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Economic situation in Italy (Report No. 3)

Report
Committee on Economic Affairs and Development

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1.

1. This Report was drawn by Mr. MacBride after a tour of investigation in Italy in September, 1955, made at the invitation of the Committee on Economic Questions.

2. General

For the purpose of enabling the Working Party to present a Preliminary Report before the Second Part of the Seventh Ordinary Session of the Assembly, and of preparing the groundwork for the Working Party's examination of the Italian economic position, I undertook, at the request of the Working Party, to make a preliminary survey of the Italian position, with particular reference to " The Italian Economic Development Programme " (the Vanoni Plan).

Prior to engaging upon this Survey, I made a fairly detailed study of the very comprehensive documentation on the Italian situation which is available from four main sources : the Italian Government and State agencies, the O. E. E. C, the E. C. E. and the Council of Europe. I then visited Italy where full facilities were made available to me for discussions with members of the Italian Government and officials primarily concerned with the " Italian Development Programme " and with the Cassa per il Mezzogiorno and SVIMEZ (Associazione per le Soiluppo dell'Industria nel Mezzogiorno). I also had the opportunity of viewing some of the works carried out, and in progress, under the auspices of the Cassa per il Mezzogiorno in Southern Italy. Fuller particulars concerning the discussions held and places visited will be found in Appendix A to this Preliminary Report; I was accompanied on this visit by M. Jacchia of the Secretariat of the Council of Europe whose assistance

was very valuable. In addition, I had further discussions in Paris at the 0. E. E. C. with members of the Secretariat of the 0. E. E. C. who have been dealing with the Italian position; in those discussions there was an informal and free exchange of views.

In view of the very comprehensive and up-to-date documentation which is available from the four sources already mentioned, I shall not, in this Preliminary Report, review in detail the economic situation in Italy or the various targets set by the ten-year "Italian Economic Development Programme ". To do so, would be merely to add, unnecessarily, to the mass of excellent documentation which already is readily available. In Appendix B to this Preliminary Report I have, however, listed the basic documentation which is available for more detailed study. I propose, in a later Report to the Working Party, to summarise for convenience some of the statistical data available and to outline in greater detail the targets envisaged in the Vanoni Plan.

This Preliminary Report is intended to urge some urgent general conclusion which may with advantage be recommended to the Assembly immediately, and upon which action can begin to be set in hand.

3. The overall problem

The overall economic problem confronting Italy is neither new, nor very different, from that confronting the economy of any nation suffering from endemic unemployment and under-industrialisation. It is perhaps more striking because of the high degree of economic activity which exists, particularly in Northern Italy, and because of the magnitude, especially in Southern Italy, of the unemployment, underemployment and emigration problem.

Out of a total " labour force " (as distinct from " population of working age ") of 19,700,000 in 1954, it is estimated that 2,700,000 are either wholly unemployed or under-employed. The following is the breakdown of this figure :

Unemployed in Agriculture. 1954 - 400,000

Unemployed-non-Agricultural 1954 - 1,400,000

Total Unemployment. 1954 - 1,800,000

Agricultural Under-employment - 900,000

Total - 2,700,000

In addition, it is agreed that the natural increase in population will result in a net increase in the labour force over the next 10 years of 2,024,000. Accordingly, the problem is such that it will tend to worsen year by year unless dynamic remedial measures are taken to cope with it. By 1964, the labour force will have grown to 21,724,000; from this figure may be deducted 800,000 owing to emigration (that is, if the present flow of emigration can be maintained) leaving a net labour force by 1964 of 20,924,000. In other words, unless new employment is created, the existing unemployment and under-employment will have grown from 2,700,000 to 3,924,000 by 1964. The position will even be worse, as it is anticipated that by then there will be an increase of 800,000 in the number of persons who will have become unemployed due to " technological unemployment " (i.e. unemployment arising from increased productivity, improved methods and technology).

Accordingly, the problem facing Italy is the provision of employment for an additional 2,700,000 persons now, and for well over 4,000,000 by 1964.

