Integration and Development of the Italian Economy, 1951-1971: A Re-Examination

1. «Cyclical» versus «Structural» Interpretations

Until the beginning of the 1960s the debate on structural and growth problems was a very lively one in Italy. This was particularly true in the period of widespread reformist enthusiasm which coincided with the launching of the “centre left” formula. The crisis of 1960 and the slow recovery which followed shifted much analytical interest towards cyclical problems in general and stabilization policies in particular. Well-known Italian growth theoreticians strove, occasionally even in the strictly institutional field, to help make better use of short-term instruments, including monetary ones. 1

A possible interpretation of this shift in emphasis is that, in addition to an effective imitation of “Hellerian” models, the Italian economists who were most sensitive to the country’s concrete problems, became increasingly aware that only a very few of the suggestions based on analyses of a structural nature were translated into planned measures of reform. There is no doubt about the timeliness of their reaction, in view of the fact that, in Italy, it took a long time for a Keynesian approach to short-term problems to become accepted. However, prima facie,


3 For these three phenomena we refer the reader to a recent and useful contribution of the OECD in the July 1995 edition of “Economic Outlook”, in particular pp. 83-96.

4 We refer, in particular, to the considerable growth of direct foreign investment — frequently independent of the differentials between current profit rates — and to the spreading of multinational enterprises. A new and interesting item added to the vast amount of available literature on this subject is a brief essay by B. Rowenwerson, David e rivoluzione in “Il capitaleismo negli anni ’70”, var., Milan, Mazzotta, 1992, pp. 87-140.

5 For a recent attempt to analyse this problem, see A. Giuri - B. Svejnar, British Capitalism, Workers and the Profits Squander, London, Penguin Books, 1971, in particular Chap. 4.

6 It should be recalled that during the three years 1965-71 gross fixed investment at constant prices in the U.K. remained practically unchanged (about £1700 billion lire, at 1965 prices). For this point, we again refer the reader to A. Giuri - B. Svejnar, op. cit., pp. 129-132.

diagnoses of an exclusively cyclical nature appear fairly unconvincing, at least in the light of the following considerations:

(i) The Italian situation should be viewed within the larger framework of what appears to be an international tendency towards a reduction in the profit rate. This began in the early ’60s and can be ascribed to a state of tension in the labour market, in a climate of growing international competition. It seems, in reality, undeniable that “a fundamental shift in the labour market” towards an excess of demand is taking place in the majority of western economies. 2 On the other hand, the relative increase in trade, the greater synchrony in price trends in various countries, the international monetary crisis itself 3 can all be considered aspects of more lively trade competition, also because of the new forms which this tends to take. 4

Clearly it is not so easy to establish, on the statistical level, whether the tendency for the profit rate to drop as a result of these forces did in fact prevail, and to what extent, in the various western countries. 5 However, in confirmation of the difficulties which for some years now have characterised the capital accumulation process, one can observe a tendency in these economies for the investment/income ratio to slacken or stagnate (Table 1). 6

(ii) In Italy the accumulation rate in 1964-71 was 2.7 percentage points lower than in 1959-63, the largest decrease among the industrial countries. But one should recall, above all, that a drop
in industrial profits, a mediocre trend for investments and employment, an increasing indebtedness of enterprises, a tendency to under-utilise productive capacity, continual surpluses in the balance of payments on current account characterized the Italian economy for most of this period. Although comparisons with the preceding period are ambiguous in that the five years 1959-63 were perhaps exceptional, the suspicion that our difficulties were not of a cyclical nature is reinforced by their persistence.

The two preceding considerations naturally do not exclude the possibility that a more decisive and timely short-term policy could have softened the negative aspects of the situation. However, they do suggest that it is worth analysing the causes of the widely felt structural malaise which, apart from its present effects, could be the prelude to far more serious difficulties.

A brief re-examination of the main phases of the Italian economy’s development since the last war can thus justifiably be regarded as a useful and necessary part of a detailed study, the need for which is becoming increasingly urgent.

For ease of interpretation and exposition, the period considered (1951-71) has been divided into three sub-periods:

1. 1951-58, when development factors were largely of domestic origin;
2. 1959-63, the years characterised by rapid integration and growth;
3. 1964-71, the years of the “rationalization” of production, but also the years when growth seemed more uncertain and more blatantly contradictory.

