Owned Company Shares.

4.7 - The Internal and External funds of I.R.I.

Graph 41 shows the percentages of the Ratio of the Solidity of Equity, that measures the proportion between the internal funds of I.R.I. and the external one. The percentages are very low and its importance increases with the time, a steady and continuous increase during the autarkic periods, as I.R.I. had been the hand in the economy for the Italian State.

Graph 41 - Percentages of I.R.I. of Internal funds⁴⁵⁹ and External Funds



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959

There is a clear division for the pre-war and war period and the post-war, but not as much as for the other Ratios calculated until now.

Since 1934, I.R.I. presents a positive trend marked by some years of sudden increase, when the percentage was two times that of the previous year, and was then sustained by 3 or 4 years of stable trend. This special trend helps to identify some

⁴⁵⁹ The internal funds of I.R.I. are equal to the Shareholders Equity

sub-periods that are very similar to the ones determined by the different economic policies of the Fascist Government.

In fact, from 1934 to 1936, the percentages for I.R.I. were around 6%, but after this short period, three years of positive trend started, until 1937, when the percentage became 12%, and then from 1938 to 1940 it remained stable around 10 - 12 %. Next, in 1941 it doubled its percentage, becoming 24%, and until 1945 the percentages remained stable around 24-26%.

Afterwards, from 1946 the percentage doubled again to reach 48%, followed by another slight increase for two years until 1948 to about 60%. Starting from this year to 1959 the percentages started a negative trend until 1959.⁴⁶⁰

The reasons for the changes in the percentages are of different natures. During the period from 1934 to 1936, the reduction of the percentage is explained by the reorganization of the Sea Transport companies. This reduced the amount of the Third Owned Companies' Shares and influenced, in turn, the Assets, and the Equity and the Total External Financing - as counterpart of the Balance Sheet.

Instead, the increase in values corresponding to 1937 is due to the increase in Shareholders' Capital, thus in the Total Equity of the Company, as happened in 1941, 1946 and 1948 – years in which the percentages doubled. Furthermore, from 1946 until 1948, as said, I.R.I. managed itself while awaiting the final decision about its existence.

We have also to consider that the major percentages of Shareholders Equity during the period between 1945-1948 is also caused by the fact that during this period the State invested in I.R.I. to allow it to manage the situation until the final decision if to keep it alive or close it up, but never emitted bonds.

⁴⁶⁰ Di Meo calculates the relations between the composition of the financial funds, the one of the industrial activities of I.R.I. and external, from 1954 onward. What he observes is that the external funds are higher, more than double until the end of 1960. No information is given for the previous years. For my investigation, I look at the percentages from 1933 until 1959 and I agree with his results, although the ratio I use refers to the entries of the Liabilities and not of the industrial activities. Even though there is the difference in the entry, the evolutionary trend of its quotas is the same as the one in the index I present for the comparable years. See DI MEO, G., "I bilanci dell'Istituto dal 1933 al 1973" in RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un Gruppo singolare*, Bari, Editori Laterza, 2015 page 549.

After 1948, I.R.I. started its new role in the Italian post-war economy, and again the use of external financing was used and in fact the trend started to diminish.

However, it is clear that during the war autarkic period, if we exclude the exceptionality of 1945-1948, State support was more important for I.R.I.. This is important due to the fact that to higher values of external funds correspond to reductions on the independence of the Institution from the Financial Markets and with all the restriction the market may require. On the other hand, higher internal funds allow the Institution to be more independent from external influence.

This is an important aspect to keep in mind, as the independence from the external influences, or controls, is an important aspect that for I.R.I. acquired importance when it became permanent and its business activities were directed toward the commitment of the autarky.

Chapter 5

I.N.I. and I.R.I. compared: The Balance Sheet Analysis

5.1 I.N.I. and I.R.I. compared: The Balance Sheet Analysis - 5.2 The Third Companies shares owned by I.N.I. and I.R.I. – 5.3 Return on Equity (R.O.E.), Profits and Dividends – 5.4 Company Independence and Solidity of Equity - 5.4.1 The Internal and External Financing – 5.4.2 The Solidity of Equity - 5.4.3 Equity over Third Owned Companies' Shares

During this chapter I carry on the comparative analysis of the data presented for I.N.I. and I.R.I. in chapters 3 and 4. I will start by presenting the comparison of Third Owned Companies' Shares, then the comparison of the R.O.E for both Institutions, and then the Company Independence aspects and Ratios, such as Solidity of Equity, the Internal and External Funds, and the Equity with respect to the Third Owned Companies' Shares.

5.1 - I.N.I. and I.R.I. compared: The Balance Sheet Analysis

Throughout the previous chapters I have been presenting the historical background of the Spanish and Italian State-owned companies, but even more importantly, giving a characterization of the business activities and financial characteristics of each Institution, I.N.I. in chapter 3 and I.R.I. in chapter 4, in order to define the differences and similarities presented in the Introduction while comparing the Statutes Act, in the Background of research, and in chapter 2 while defining the different type of autarkies and their typical characteristics.⁴⁶¹

To answer the questions raised about the similarities and differences of I.R.I. and I.N.I., about their business activities and organization, the next step is the comparison of financial results expressed by the Ratios and the distinctiveness of each Institution presented, separately, in Chapter 3 and 4.

⁴⁶¹ See Introduction and chapter 2.

5.1.1 - The Third Companies Shares owned by I.N.I. and I.R.I.

The analysis of the weight of the Third Owned Companies' Shares, expressed as percentage of the Assets, helps to understand the importance of the shares that allow direct control over the Companies,⁴⁶² of their industrial policies and productions processes. For these reasons the amount of investment in shares also expresses the infiltration of the State in the economy, and its intent to control the production in the sectors considered strategic or important for national production by both Institutions and States.

If, in some cases, both these aspects would benefit if we could calculate the percentage of the ownership of the capital of each of the owned companies, but this is not the case. The percentage of ownership I will calculate is of significance as the entries included in the column of the Assets in the Balance Sheet are, not only the Third Owned Companies' Shares, but also the Third Owned Companies Credits and Bonds. The percentage of Shares is higher when the values of these later entries are lower, which means a stronger investment in Shares and thus in the owned companies capital for the control it gives over the company and, on the other hand, to satisfy the aims and polices of the Institutions.

For this reason, I consider that this ratio, in this particular case, is significant even if not accompanied by the calculation of the capital ownership of each company.⁴⁶³

As seen in the Introduction,⁴⁶⁴ the Statute of I.N.I. stated the opportunity to sell the Third Owned Companies' Shares in which the state was not interested, or introduced the idea to use uniformed criteria to manage the companies that the state has no interest in preserving.⁴⁶⁵ As I also mentioned in the second half of the same sentence, I.N.I. had the opportunity to sell the shares owned in portfolio, if the state

⁴⁶² The last paragraph of article 2 of I.N.I. indicates that the control over the Owned Companies is realized by the representative of the Spanish Institution in the Administrative Council.

⁴⁶³ Although other indexes exist through which the author evaluates the parameter of infiltration and control of the State, as shown in the work of VASTA, M., TONINELLI, P., *State-owned enterprises (1936-1983)*, unpublished, this index is still significant.

⁴⁶⁴ See Introduction the Statues Act paragraph.