In addition to the sociological and political difficulties which an unemployment problem of these dimensions creates, many grave economic difficulties result. This huge unemployed labour force, and their dependents, are not merely economically inactive, but they constitute a heavy burden on the Italian economy which has to maintain them. The State is deprived of the tax revenue it would obtain if they were gainfully employed; the national economy loses the productivity of their labour, and, in part, the purchasing power which their consumption requirements would engender within the economy.

Inevitably, too, an unemployment problem of this nature gives rise to a defensive mechanism intended to protect employment; whereas, instead of achieving the desired objective, such protective measures often prevent increased employment and nearly always prevent increased productivity. A typical instance of this is to be found in the existing provisions that are made for the compensation of wage-earners whose employment is terminated; this scheme, originally conceived for the purpose of protecting employment, is now recognised on all sides as actually slowing down and preventing employment. Many would-be employers refrain from

employing additional labour on account of the compensation they would be bound to pay, should the venture be of a temporary nature or should ultimately prove unsuccessful or uneconomic. Likewise, the social security charges, levied entirely, as they are, on the wage bills, in effect now constitute a virtual tax on employment.

To summarise—unemployment and under-employment in Italy brings in its train all the usual economic vices; these are not more pronounced in Italy than in any other country suffering endemically from large-scale unemployment. They are more readily discernible by reason of the excellent statistical studies available, and of the active and constructive interest of Italian economists both in the academic and political spheres.

As in other agricultural countries, expansion of employment in the agricultural spheres is not to be expected. Very considerable increase in agricultural production can be achieved by large-scale land reclamation, irrigation and better land utilisation. Modern techniques and mechanisation will achieve this, howcArer, without increasing agricultural employment; if anything, the elimination of undcr-employment in the agricultural sectors will probably result in an increase in net unemployment. To that extent the problem eon-fronting Italy differs radically from that confronting Turkey, where, with fuller land utilisation, a considerable increase in agricultural employment can be achieved. The remedy for the Italian unemployment problem lies almost exclusively in industrialisation, public works and the other non-agricultural sectors of the economy.

While increased production in the agricultural sectors will not provide increased employment, it is, neA'ertheless, essential in order to provide for the increased consumption that will result from the rapidly increasing population and from the higher consumption which it is hoped will result from increased employment and living standards. It is also essential to increase agricultural output to enable a substantia] increase in exports.

Despite substantial improvements the balance of payments position continues to be precarious; it still depends extensively on foreign military receipts and aid. It is therefore vital that production exports should be increased substantially.

As is to be expected in the light of existing conditions, economic and social conditions, particularly in Southern Italy and in the islands, lag far behind the minimum standard which one is entitled to expect in a nation with such a high degree of civilisation and culture.

The problems facing the Italian economy may be summarised under the following heads :

a. The provision of at least 4 million " ne w jobs " in the non-agricultural sections of the economy by 1964 ;

b. A substantial increase in production, both agricultural and industrial, to meet the increasing consumption needs of the population and to provide a substantially higher exportable surplus;

c. The problem of how to improve substantially the economic and social conditions of the people in the depressed areas of Southern Italy.

4. Economic Development Programme

It will be readily appreciated that nothing short of a dynamic and courageous programme of economic development could remedy the problems outlined. Such a programme to be successful must reach out into every sector of the economy, and be co-ordinated, in so far as is possible, to ensure that the increase in industrial employment is accompanied by a proportionate increase in agricultural output, It is on this basis that Signor Vanoni's Development Programme has been evolved. It is a 10-year-plan with definite targets and co-ordinated stages.

As in any development plan of this nature, the crux of the programme depends upon increased investment. Over the 10-year period it is proposed to secure the total investment of 24,337 billion[1] lire (or $ 38.9 bill.) under three different heads as follows :

Billion Lire - Billions $

Impulse Investments 10,637 - 17.02

Industrial and Tertiary 8,600 - 13.76

Total Productive Invesment 19,237 - 30.78

Housing Investment 5,100 - 8.16

1. The term " billion " is used here in the economists' sense for a thousand million.

Total Investment 24,337 - 38.94

The investment in housing is throughout treated separately for two reasons. It is a social investment which, although essential, is non-productive, save in so far as it provides employment and generates activity in the building industry. The investment in housing, however, plays another important role in the Programme, as it is the " control investment " which will enable the expansion and contraction of the Programme at different stages and in different areas as the economic situation may require.