2. 1951-58: Development of a Domestic Origin

The conditions in Italy when the 1951-58 growth began were mainly the following:

(a) When the Italian economy came out of the Fascist period, it was characterised by a productive structure which was feeling the effects of the mediocri degree of development achieved and by a large agricultural sector, both in terms of value added and, above all, in terms of employment (Tables 2 and 3). However, once

<table>
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<tr>
<th>Gross National Product at Factor Cost</th>
<th>1938</th>
<th>1946</th>
<th>1956</th>
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<tr>
<td>Agriculture</td>
<td>25.6</td>
<td>27.6</td>
<td>33.0</td>
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<tr>
<td>Industry</td>
<td>30.3</td>
<td>28.8</td>
<td>32.8</td>
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<td>Light industry (*)</td>
<td>(9.7)</td>
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<tr>
<td>construction</td>
<td>(2.4)</td>
<td>(2.4)</td>
<td>(2.4)</td>
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<tr>
<td>Other activities</td>
<td>43.8</td>
<td>43.6</td>
<td>44.8</td>
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<tr>
<td>Public Administration</td>
<td>(14.4)</td>
<td>(14.4)</td>
<td>(9.9)</td>
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<td>G.N.P.</td>
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(*) Textiles and foodstuffs.

Source: G. Pec (ed.): Lo sviluppo economico in Italia, vol. III, Table XII i.a, page 402 and Table XII page 411.

the reconstruction process, in the strict sense, had run itself out, there was a fairly-wide industrial base, concentrated in the light industries typical of the first phase of industrialization, but considerably backward from the technological point of view when compared with potential competitors; a defect which in all probability had become more marked during the thirties. Estimates made in

1951 reveal a gap (in terms of value added per employee) of between 1 and 2 vis-à-vis the United Kingdom and of between 1 and 3 vis-à-vis the U.S.A. The largest gaps were registered in the consumer goods sector — whose contribution to the total added value of all manufacturing industry was proportionately larger than that of other countries — and in particular in the clothing, leather and woodworking industries.

(b) Another constant of our economic history reappeared, this time with more marked characteristics, after having been for a long time hidden by "ruralism" and, in general, by the low mobility of labour during the Fascist period: the abundant supply of manpower, estimated at around 2 million officially unemployed persons, and, in addition to this, hidden unemployment estimated at between a minimum of 1 and a maximum of 4 million.10

9 Cf. P. BRAMBILLA - S. GUIDOTTI, Progresso economico e disoccupazione tecnologica, Commissione Parlamentare di Inchiesta sulla Disoccupazione, "La disoccupazione in Italia", Rome, 1951, vol. II, tome 3, pp. 167-170. Substantially analogous values (3 to 4 vis-à-vis the United Kingdom and Germany and of 3 to 5 vis-à-vis the United States, even though the figures are for different previous years) are provided by the Rapporto della Commissione Economica II - Industria, vol. I, Rome, 1947, p. 211. In this case the recent is placed on mechanisation (horse-power per 1,000 inhabitants). Cf. Rapporto della Commissione Economica II - Industria, vol. I, pp. 263-266.

10 Cf., for example, G. De MIO, Aspetti quantitativi dell'economia italiana in rapporto alla disoccupazione e alla politica degli scambi con l'Estero, Commissione Parlamentare di Inchiesta sulla Disoccupazione, op. cit., vol. IV, tome 4, pp. 41-42.

(c) One must add to the two preceding structural facts the relative constancy of domestic prices and the underutilisation of productive capacity which followed the 1947 stabilisation. With regard to the subsequent growth process, it seems to us that the important aspect of this underutilisation was mainly the refusal to accept development based on forcing aggregate demand. The short Korean wave proved that "the house was in order" and that the Italian authorities had definitely regained control over domestic monetary conditions. For example, wholesale prices dropped in 1952, and then registered a constant or slightly slackening trend, whereas the cost of living increased for structural reasons.