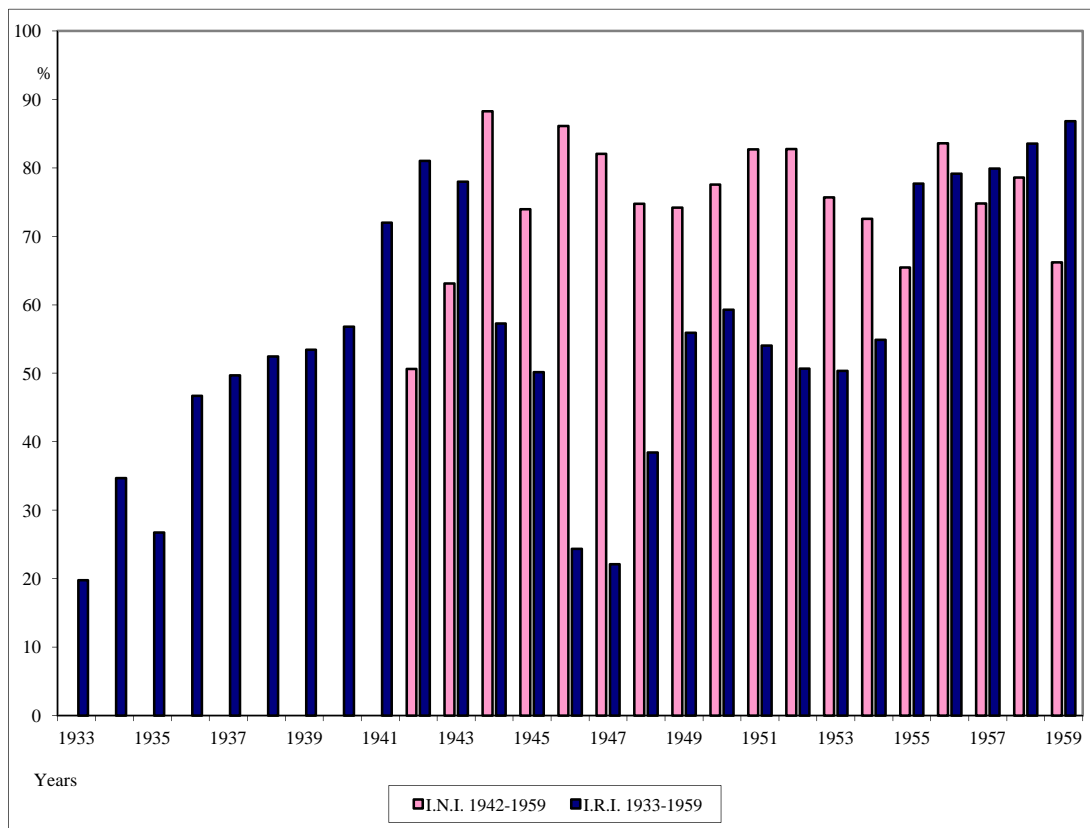
⁴⁶⁵ See Introduction the Statute Act and the Background Research.

did not consider them useful for its aims. The sentence, in both parts, is literally translated from article 1, paragraph 3, of I.R.I.'s Act.

For this reason, the comparison of the Third Owned Companies' Shares among the two Institutions will help to compare the business activities of both.

The evolution of the Third Owned Companies' Shares for I.R.I. and I.N.I. are compared in Graph 42.

Graph 42 – Percentage of Third Owned Companies' Shares, I.N.I. (1942-1959) and I.R.I. (1933-1959)



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959; for I.N.I., I.N.I. Archive, *Memorias I.N.I., 1942 – 1959*

As we can see from the Graph 42, the changes in shares of I.N.I. are concentrated in the first three years - from 1942 until 1944 - and since then the values are always around 70%; sometimes the percentage reaches more than 80% -

as in 1946-47 or 1952-53 – and just on two occasions, in 1955 and 1959, the percentage goes below 70%.

As we have seen before, for I.R.I. there is a difference between the pre-war and the post-war values of the percentage of the Shares: after the end of World War II, the percentage was stable and its tendency differed from the pre-war values. If we look at the values of I.N.I., we can see that the policies of this institution are similar to the pre-war and war values of I.R.I., when the shares were the most important instrument to pursue the goals of the institution and control over the companies, an important aspect for I.N.I. to foster the development of the industrial policies of that period.

Throughout this period, the percentage of I.N.I. is clearly nearer to that of I.R.I. of the entire Total Autarkic period, 1941-1943, and the tendency line seemed to be stable at this percentage, until the beginning of the 1950's when the Spanish economy started to change.

So, while I.R.I. diversified its percentages depending on the historical moment, I.N.I. kept its policies of investment in the capital of the owned companies, instead of switching to other types of investment, such as Credits or Bonds.

5.1.2 - Return on Equity (R.O.E.), Profits and Dividends

The profitability appears also in the definition of the autarkic features: in fact, it is by definition that during the autarkic periods the profitability of the Company decreases its importance, or disappears completely. Besides, the degree of importance of profitability is the key element that differentiates the total autarkic policy to the partial one, an aspect that is important for this comparison, because two of the sub-periods of I.R.I. – from 1937 to 1939 and from 1940 to 1943 - were of an autarkic type. For these reasons, the comparison of I.N.I. ratio to I.R.I. one is important to determine if I.N.I. percentages were similar to ones of the autarkic periods of I.R.I.

In Graph 43 the Profitability of I.R.I. and I.N.I. is compared. We can see that for I.N.I., the ratio percentage had always been around 0.5% in the period from 1947

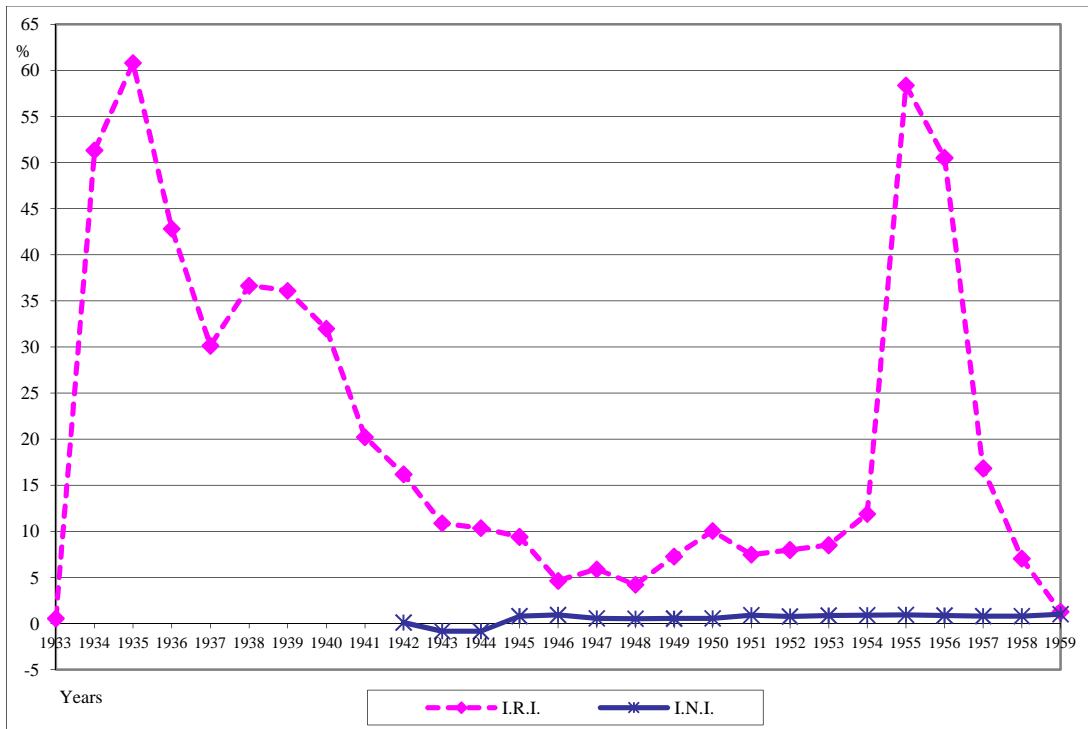
to 1950, and around 0.9% in the years 1951 to 1958. Then from 1959 to 1963, it started a positive trend and increased from 1% to 1.8% in less than 4 years.