The " Impulse Investments ", as these indicate, are intended to give the impulse necessary for the expansion of economic activity in other sectors. Under this heading are classified the following :

a. Agriculture and forestry;

b. Public utilities and services (power, natural gas, railways, communications, water supply, etc.);

c. Public works (river and mountain water regulations, roads, schools, airports, etc.).

The investment in contemplated agri culture envisages land reclamation, irrigation, increased use of fertilisers and improved agricultural training and methods. In addition it provides, and this is important, particularly in the Mezzo giorno, for land reform and resettlement. In this connection it should be noted that, to date, 300,000 hectares have been either appropriated or compulsorily acquired and re-allocated to working farmers with the necessary equipment. Where land is reclaimed it is the practice to effect a district resettlement and in some cases to make land available to migrants from other areas.

The targets set over the 10-year period by the Development Programme are as follows :

a. an increase of 63 % in the national income;

b. the provision of employment for an additional 4 million persons in the non-agricultural sectors;

c. a doubling of the gross investment so as to represent 25 % of the income instead of 21 % as at present;

d. an increase of 50 % in consumption ;

e. an increase of 43 % in imports on invisible transactions;

f. an. increase of 50 % in earnings from exports ;

g. an increase of 70 % in revenue from freights, tourism and emigrants' remittances;

h. an "increase of 30 % in the net product of agriculture;

i. an increase of 82 % in the net product of Industry;

j. an increase of 74 % in the net product of " Services ".

One of the aims of the Programme is to reduce the disparity of economic activity and in the living standards between the North and the South. To achieve this end the Programme is devised so as to provide that, out of the 63 % increase in the income of the whole nation, 118 % of the increase will take place in the South as against 48 % in the North.

5. Conclusions

It is with some misgivings that I have given such a brief outline of the Development Programme. Of necessity, this very brief outline omits much of the essential detail and data; the brevity of this outline must not be taken as an indication that the Programme does not take into account every relevant consideration. On the contrary, the Programme itself and the surrounding documentation appears to have anticipated every foreseeable difficulty. In the following paragraphs it is my aim to summarise the broad conclusion that I have formed from my study of the Programme and of the general economic position.

2. The Programme is both ambitious and optimistic. The words " ambitious " and " optimistic " are used in their factual and not in any derogatory sense. To deal with a problem of the dimension facing the Italian nation, a programme that was not both ambitious and optimistic would be valueless. The alternative to a bold Programme of this nature, would be inaction or a series of palliative measures that certainly would not cure the situation and that might well aggravate it.

3. The rhythm of the expansion of the Italian economy in the Programme is anticipated to be, on an average over the 10 years, 5 %. A slower rate of expansion would hardly absorb the unemployed and increasing population, nor provide the necessary stimulus for industrial development; a higher rate would be unrealistic and beyond the capacity of the Italian economy.

4. There is a possibility of what is described (often erroneously and loosely) as inflationary tendencies at various stages of the Programme. But no development programme of this proportion can ever avoid incurring this risk. No large-scale development programme has ever avoided this risk, and inevitably every major development programme produces inflationary tendencies. What is important is that the authorities concerned should be alive to the consequential dangers and in a position to control serious inflation, if it should arise. The Italian authorities concerned and the Italian economists who have devised the Programme arc clearly alive to this problem and have made provision, by means of " control investments " and otherwise to enable them to check " inflationary tendencies " when and where necessary.

5. Unlike Greece and Turkey, Italy will require little technical assistance. Italy is lucky in that, particularly in the post-war period, she has produced, especially in the field of industry, land reclamation and irrigation, first-class technicians who are quite capable of handling the tasks which the implementation of the Programme will involve. Italy already possesses the technical " know-how " of industrialisation; the problem will be to extend that industrial tradition to the South.

6. As in the case of Greece and Turkey, Italy will require assistance from the outside world in three respects:

a. Investment capital;

b. Export facilities;

c. Import credit facilities.

7. Apart from the possibility of increasing its trade with Greece and Turkey (which is not capable of very substantial expansion) there is no relationship in the problems of these three countries. They happen to suffer from an economic malaise at the same time, but the problems and the remedies differ.