Immediately after the war, two fundamental economic policy choices were made within this framework:

— The first was the decision to include — and maintain, despite serious difficulties11 — the Italian economy in the general tendency towards free international trade. This decision led to both the removal of import quotas (progressively carried out between 1949 and 1955), and the 1951 reductions of the 1950 customs tariffs which were made either autonomously or in relation to international agreements. Within the framework of this strategy — a more rapid removal of quotas for European countries than for the dollar area; joining the E.C.S.C. (1953) — it is apparent that from the very start, steps were being taken towards a European customs union, encouraged by the U.S.A., and sanctioned by the Treaty of Rome in 1957.12

It was a widely-held opinion — one also voiced at meetings of the Commissione Economica della Costituente13 — that a prompt return to free trade was indispensable. At the time it was said that only in this way could there be sufficient outlets for exports enabling us to finance our import requirements and, in addition, to improve plant capacity utilisation. This plant, although to some extent technologically obsolete, had survived the war and it was even felt

11 Around 1953, many considered these difficulties such as to justify a return to forms of bilateralism. Cf. F. MASSAR, La bilaterali dei pagamenti nel dopoguerra, "Review of the Economic Conditions of Italy", 1956, pp. 179-180.

12 For a discussion of the links between the EEC and the previous forms of international collaboration we refer the reader to P. CARRUZI, Segnali su un mondo economico in trasformazione, "Segreti di un economista", Rome, De Luca, 1955, pp. 61-75

that it had increased considerably compared with the period immediately preceding the Second World War. Thus, it seemed that our enterprises could respond to potential world demand, which was largely unsatisfied, by concentrating mainly on traditional exports, such as textiles and foodstuffs. At the same time, foreign competition was not expected to create serious problems because — it was emphatically, and certainly too optimistically, stated — only metallurgy and certain chemical industries were actually protected, whereas ninety per cent of our industry belonged to "basically" non-protected sectors. Despite the progress made by world industry, the Italian economy was expected to bridge this gap, under the stimulus of free trade.

Moreover, historical analysis emphasized the fact that, even at times of major tension in international markets (the second half of the thirties), Italian exports had continued to gain ground, whereas imports had dropped as a result of the policy of autarchy, but not only for this reason. Thus it was concluded that exports were not very vulnerable in international markets since demand was relatively stable (thanks to substitution between various outlet markets) and probably less elastic than our demand for import goods. Finally, it was assumed that complete freedom of movement would also have benefited Italy as far as the flows of factors of production were concerned. In fact, an upturn in emigration was expected to increase remittances, a traditionally surplus item of our balance of payments and incidentally, the only net source of reserves at the end of the war. On the other hand, it was expected that freedom for capital movements would produce an increase in capital stock — a factor traditionally believed to be scarce and, for this reason, carrying a higher yield than in competitor countries.

The second choice was the decision to industrialize the country, after twenty years of Fascism when economic policy was still markedly agrarian and provincial. In our opinion the choice was made in full awareness of the situation, even though it was not deliberately planned in the various sectors, and represented the natural follow-up to the decision to liberalize foreign trade relations. The country sought, by means of investments aimed at substituting imports, above all to weaken the old constraint of limited availability and high cost of raw materials and sources of energy. Public inter-


process. In fact capital formation benefited considerably from the possibility that Italian industry had of supplying a huge, rich export market as well as an expanding home market.

From the point of view of demand, development was then able to proceed thanks to the exogenous stimulus of certain expenditure components aimed at capital accumulation fostered, more or less directly and consciously, by the action of the Government. Investments in housing, agriculture, transport and communications and public administration, which amounted to about 51 per cent of total gross fixed investment in real terms in 1951, accounted for 56.3 per cent of the above total in 1958. The relative growth of investments in these sectors appears especially significant if one considers that total gross fixed investment was, along with exports, the most dynamic component of global expenditure; between 1951 and 1958 they rose from 13.9 per cent to 18.2 per cent of total resources in real terms.

Therefore, during those years Italian economic development mainly consisted of accumulation of capital goods (+9.8 per cent per annum, on average, in real terms); buildings mainly (+12.6 per cent), rather than machinery and equipment (+6.6 per cent) and means of transport (+4.8 per cent).

In fact, between the beginning and the end of the period, private consumption, with a percentage of total resources dropping from 63.1 per cent to 58.3 per cent, did not exert autonomous pressure on demand. This was mainly because an excess supply of labour and the Italian unions' acceptance of a claims policy taking place second to the need to industrialize the country, made it possible to contain employee compensation.