Instead, for I.R.I., the percentage experienced important changes during the period under consideration. In Graph 43, we can observe that I.R.I. presents sub-periods in the evolution of the percentages: while in 1933 the percentage is zero, because zero was the value of the Dividends, from 1934 to 1936 the trend had an unstable evolution, different from any other. A second-sub-period is the one that started from 1938, with a negative trend, and finished in 1946. After that year, a third sub-period begins, with a positive trend that continued until 1954.

The years of temporariness for I.R.I., from 1934 to 1936, present higher percentages of profits. This is due to the returns from the sales of the owned shares to the private market, complying with the goal for which the institution was created.

The percentage of 1934 is understandable because it was the first year in which I.R.I. activities were directed to carry out its major goal to sell the Third Owned Companies' Shares to the market. It is in this year when I.R.I. carried out an important sale of Companies or shares of Third Owned Companies, in portfolio since 1933. These shares or Companies sold during this year, were the ones that the market could buy with less economic effort or that there were in better economic conditions with respect to the ones which remained in portfolio.

Graph 43 - R.O.E. of I.R.I. and I.N.I.



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959; for I.N.I., I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1963

However, analysing the trend under the aspect of the importance given to the profitability as an aim, the negative trend of I.R.I. during the autarkic period, when the percentages passed from being around 20% to 10%, at the beginning of the war in 1941, to 5% in 1945, and to almost 1% in 1946, is of special importance for the comparison with the R.O.E Ratio of I.N.I.

In Graph 43, we can observe that differently to I.R.I.'s R.O.E, I.N.I. ones had always been very low, it never went higher than 2%, and it had always been stable in its trend, but clearly not an important aim for the Institution. The years of I.N.I. that coincide with I.R.I. ones are from 1946 up to 1948, if we look at the percentages – from 0.85% to 1.5% for I.R.I. and from 0.92% to 0.5% for I.N.I.

But, as for I.N.I. in the period considered, from 1942 to 1963, they showed the same percentages and a complete disinterest in Profitability as an aim, I think that the period of I.R.I. which is more similar to I.N.I.'s one is of the autarkic period,

from 1937 onward, when the percentages dropped every year, constantly, because of the disinterest of I.R.I. in profitability as an aim, as it was, instead, in the previous period, from 1933 to 1936.

In conclusion, during the autarky the aim of profitability is a very low priority, if not inexistent. As I.N.I. never considered the option to significantly increase the percentages of the R.O.E, this constitutes evidence of the coincidence of the industrial and economic policies of I.N.I. and I.R.I. of the autarkic periods.

5.1.3 – The Company Independence and Solidity of Equity

The financing of the company happened using external funding or internal funds, the Shareholders Capital as first entry of this type, Revenues and earnings.

In the case of I.N.I. and I.R.I. the Shareholders' capital is also an internal fund as it is formed by the funds received by the State for this purpose, and in some occasions increased depending on the financial necessity of the Institutions, as happened in the case of I.R.I. in 1937, 1941, 1946 and 1948, for example, or for I.N.I. in 1945 to 1947.

I.N.I. was very careful about the use of external funds, and in some occasions so was the I.R.I.. This kind of partiality to accept financing its own business activities by external funds is due to the obligations subsequent to this kind of financing.

In fact, as these funds are given by an external economic agent, the consequences for the State-owned companies may go from accountancy control about the use of these funds that the two parts may agree about, to the – hypothetical - extreme extent of the veto over the business activities and the decisions taken by the State-owned Company. For I.N.I., and in some cases also for I.R.I., it was the control to which the Institution should undergo that in the major cases, stopped the use of potential financing from external sources.

The analysis of the financial aspects compared will help to understand their policies and decision toward the financing of their activities.

5.1.4 - The Internal and External Funds

The internal and external funds are important to determine the independence of the Company from external investment and control. If in the private market the ideal situation is to have external funds of at least 50% to take advantage of Leverage, for the State-owned Companies the situation is different.

For the latter category, the differences in the percentages of the External and Internal funds are significant to understand their dependence from the State, and the other way around, how much the State was interested in their activities and could control them using the way of financing.

In Graph 44, I.R.I. and I.N.I. are exactly the opposite: for I.R.I. the external funds were higher than the State funds, and present a positive trend until 1945, and a part of the 3 years of post-war, in 1948 the trend started again to increase their percentage, so that in 1959 it reached again the levels of percentage as it was until 1945.⁴⁶⁶

So, while I.R.I. changed along the period, the low percentages of I.N.I. demonstrate that the external funds were not important for its activities. This way of thinking started to change during the “*decenio bisagra*”,⁴⁶⁷ the decade in which the Francoist policies changed when the economy marked opened up, the Shareholders’ Capital were less and the use of the Capitals from the Private Market should have increased. In fact, the importance of the Shareholders’ Capital started to decrease at the beginning of the 50’s, and presented a sudden decrease corresponding to the *Plan de Estabilización* of 1959.⁴⁶⁸

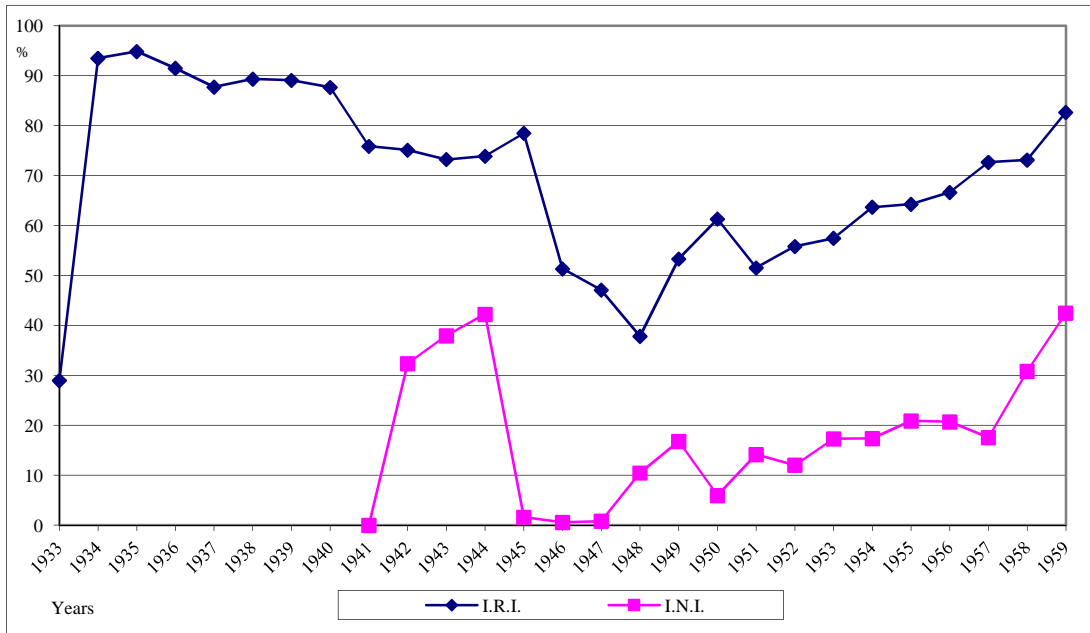
In the case of I.N.I. we have to consider also the ideology of President Suanzes, who was partial toward the private initiative in the economic sector, and even less in the business activities of the Institution he run.