8. The Italian Development Programme deserves the full support of the Member States of the Council of Europe, and their active co-operation would ensure its success.

6. Suggestions

Without in any way detracting from the conclusions which I have outlined above a number of suggestions and enquiry points occurred to me. I am setting them out hereunder for the further consideration of the Working Party and of the Italian Authorities.

9. The success of the Programme will depend in no small measure on its consecutive and planned implementation. Some of the steps which it may become necessary to take may provoke opposition from vested interests and from organised sectional or regional groups. Pressure groups, from one side or another, will, in Italy, as in any other country, seek to secure benefits or to avoid what they may conceive to be liabilities during the progress of the 10-year plan. Governments and parties in Italy, as elsewhere, find it difficult to ignore such political pressures. Would it be possible to ensure that the administration of the Programme should not be impeded or deflected for purely political reasons or considerations of political expediency? If it were possible to entrust the administration of the Programme to a non-political body comprising, among others, economists and administrators, surer undeflected progress could be ensured. This may not be politically feasible, but it is certainly desirable. The Cassa per il Mezzogiorno, which has done exceedingly good work, has benefited by its political independence. Can a similar pattern be evolved for the Development Programme?

10. Somewhat linked with the preceeding suggestions is the need to ensure centralised control. The method of direction and administration of the Programme as a whole is not yet clearly evolved; but it is clear that some form of centralised control will be required. I did not find any evidence of adininistrative bottlenecks in the administration of the Cassa, but it is inevitable that in a Programme of the scope visualised, which will involve many different departments and agencies, bottlenecks and administrative formalities will arise and slow up progress. It seems to me that some central directing authority in a position to clear obstructions and to cut through red tape entanglements will be required.

11. On .account of the lack of an industrial tradition and of poor economic conditions, the industrialisation of the South will be no easy matter. The authors of the Programme fully recognise this. I am not satisfied, however, that the " impulse investments " contemplated and the provision of the projected infra-structure will, in themselves, be sufficient to achieve the degree of industrialisation necessary in the South. Furthermore, it is, I believe, desirable that industrial development should attract as much local Southern enterprise as possible. For these reasons I find myself in complete accord with the comments and suggestions contained in Part IV of the First Report of Working Party No. 9 of the O. E. E. C. and would urge that special consideration be given to this aspect of the problem. Direct initiatives as distinct from incentives will be required to procure industrialisation in the Mezzogiomo

12. I have earlier in this Report referred to the system whereby social security charges are levied entirely on the wage bills as also to the system whereby compensation is payable to wage-earners whose employment is terminated, and I have pointed out that such measures may well have an adverse effect on employment and on new enterprise. Their purpose may be socially sound, but their economic consequences have been both unforeseen and unsound. I fully appreciate that the historical and social reasons which have prompted these measures may, now, make a change politically impossible. Accordingly, I merely mention this matter in the hope that, if the opportunity offers to make a change, it will not be overlooked.

13. The provision of capital at reasonable rales of interest and terms of repayment for the implementation of the Programme will, particularly from the second to the seventh year, prove an onerous task for the Italian Government. Substantial outside assistance will be essential. With the co-operation of the Government of the United States and of the European Governments concerned, it might be possible to use a percentage of the repayments accruing from the Marshall Aid Loan Counterpart Funds which, from now on, are beginning to fall due, to provide a portion of the necessary capital on the same terms for an extended period of time. If such a scheme proved acceptable, the percentage of the repayments agreed upon could be paid into a separate European Development Fund as they fall due, and thus provide, over the next ten years, the nucleus of the Development Fund required. If this suggestion is well thought of, the O. E. E. C. might be asked to consider it further in conjunction with the Working Party.

14. On the assumption that both the Italian Government and the Committee on Economic Questions desire it, regular contact throughout the 10-year period between the Italian Government and the Italian members of the Assembly, on the one hand, and the Working Party or a Sub-committee of the Economic Commission on the other hand might be mutually beneficial. The foregoing suggestions are merely tentative in their nature; on closer examination some, or all of them, may well prove not to be necessary, or for one reason or another, incapable of implementation. They are submitted in a constructive spirit so as to evoke consideration and discussion in the quarters mainly concerned.