Despite the public administration's investments, the budget's

expansionary effect was limited. Efforts were made to keep the public administration's net debt down: the annual deficit did, in reality, tend to drop, and registered a maximum of 37 billion in 1952 (251 billion in 1958). This cautious budget policy was supported by an equally cautious monetary policy, even though it was never a decided restrictive one. With the exception of 1956-57, the ratio of money stock (in the different definitions) to national product registered no marked negative deviations from its rising trend. However, until the end of 1957, long-term interest rates held steady on a plateau which was only clearly exceeded during the phases of credit squeeze (end of 1954 and first months of 1956, mid-1959 and first months of 1970). It is unlikely, however, that these relatively high interest-rate levels had any marked effect in containing fixed investments. The stability of rates itself can be seen as indicative of the endogenous nature of monetary base creation and, therefore, of the adequate elasticity of the credit supplied by financing intermediaries and the absence of serious credit rationing phenomena. Moreover, large profits made it possible for the enterprises to make wide use of self-financing.

It is more difficult to assess the role of the foreign component. The growth rate of exports of goods and services (13.7 per cent per annum on average, in real terms) is higher than that of the other components of expenditure; moreover, it registered a continual increase between 1954 and 1957. Instead, if we consider only the goods sector, the growth rate drops to little more than 9 per cent. It seems that the main factor underlying this development was the increased competitiveness — not only price-wise — of Italian exports, within the framework of a growth in world demand which was 22 Cfr. Ibid., Table 45, p. 94. For an analysis of the role of public expenditure and taxation in relation to the other demand components we refer the reader to the recent G. Poli, Formazione, distribuzione e impiego del reddito dal 1861: sintesi statistica, Rome, ISCO, 1973, App. F, pp. XXIV-XXVIII. The fact that taxation has contained disposable income has greatly helped to slow down private consumption.


24 Indirect confirmation of this can be deduced from the fact that, until 1954, the overall financial liabilities of the "Economy" increased at continually falling yearly rates.


26 Cfr. Ibid., op. cit., Table 1, p. 5.
regaining "normal" values, that is values identical to those registered prior to the crisis faced by international trade in the thirties.26

Despite the sustained growth of export, until 1957 the current account balances always registered a deficit, the size of which remained more or less constant, since on the imports side the real rate of increase stood at 8.4 per cent per annum. More specifically, the trade deficit varied only slightly around a yearly average of about 400 billion lire at current prices,27 pointing to the persistence of an external constraint.

Moreover, it should be observed that these constant deficits were not the result of a structure of trade increasingly characterised by the export of finished manufactured goods and the import of inputs which our economy was structurally incapable of producing at competitive prices. In fact, finished manufactured goods as a percentage of Italian exports at current prices increased only slightly, from an average value of about 47 per cent in 1951-53 to one of 48.6 per cent in 1956-58,28 whereas our exports of refined petroleum products grew considerably, rising from 2.8 to 8.2 per cent. At the same time it is estimated that exports of manufactured goods only increased (at current prices) from 7.1 to about 9.4 per cent of the total turnover of all manufacturing industry between 1951-52 and 1957-58. Moreover, capital goods as a percentage of total


27 Cl. ESTAT, Annuale, p. 65, Table 33, p. 44.

28 By finished manufactured goods we mean total exports net of raw materials, sources of energy, semi-finished goods and foodstuffs. The disaggregated data on foreign trade were obtained by processing data in ESTAT, Statistica annuale del commercio con l'estero, various years.

Annual data, from 1951 to 1974, on the value of industrial production by economic sectors were calculated by applying, to the production figures for the years 1951, 1954, 1959 and 1965 resulting from the input-output tables for the Italian economy, the index of industrial production and, in the case of some sectors, the index of added value at constant prices. To deflate the data in value, wholesale domestic prices have been used when available; implicit prices of added value in other cases. The basic data have been taken from ESTAT, Dati economici intercettionali dell'Italia, years 1955, 1960, 1967 and 1969; Annuale di statistiche industriali, vol. 10, 13, 16; Annuale di contabilità nazionale, 1955, Bollettino mensile di statistica, various issues.

For the methods of proceeding we refer the reader to C. Giotta, Commercio euro dell'Italia, trade e di manufatti, 1951-71. (In voluti esteri, con disaggregazione in 14 settori industriali e per aree CEE/euro CEE, internal document, Rome, Banca d'Italia, 1977.)

export, amounted to 17.7 per cent in 1951-53, and were only slightly higher in 1956-58 (18.8 per cent). As far as the imports of inputs (raw materials, sources of energy and semi-finished goods) are concerned, only minor variations around an annual average of 64 per cent of total imports at current prices were registered.

These facts do not appear, prima facie, to confirm the hypothesis that the Italian economy was increasingly becoming an importer of intermediate goods and was therefore forced to encourage more and more exports of "new" finished products to bring its trade balance into equilibrium during the growth process.