⁴⁶⁶ See also Chapter 4 paragraph 7.

⁴⁶⁷ See Chapter 2

⁴⁶⁸ See Introduction and Chapters 1 about the Spanish economy.

Graph 44 - Percentages of I.R.I. and I.N.I. of External Funds related to Total Liabilities



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959; for I.N.I., I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1963

As we have seen before, the increase in the Total Liabilities⁴⁶⁹ due to the Retained Earnings (*Fondo di Riserva*) may be the reason for the increase in the Shareholders' Equity, and all these values increased the finance at the disposal of I.R.I. to invest, as it seems the Ratio presented.

In Graph 44 we can observe how the external funds were important for I.R.I. whilst I.N.I. did not. What we can observe here is that the external funds of the major part of I.R.I. were formed from the bonds that I.R.I. emitted to fund its activities, see for example the case of the Sea Transport Companies, and the emission of Bonds, and their extinction.

5.1.5 – The Solidity of Equity

The percentage of the latter expresses the part that is covered by the values invested by Shareholders while the percentages of the External funds express how

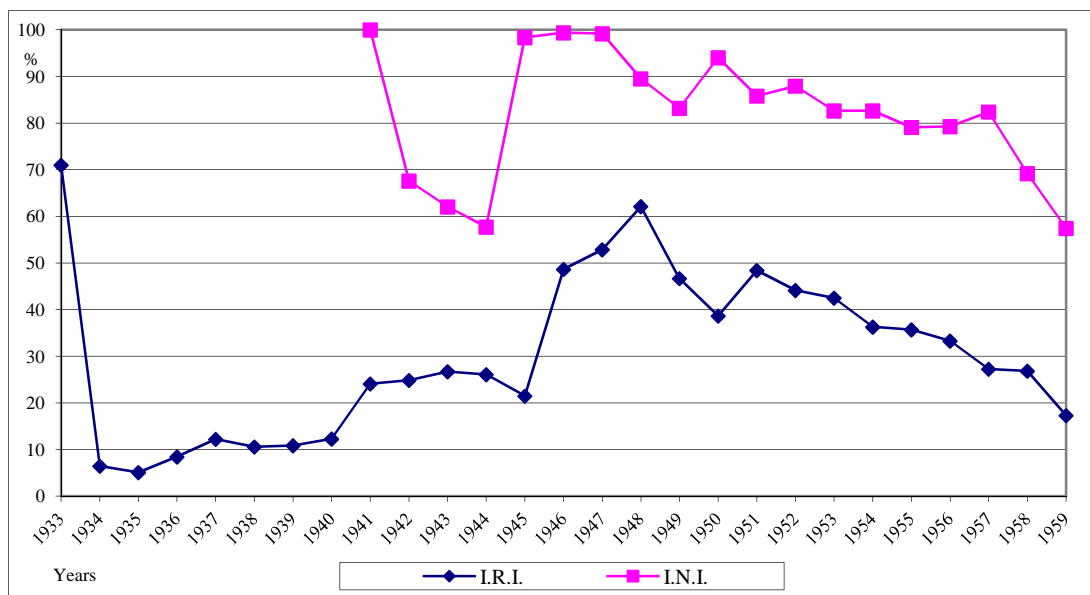
⁴⁶⁹ As defined in Total Assets = Total Liabilities= Shareholders' Equity + Liabilities. See Methodology appendix

much of the activities of the Institution are covered by external sources. Their relation between internal and external funds gives insight into how independent the companies are from external influences and how much, on the other side, they depend on State investments.

The Ratio of Solidity of Equity expresses in quantitative terms the relation between internal and external funds.

The Solidity of the Equity is one of the Debts Ratios group⁴⁷⁰ and corresponds to the relation between the Shareholders Equity and the Total Liabilities. The Ratio is the same as the one of the internal funds shown in Graph 45, but its percentage is looked up under a different point of view.

Graph 45 – Percentages of I.N.I. and I.R.I. of Internal Funds (also called Solidity of Equity)



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959; for I.N.I., I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1963

Financial analysis theory suggests that the percentage of the ratio of the Solidity of the Equity should be around 50%, not only because of the reduction of

⁴⁷⁰ See ROBINSON, T. R., VAN GREUNING, H., HENRY, H., BROHIHAN, M. A., *International Financial Statement Analysis*, New Jersey, John Wiley & Sons, 2009, FOSTER, G., *Financial Statement Analysis*, 2nd ed., New Jersey, Englewood Cliffs, 1986, FRIDSON, M., ALVAREZ, F., *Financial Statement Analysis*, 3rd Edition, New York, Wiley & Sons, 2002

the risk of investment of the Shareholders' Equity, but also because the combination of the two typologies of funds allows the Company to take advantage of the Leverage Effect⁴⁷¹ of the external funds.

In every case, the Solidity of Equity is an important aspect to be calculated and controlled by Private Corporations. This is because it has an economic influence over Profitability because the Company has to pay the interests calculated on the total amount of the External funds and on the Benefits because the interests paid reduce their amount.⁴⁷²

For Private Corporations the ability to collect external funds depends on how wealthy and solid the company is considered to be by the Financial Market. This means that the financial situation of the Company has to be known by the markets and, also, that the company has to prove its ability to invest in sectors or uses that may generate profits that allow paying back interests and debts.

As seen in the Introduction, the control over the activities was a difference between I.R.I. and I.N.I. For I.R.I., the internal auditing control was carried out by the *Collegio Sindacale*, whilst for I.N.I. this aspect was missing and the Government Council was the only mechanism that exerted any control on it.

For this reason, the comparison of the percentages of external and internal funds is important because it helps to understand the independence, or dependence, from external funds and from the Shareholders' Capital.