7. Recommendations

The Italian economic situation is more readily capable of appraisal than the economic position of Greece and Turkey by reason of the advanced stage of planning reached and of the careful study which was made by the 0. E. E. C. of the Italian Economic Development Programme. In the first instance, the Italian Government enlisted the help of experienced and well-known economists and administrators in the formulation of their Programme. At a later stage, a number of eminent non-Italian economists and administrators were consulted in regard to it. Finally, when the Programme received final Government approval, Signor Vanoni wisely submitted it to the 0. E. E. C. for examination. A special Working Party of the 0. E. E. C. (Working Party No. 9 on the Italian Economic Development Programme) was entrusted with this study; after a very thorough and constructive examination, the Report of the Working Party was presented to the Council of Ministers on the 10th June last. The Council of Ministers gave its unanimous approval to the Report and expressed the view that in its genesis and its aims the Italian Programme was entirely appropriate. The Council also urged Member-States to give effect in the greatest measure possible to the recommendations contained in paragraph 62 of the OEEC Working Party's Report and gave a number of directives to its organs to assist in the implementation of the Programme.

The existence of a detailed 10-year development plan (which is just about to be implemented), and its submission to the 0. E. E. C. for examination and approval, renders the Italian position very different from that of Greece and Turkey and makes it very desirable that immediate and definite action be taken by the Assembly to enlist the maximum amount of international support for the Italian Economic Development Programme now. With this end in view I would recommend that a Resolution on the lines of the draft Resolution submitted with this Report should be adopted by the Assembly at this Session.

I should like in conclusion to express my appreciation of the valuable assistance which was extended to me in the course of my studies by the Italian Government and authorities, by the 0. E. E. C. and by the Secretariat of the Council of Europe,

Appendix

APPENDIX A - Preliminary account of the visit to Italy made by Mr. MacBride, Rapporteur to the Committee on Economic Questions

Mr. MacBride, who had been instructed by the Working Party of the Committee on Economic Questions to make an informatory visit to Italy in order to prepare the subsequent work of the Party with regard to problems connected with the economic development of that country, began his official visit on Tuesday, 6th September, at Rome. After meetings with officials of the Foreign Ministry, the final details for his visit were arranged, and these first of all provided for a short trip in the South to districts especially affected by the work undertaken by the Cassa per il Mezzogiomo. Friday 9th and Saturday 10th September were devoted to official talks.

Visit to the South

In the course of the first day of his visit to the South, Mr. MacBride visited the Volturno and Garigliano areas, between Rome and Naples, where land reclamation and irrigation work is being carried out.

Greeted at Formia by the Director of the " Aurunco " Consortium and accompanied by an official of the central administration of the- Cassa per il Mezzogiomo Mr. MacBride visited the various land reclamation schemes which were in hand some years ago and have now reached a very advanced stage. They will ultimately provide some 40,000 hectares of cultivable land.

After visiting the upstream dam of the Garigliano, the nodel point of all the water-control and irrigation schemes, and seeing a number of pumping stations and irrigation works, Mr. MacBride proceeded to the second land reclamation centre administered by the Volturno Consortium.

The Volturno land reclamation area is about three times as great as that of the Garigliano and has extremely different features. Extensive work has been undertaken, but the cultivable areas now put to use are still but a fraction of the total surface deaft with. The irrigation system is still in its initial stage and the completion of an important dam on the Volturno river is now awaited in order that the water may be canalised into an irrigation system for the entire area. Mr. MacBride, accompanied by the responsible engineer, visited the construction yards for the dam.

The second day was devoted to visiting various installations now in operation and observing the work in progress for the construction of the Campano-Molisano aqueduct. This is a considerable undertaking for the supply of water to the city of Naples and 253 communes in the Campania, Basilica, Molise and Puglie, collected from the springs emerging on the Adriatic slopes of the Appenines. The present population of the above areas was, according to the 1951 census, 2,750,000 inhabitants. The estimated population for the year 2000 is 4,000,000. The Campano-Molisano aquaduct system will allow for the consumption of 350 litres of water per diem and per inhabitant in the case of Naples and 120 litres in that of the other provincial centres. The estimated consumption in the case of Naples has been reckoned on the basis of private and industrial requirements in the year 2000.