In Graph 45 the percentages of the Solidity of the Equity for I.R.I. and I.N.I. are presented. I.R.I. shows one of the highest percentages in 1933, the year of its foundation, when it received initial funding from the State to constitute the Shareholders Capital, and an extra fund that would be used for the payments of the values of the shares that the banks passed to I.R.I. between 1933 and 1934. Therefore, it is a high value, but also necessarily so, considering that I.R.I. had not

⁴⁷¹ See ROBINSON, T. R., VAN GREUNING, H., HENRY, H., BROHIHAN, M. A., *International Financial Statement Analysis*, New Jersey, John Wiley & Sons, 2009, FOSTER, G., *Financial Statement Analysis*, 2nd ed., New Jersey, Englewood Cliffs, 1986, FRIDSON, M., ALVAREZ, F., *Financial Statement Analysis*, 3rd Edition, New York, Wiley & Sons, 2002

⁴⁷² The convenience to contract an external fund is measured by the difference between the interest rate and the percentage of the profitability of the Investment in which the funds are used.

yet begun its activities, nor defined the economic relationships to be implemented with respect to the involved entities.

In fact, in 1934 the percentages were lower as I.R.I. started to see the loans accorded to the banks it saved from bankruptcy paid back.⁴⁷³ The other part of the percentage is formed by the debts toward the *Banca d'Italia*, received because of the activity of saving banks, and Bonds.

The analysis of this ratio suggests that I.N.I. and I.R.I.'s financing policies were different, confirming the fact that I.R.I. was more open to external funding than I.N.I., at least until 1945. Starting from this year, the percentages of I.R.I. increased, as shown in Graph 45, while the ones of I.N.I. reduced, and these trends support the idea of a convergence of the percentages during the first years of the reconstruction period for Italy, from 1948 to 1954, and the years from 1953 onward for I.N.I., when the economy started to open to private investments, after the First Francoism period.

On the other hand, the percentages of the First Francoism period did not coincide with the ones of the recovery program applied in Italy after the end of the World War II.

This situation does not exclude that any other period of I.R.I. may be more similar to the one of I.N.I., even if the percentages of the Solidity of the Shareholders' Equity, showed in Graph 46, presented a strong difference between the two Institutions.

For all these reasons, in the case of the Solidity of the Equity, the analysis cannot end with the calculation of this ratio, but it should go further considering the relation between the Shareholders' Equity and the entry of the Balance Sheet that represents at its best the business activities of the Institution: the Third Owned Companies' Shares.

⁴⁷³ See Chapter 4 and the origins of I.R.I.

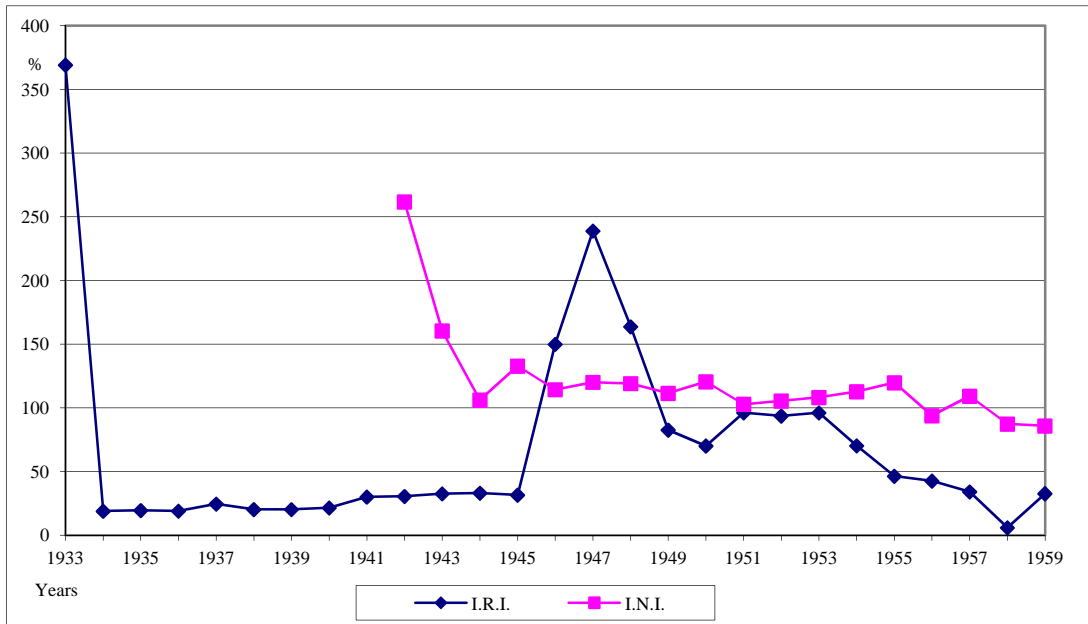
5.1.6 - Equity over Third Owned Companies' Shares

Another ratio that allows us to measure the independence of the Company from external influences in their decision-making process belongs to the Debts Ratios group. The ratio relates the business activities of the companies to Equity and calculates the percentage covered by the latter with respect to the former. In the case of I.N.I. and I.R.I. the activities that had to develop were concentrated on the management of the Third Owned Companies' Shares, values that in this case will be used as the denominator of the ratio.⁴⁷⁴

In Graph 46 we can observe that the percentages for I.N.I. were high in 1942, at 261%, and 1943, at 160%, when I.N.I. was at the beginning of its activities and owned capital shares of few companies. From 1944 to 1955, the percentages varied from 132% - in 1945 - to 102% - in 1951. From 1956 to 1958, there were again changes in the percentages, the most important one being in 1956, when, after 15 years of business activities, I.N.I. percentage decreased to the first value below 100% (94%). From 1958, the percentages began a decreasing trend, and from 87% they reached values of 75%.

⁴⁷⁴ Di Meo calculates the same Ratio for I.R.I. starting from 1954, considering the industrial activities of I.R.I.. I consider that the Third Owned Companies' Shares are a good indicator of the industrial activities of I.R.I. as it was the most important part of the business activities of the Institution. Seen DI MEO, G., "I bilanci dell'Istituto dal 1933 al 1973" in RUSSOLILLO, F., (ed.), *Storia dell'I.R.I. Un Gruppo singolare*, Bari, Editori Laterza, 2015.

Graph 46 - Percentage of Equity over Third Owned Companies' Shares for I.R.I. and I.N.I.



Sources: I.R.I. Archive, *I.R.I. Balance Sheet Volumes*, Data for the years 1933 – 1959; for I.N.I., I.N.I. Archive, *Memorias I.N.I.*, 1942 – 1963

Indeed, in the foundational years of both Institutions the values were high. In the same way as for I.N.I., the percentage of I.R.I. at its beginning in 1933 was high, 369%, because the Shareholders' Capital was especially high given that I.R.I. had to pay back the banks the values of the Third Owned Companies' Shares that they sold to I.R.I., which happened during 1934.

From 1935 to 1940, for I.R.I. the percentages were around 20%, but in 1937 they increased to 24%, as a response to the rise of the Shareholders' Capital, included in the numerator of this Ratio – as happened in 1941. In fact, from then, the percentages of I.R.I. increased to 30%, a value that remained stable until 1944.

From 1945 to 1948 the values increased again to 150% and 250%, and only in 1949 the percentage was 82%. This had to be considered a special period, due to the special moment that I.R.I. was facing in expectation of the final decision over its life, that limited its freedom to act independently, and on the other hand, because the values of the shares decreased due to the economic crises and the damages suffered during World War II.

In fact, from 1949, the values stabilized around 92% until 1954, when they diminished to 70%, although they were higher than the pre-war time ones thanks to the funds that the State invested to help the Institution restart business activities after the difficult moments of the previous decade.

This ratio adds a new insight about the use of internal and external funds that the Solidity of Equity Ratio was not able to clarify.⁴⁷⁵ In fact we can see that I.N.I. relied completely on the Shareholders Equity to finance the core of its business activities while I.R.I., only in the post war period, from 1945 to 1948, the internal funds completely covered the financial necessities of its typical business activities.

⁴⁷⁵ See paragraph 5.1.5 of this chapter.

Conclusions

The research carried out until now by the scholars on the origins of I.N.I. and its similarities with I.R.I. has not been able to give a complete and satisfactory answer, although the real unanswered questions are on the extent to which the application of the Statute Act rules and business activities by I.N.I. are similar to those of I.R.I., and most important of the business activities of which of the sub-periods of I.R.I. I.N.I. copied.

In fact, in their research the Spanish scholars did not consider the several roles I.R.I. developed in the Italian economy. So, to the original question about the similarities of the business activities should be also added of which I.R.I.: of the temporary period (1933-1936), of the autarkic policies (1937-1939), of the war autarkic policies (1940-1945), or postwar period.

I think that the analysis of the data of I.R.I. and I.N.I. and its comparative approach gave some evidences about similarities and differences and it is the way to answer to the questions.

The hypothesis according to which the origins of I.N.I. are tightly related to the existence of I.R.I., which is by now a theory ascertained by all authors, as seen in the Introduction, has been confirmed by the research. The evidence can be found not only in the Statute Act, but also in the information from a few documents found in the Italian archive, that reinforces this opinion as it confirms the interest of the Spanish Government in the Italian experience. In my opinion, these documents identify Suanzes, Minister of Industry, the person interested on the I.R.I., already in 1938, some years before the creation of the Institution, in 1941.

In fact, one of these documents is the exchange of letters between Pennacchio and De Agostino⁴⁷⁶ where they refer to the opportunity of a trip to Bilbao⁴⁷⁷ of a manager of I.R.I., not only for business opportunities but also for the

⁴⁷⁶ Alberto d'Agostino is one of the directors of I.R.I. and he worked side by side with Menichella while Beneduce was President of I.R.I.

⁴⁷⁷ In Bilbao, in 1938, was settle the Ministry of Industry, and the Minister was Suanzes, the first President of I.N.I.

exchange of ideas about the way to solve the Spanish difficulties that in Italy had been solved by the creation of I.R.I.

*“Having hinted to the informer about the possibility that an important member of the I.R.I might travel to Bilbao, the directors of the Ministry for Industry became very enthusiastic not only about the possible participation of Italy in Spain but also about an exchange of ideas on the way to solve the problem that had been solved in Italy with the creation of I.R.I.”*⁴⁷⁸.

In the same document, the writer informs us that the Minister of Industry, Suanzes, invites the Italian companies to present projects of business collaboration.⁴⁷⁹

D’Agostino replied on 7 July 1938 thanking Pennacchio for the useful information and carried on in the following way:

*“I beg you to inform the Marquess of Targiani that Comm. Malvezzi of the I.R.I accompanied by technical experts will go to Spain soon in November to assess the possibility for an Italian participation.”*⁴⁸⁰

And the technicians and Comm. Malvezzi⁴⁸¹ decided to answer the Spanish request and organized a trip to Spain in November 1938. Instead of meeting to

⁴⁷⁸ ASBI, Fondo Segreteria, Serie Pratiche, N. 109, f. 1, Paris, 2nd September 1938. Letter sent by Alberto D’Agostino to Mario Pennacchio in which the first resumed the outcomes of the Spanish meeting.

⁴⁷⁹ ASBI, Fondo Segreteria, Serie Pratiche, N. 109, f. 1, Parigi, 1 luglio 1938, Lettera inviata da Mario Pennacchio a Alberto D’Agostino.

⁴⁸⁰ *“Vi prego di voler informare il Marchese Targiani che il Comm. Malvezzi dell’IRI, accompagnato da esperti tecnici, si recherà in Spagna nel novembre p.v. per studiare le possibilità di una partecipazione italiana [...]”*, ASBI, Fondo Segreteria, Serie Pratiche, N. 109, f. 1, Paris, 7 July 1938, Lettera sent by Alberto D’Agostino to Mario Pennacchio.

⁴⁸¹ Responsible for the promotion of the production of I.R.I., and for relations with the private companies.

conclude business agreements they had to answer the questions about I.R.I., its business activities and policies.⁴⁸²

The invitation to go to Spain visiting Suanzes, that was addressed to the directors of I.R.I., validates the thesis according to which the creation of the I.N.I. clearly referred to Italian legislation and confirms that Spain had a great interest in replicating the Italian model of business activities.

It is easy to think that the Government found in I.R.I. the Institution that would have solved the practical problems of the postwar period, and, at the same time, to be coherent with the political ideologies of the Francoist Regime.

At this point, the comparison between the legal Statutes Act of I.R.I. and I.N.I. brings decisive elements to determine with which characteristics the Spanish Government created the Spanish Institution. What needs to be clarified, at this point, regards the business activities of this Institute.

Presenting the scholars position in the Introduction, we have seen that they stated that the I.N.I.'s Statute Act was for sure copied by the I.R.I.'s of 1937. And yet the evidence to support their belief relies on some inaccuracies: such as the mistake of translation of the name of the *Istituto per i Cambi e le Divise* instead of using the *Istituto Español de Moneda Extranjera*, or talking about the “nationalizations of the banks”, as it never happened or when they talk of the reason why I.R.I. become permanent in 1937, to carry on the autarkic policies. The more thorough comparison of the Statutes Act of both institutions I carried out, confirmed that I.N.I. Statute Act was copied by I.R.I. one, as scholars have also said, but I proved that the similarities are greater and I.N.I. was not only inspired by I.R.I.'s Act, it copied it, its articles and organization.

It is true that the moment was contingent, the immediate postwar period for Spain, and, in some ways, the Spanish Government was in need of some solutions for economic and industrial organization. This sudden necessity may have generated

⁴⁸² “Vi prego di voler informare il Marchese Targiani che il Comm. Malvezzi dell'IRI, accompagnato da esperti tecnici, si recherà in Spagna nel novembre p.v. per studiare le possibilità di una partecipazione italiana [...]”, ASBI, Fondo Segreteria, Serie Pratiche, N. 109, f. 1, Paris, 7 July 1938, Lettera sent by Alberto D'Agostino to Mario Pennacchio.

the framework of an Institution, equal to the Italian one but different in the Activities and aims carried out.

The comparison I carried out highlights that this was not the cases of I.N.I. The translation of I.R.I. Statute Act had been done thinking about the desires of the Regime and what I.N.I.'s role would have been for the Spanish economy. I.N.I. copied the statute, the structure of I.R.I. and its organisation, and, when copied it was translated word for word, although there were some differences between the Acts that are significant when considering the business activities of the two Institutions.

In fact, there are some differences between the two Statutes Acts that differentiate greatly the Institutions not only in the percentages of distribution of profits, if ever distributed, or annual supplies, or in the provisions and prizes for the employees of I.N.I., completely absent in I.R.I.'s act, for example.