This scheme as a whole involves the construction of 740 kilometres of pressure conduits and 46 kilometres of channelling; water will be supplied to the islands of Ischia and Procida by means of twelve kilometres of underwater pipe-line. Apart from the aqueduct system, provisions have been made for reservoirs, irrigation channels fed by the waters of the Volturno, and hydroelectric power stations making use of drops in the water level arranged along the aquaduct. Mr. MacBride, accompanied by one of the responsible engineers, spent the entire day visiting the great reservoirs arranged for the city of Naples and which arc almost completed, elevation stations, closed conduits and open channels and, in the Caserta district, the southern end of the closed conduit bringing water collected on the Adriatic slopes to the opposite side of the Appenines.

Talks at Rome

The last days of Mr. MacBridc's visit to Rome were devoted to talks with M. Campilli, Minister and Chairman of the Inter-ministerial Committee for the development of the South; M. Pescatorc, Director of the Cassa per il Mezzogiorno and a certain number of high officials of various administrations gathered together in conference at the Foreign Ministry.

This conference was attended by:

M. Carrobio, Minister and Deputy Director- General for Economic Affairs at the Ministry of Foreign Affairs;

M. Bobba of the Economic Affairs Directorate of the Ministry of Foreign Affairs;

M. Cornaggia, Head of the Council of Europe Office at the Ministry of Foreign Affairs ;

Professor Molinari, of the SVIMEZ (Asso-ciazione per lo Sviluppo dell'Industria nel Mezzogiomo) ;

M. Sebregondi, of the SVIMEZ (Assoeia-zione per lo Sciluppo dell'Industria nel Mezzogiomo);

M. Accardo, of the I. R. C. (Inter-ministerial Reconstruction Committee);

M. Landriscina, of the I. R. C. (Inter-ministerial Reconstruction Committee);

M. Franciosi, Cassa per il Mezzogiorno;

M. Apicella, Secretariat of the Vanoni Plan.

Mr. MacBride asked a number of questions in the course of the conference and received replies from one or other of the officials present according to the nature of the question.

Whilst in Rome for his talks with members of the Government and representatives of the various administrations Mr. MacBride was supplied with voluminous documentary material relating to the various problems connected with the economic development both of Italy as a whole and of the South in particular.

APPENDIX B - Relevant documentation: Italian Economic Position

Italian Documentation

1. " Italia n Economic Programme " (Comitato Interministeriale per la Ricostruziona).
2. Research Report [Association for the industrial development of Southern Italy — SVIMEZ],
3. Cassa per il Mezzogiomo.
4. The Programme of the Cassa per il Mezzogiomo [Giuseppe Orcel].
5. Establishment of the Fund for Extraordinary Projects in Southern Italy.
6. The Plan of Extraordinary Projects for the development of the South of Italy.
7. Annual and monthly statistical bulletins.
8. Cassa per il Mezzogiomo Development Plan : results of the first four years.

OEEC Documentation

9. Country Chapters in Annual Reports.
10. Statement of Signor Vanoni at the Meeting of Council of Ministers 12th January, 1955.
11. Outline of Development of Income and Employment in Italy 1955—67 C [55] 2.
12. Note by Secretary of the Council 8th January, 1955.
13. Working Party No. 9—-Note by Professor Robinson 10th February, 1955 C/WP9 (55) 2.
14. Working Party No. 9 U. K. Comments 30th April 1955 C/WP9 (55) 8.
15. First Report of Working Party No. 9 27th May, 1955 [Press/A (55) 25].
16. Resolution of the Council, 10th June, 1955.

Council of Europe Documentation

17. Note by Secretariat, 8th December, 1954 [SG/R (54) 6].

Miscellaneous

18. La Situation Économique de l'Italie : Première Partie : Le Bilan économique de l'Italie — Deuxième Partie : Les finances publiques.
19. Extrait de l'Economie n° 478 — Développement et équilibre économique de l'Italie.
20. Extrait de L'Économie n° 498 6 — Le Financement du Plan Vanoni et les capitaux étrangers.

21. E. C. E. [United Nations] Report of Experts on Southern Europe, 18th February, 1955.