Among the differences one is more important than others: article 7 of I.R.I.'s Statute Act that made reference to the *Collegio Sindacale* is completely absent in I.N.I.'s one. In fact, I.N.I. did not submit the control of its decisions, business activities, and financial reports to any Internal Auditing.

I think that the 'mistakes' made during the translation may give the idea that the elaboration had been done in a moment of necessity. Instead, it is because of these small differences, in addition to the absent articles, I can affirm that it is the other way around: the copying of I.R.I. Statute Act had been well studied.

For this reason, the comparison of the Statutes Acts is a good source of information about how the Spanish Government understood the role of I.N.I.

Starting from what already had been written, I carried out a more in-depth comparison of the Statutes Acts and of their background and used the Financial Statement Analysis to carry on a more satisfactory comparison of the Institutions, selecting the Ratios that were the quantitative expression of the similarities and differences.

The latter, for example, is related to the aspect of the independence from external control over its business activities had been calculated using the Solidity of Equity Ratio.

While the similarities in the business activities can be found in the management of the Third Owned Companies' Shares, defined in article 1 of both Statutes Acts, it had been measured by the Ratio Index of the Percentages of the Third Owned Companies' Shares.

When talking about the definition of the autarkic policies the characteristic of the war autarkic policy was defined - production at any cost - and find in the R.O.E (Profitability ratio), the quantitative way to measure it and to compare.

The comparative approach has been carried out the 5th Chapter of the thesis. The results of the comparison highlight a strong relation between the trends and values of I.R.I. of the autarkic years from 1937 to 1943, when the autarkic policies were carried out, while the corresponding periods for I.N.I. are not so concentrated in one period, but are usually distributed along the First Francoist period of the Institution, between 1941 to 1950, or during the *bisagra decade*, 1951 to 1959.

In fact, looking at the results of the comparison of the four ratios, we can observe that the percentage of the Third Owned Companies' Shares and the R.O.E. confirm that there are similarities between the two Institutions.

It is also true that the years of correspondence from I.R.I. and I.N.I. in the case of the percentage of the Third Owned Companies' Shares, the years of correspondence are, for I.N.I., the ones from 1949 to 1959, and for I.R.I., the years are the ones of the war autarkic period, from 1939 to 1943. This similarity confirms that I.N.I. was using autarkic policies to perform its aims.

This is an important result because the Third Owned Companies' Shares was the tool used to archive the Institution objective, and for the Institutions it represented the main reason - to manage the shares - of their existence.

For the R.O.E Ratio, the years of similarities are from 1946 to 1948 for both the I.R.I. and I.N.I. The profitability of the companies of I.R.I. was low as it was the post-war period in which Italy faced the problems of reconstruction. Furthermore, for I.R.I. this is the only period in which it did not perform its business activities. In the first 3 years of the post-war period I.R.I. dedicated its activities to care and keep itself in good condition, awaiting the decision about its existence.

In the case of the profitability, it is interesting to look at the trend of the percentages – especially for I.R.I. – because it helps to understand if profitability

was the aim of the company. In fact, the continuous negative trend of I.R.I. during the autarkic period highlights that during this period the Italian Institution was no longer interested in pursuing profitability, as it did from 1933 to 1936, when it was a temporary Institution.

It is in the war autarkic period, as seen in chapter 2, that production was the aim and it was pursued at any cost. It is in this condition that the profitability ratio is lower.

The trend of I.N.I. highlights that it never gave importance to Profitability and for this reason the decreasing trend during the war autarkic period of I.R.I. can be declared as similar to the I.N.I.'s percentages from any period, as they always were very low.

For the reasons expressed above, these two ratios, Third Owned Companies' Shares and R.O.E. show evidence of similarities between I.N.I.'s policies to those of the I.R.I of the war autarkic period.

The independence from external control and internal audit for I.N.I. is measured by the Ratio of the Solidity of the Equity. In this case the comparison did not give a satisfactory clarification. For this reason, I carried out a further comparison, measuring the percentage of Equity relating to the Third Owned Companies' Shares.

It analyses the origins of the funds, whether they are internal or external, and how the Company covers the investment in the Third Owned Companies' Shares that were the core business of the Institutions. This ratio informs us that I.N.I. covered its core business activities through Equity, whilst for I.R.I. it was covered mostly through external funds.

The I.N.I.'s desire for independence is strongly confirmed here, although the I.R.I. also recurred to the internal funds more often during the war period. Again, the war period of I.R.I. is more similar to I.N.I. trends.

It is true that the role of I.N.I. in the Spanish economy was much more influenced by the goals of the Government, among which there was the control and

development of the “*economía cuartelera*”,⁴⁸³ or in the activities, when it bought companies to satisfy requests of the Government, for example.

But it is also true that the investigation confirms that I.N.I. applied the business activities similar to the one of the autarkic I.R.I. to keep its commitments.

I demonstrated in the thesis that I.R.I. was a decisive reference when creating the Spanish Institution. The copied Statute Act confirmed it, and also that I.R.I. had a flexible and adaptable framework, a characteristic that Suanzes⁴⁸⁴ appreciated. The differences between the Statutes Acts show the idea that the Statute Act of I.R.I. was identified as the ideal framework which I.N.I. used to perform its business activities.

Concerning these, I demonstrated throughout the thesis how important the different sub-periods of I.R.I. are to understand which of the business activities I.N.I. carried out. This had been possible using the methodology of the Financial Statement analysis, integrated by the new information of the archival documents, to add to the already existing debate.

The outcome of the comparison is that I.N.I. carried out autarkic policies that degraded in intensity during the *bisagra decade* while during the First Francoist had the characteristics of war autarkic policies.

⁴⁸³ TUSELL, J., “La autarquía cuartelera: las ideas económicas de Franco a partir de un documento inédito”, *Historia 16*, n. 115, 1985

⁴⁸⁴ I.N.I. Archive, “Notas en relación a la creación y al desenvolvimiento de este Instituto”, *Memoria I.N.I. 1941 y 1942*, page 21

Methodology Annex

a. Glossary

Business activities: the actions carried out by the company with the purpose of making profit, and with a broader understanding, to achieve the objectives and goals the company sets itself.

Capital Share: The capital of public company.

Captive company: A company that is controlled by another one

Holding company: a company that holds shares in other companies

Leverage: The 'Leverage' measures the ability of the company to increase the potentiality of the return of an investment: the higher the external financing with respect to the internal ones, the higher the leverage ratio

Public company: Society whose shares are sold in the stock Exchange market

Retained earnings: Reserve Funds

Shareholders' Equity: Equal to Shareholders capital + legal reserve fund (required by legislations) + legal reserve fund from profit + Retained earnings

Shares: Portion of ownership of the company's capital, corresponding to a stock certificate.

Solidity of the Equity (or also of the Solidity of Shareholders' Equity): relation expressed in a percentage among the balance sheet entries External and Internal financing, that in the case of the State owned companies corresponds to the State funds added to the retained earnings and the other entries of the Equity. The convenience to contract an external fund to finance the business activity is measured by the difference between the interest rate and the percentage of the profitability of the Investment in which the funds are used. The internal funds equal the Shareholder's Equity and are used as synonyms.

State funds: The financial help given by the State to the State-owned Companies.

Third owned companies: The term refers to the companies which I.R.I. and I.N.I. control and influence. The control can be of three different types: minority influence (typical of the subsidiary companies), majority influence (typical of the affiliate companies) or total control (such as for the Captive

company). The analysis of the weight of the Third Owned Companies' Shares, expressed as a percentage of the Assets, helps us to understand the importance of the shares that allow direct control over the owned companies, of their industrial policies and production processes. For these reasons the amount of investment in shares also expresses the infiltration of the State in the economy, and its intent to control the production in the sectors considered strategic or important for national production by both Institutions and States.

Third Owned Companies' Credit: Indicates the financing that I.R.I. was conceding to the Companies they want to help, or promote, in their activities.

Third owned companies shares is the balance sheet entry in which are inscribed the values of the Shares owned by the INI or I.R.I. of the Third owned companies.

Total Assets: = Third owned companies' Shares + Third owned companies' Credits + Bonds + other credits + Cash

Total Assets: = Total Liabilities = Shareholders' Equity + Liabilities

Total Liabilities: = Shareholders' Equity + Liabilities

Total Equity: Is equal to Assets = Liabilities + Shareholders' equity

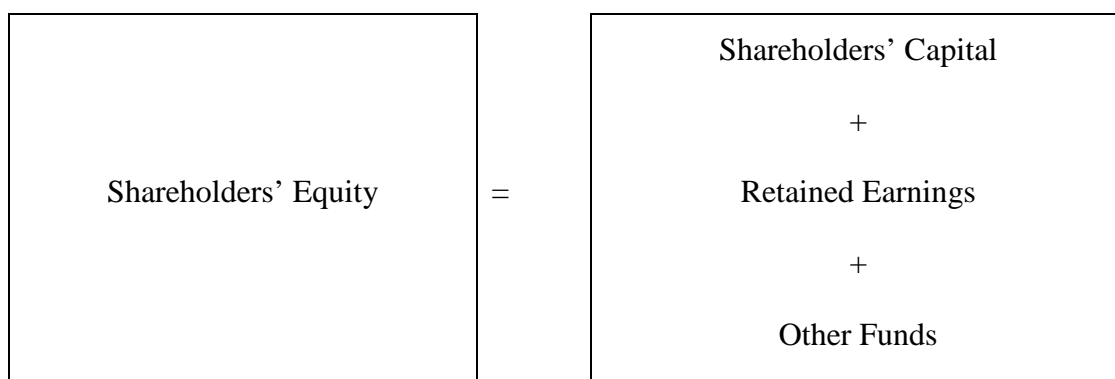
Total Portfolio: The sum of the Credits and Shares.

b. Financial Statements structure

In the Balance Sheet, among the Assets, we can find the entry of the Shares and Credits of Third Companies owned by I.R.I., the ones passed from the Banks to the Institution, entry of the Assets column called Third Owned Companies' Shares, to differentiate them from the Shares of I.R.I.'s Capital, indicated as Shareholders' Capital, or, on the occasions when the reference is not strictly related to the entry and the Balance Sheet, I will also use the synonym State Funds.

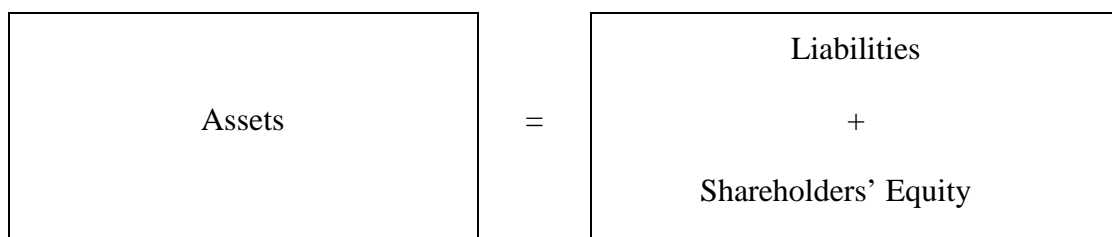
The Shareholders' Capital added to the Retained Earnings and to some Other Funds is called Shareholders' Equity.

Table 6 - Shareholders' Equity⁴⁸⁵



The total sum of the entries of the Assets is equal to the that of the Liabilities summed to the Shareholders' Equity and is called Balance Sheet Equation.

Table 7 - The Balance sheet equation



Some of the Ratios indexes are calculated by referring to single entries of the Balance sheet, such as the Shareholders' Capital to the value of the Balance Sheet Equation.

⁴⁸⁵ See ROBINSON, T. R., VAN GREUNING, H., HENRY, H., BROHIHAN, M. A., *International Financial Statement Analysis*, New Jersey, John Wiley & Sons, 2009, FOSTER, G., *Financial Statement Analysis*, 2nd ed., New Jersey, Englewood Cliffs, 1986, FRIDSON, M., ALVAREZ, F., *Financial Statement Analysis*, 3rd Edition, New York, Wiley & Sons, 2002

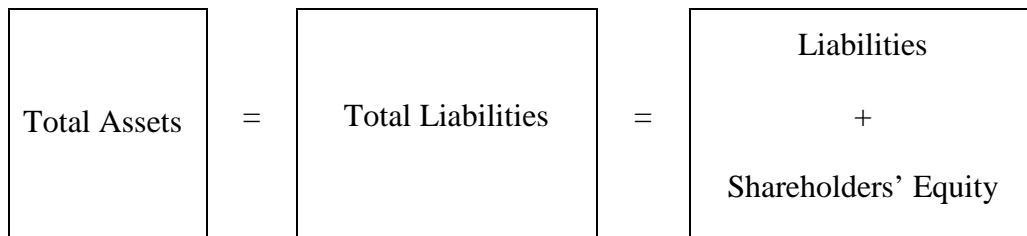
The term Asset and its plural is used also to refer to the single entries of the Assets Column of the Balance Sheet, as for example are the Third Owned Companies' Shares or Third Owned Companies' Credits. The plural always corresponds to the Total sum of the Assets column.

The term Liabilities refers to the single entries of the Liabilities column, while Total Liabilities indicates the sum of the column of the Liabilities added to the Shareholders' equity, adding the word 'Total' to differentiate it from the Liabilities entries.

So, the Balance Sheet Equation is equal to

$$\text{Total Assets} = \text{Total Liabilities} = \text{Liabilities} + \text{Shareholders' Equity}$$

Table 8 - The Balance sheet equation and Total Liabilities



Hence, Total Assets and Total Liabilities have the same value and in some Ratios it will be clearer which entries are compared in the Ratio, and in some cases it will help to understand the components of the Ratio better.

The total sum of the entries of the Assets is equal to that of the Liabilities added to the Shareholders' Equity and is called Balance Sheet Equation. The components of each column are listed below.

Table 9 - The Assets entries

Assets	=	Third Owned Companies' Shares Third Owned Companies' Credits Third Owned Companies' Settlements Credits Third Owned Companies' Bonds Cash
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Table 10 – The Total Liabilities entries

Total Liabilities	=	c. Liabilities: <ul style="list-style-type: none">- Debts- Bonds (of the Institution)- Interests for Debts- Others debts b. Shareholders' Equity: <ul style="list-style-type: none">- Shareholders' Capital- + Retained Earnings- + Others Funds
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