On the other hand, the structure of our foreign trade was similar to that of domestic demand, both with regard to import and to export flows. Consequently, whereas the percentage of imports and exports of consumer goods appears to have been basically stable, the percentage of imports and exports of capital goods increased slightly. This would suggest that while an expanding domestic market encourages sustaining flows of imports, it also creates the right conditions for a development of exports in the same sector.

Moreover, a strengthening of the basic industries made it possible to provide inputs at the same cost as our competitors and, simultaneously, to substitute imports with domestic products. Since Italy's industry had the possibility of exploiting a sufficiently wide domestic market and was obliged to compete with technology-enriched competitors, Italian firms were forced to introduce their competitors' technologies and create similar ones themselves. A rough indication of the situation can be gained from the fact that, between 1953 and 1956, out of 32 items classifiable as capital goods at least 28 registered a drop in the ratio of imports to the total of foreign trade and, of these, 7 passed from a deficit to a surplus.29

We also feel that the impression that the foreign component did not play a very important role compared with the other components of total demand is also confirmed, with some substantial qualifications, by a sectorial analysis of trading of manufactured goods. In sectors such as chemicals, coal and oil derivatives, foodstuffs, metallurgy, non-metallic minerals — which accounted for about 42 per cent of Italian trade of manufactured goods in 1951-55 — the macroscopic fact appears in reality to be the simultaneous growth of exports and imports, with relatively negligible variations in the

29 Cl. ESTAT, Statistica annuale del commercio con l'estero, various years.
balances. Vice versa, in the means of transport, textiles, footwear and rubber sectors — equal to no more than 19 per cent of trade in manufactured goods in 1951-55 — exports kept forward, whereas imports registered a modest or non-existent increase in absolute terms. Thus, with regard to the latter sectors, the hypothesis that the foreign component of demand exerted considerable pull compared with the domestic component seems plausible. However, one should recall that exports as a percentage of turnover showed no systematic tendency to increase, neither as far as textiles nor as far as rubber were concerned (exports moved, respectively, from 25 to 19 and from 9.8 to 12.2 per cent of turnover between 1951 and 1957). On the contrary, foreign demand played a large part in the means of transport sector: the percentage of turnover exported rose from 15.2 in 1951 to 23.1 per cent in 1957, and then remained around that figure until 1971. Finally, trade in the engineering industry — roughly 27 per cent of the total for manufacturing industry — changed its structure considerably between 1951-55 and 1956-58, exports dropping and imports rising slightly during the first period, and exports rising rapidly and imports at a standstill during the second period. However, only in 1957-58 did the percentage of turnover going into exports increase appreciably, a trend which is still in motion.

Engineering, as a border case, can be quoted as a useful example of the general framework of industrialisation, which was mainly founded on domestic demand and which, at least in some sectors, then was subjected to, gradually basing its subsequent development on foreign demand as well.

On the whole, then, the hypothesis that an interpretation of the growth of the entire Italian economy until 1958 cannot hinge on an export-led mechanism seems to conform to the data, even though such a mechanism did affect certain sectors of manufacturing industry to a greater or lesser extent (it was particularly influential in the means of transport sector).

Further confirmation that it is appropriate to redimension the role of the foreign component can be deduced from the changes in the productive structure, which mainly reflect the above-mentioned behaviour of domestic demand.

The industrial sector registered a satisfactory average growth rate, particularly if one compares it with that of the other industrial countries; the sector’s share of the national product at constant prices rose from 28.7 to 33.9 per cent. However, within this sector, there was a marked relative decrease for the entire manufacturing branch, mainly to the advantage of the building branch: the shares of industry’s gross product moved, respectively, from 71.2 to 67.9 per cent and from 19.1 to 23.1 per cent. In general, the sectors directly or indirectly linked to investment expanded greatly (for example, the cement industry), whereas the light industries, traditional suppliers of consumer goods (textiles, clothing and footwear, wood and furniture) lost some of their importance. The engineering sector continued to be the most important and its share remained more or less intact, among the manufacturing industries, at 24.25 per cent, whereas the shares for means of transport and metallurgy increased. The chemical sector is a different matter: in line with events abroad, this sector registered a higher rate of development (12.8 per cent), mainly as a result of the new petrochemical branches. As one can see, Italy immediately took the lead in Europe in this sector by exploiting the vicinity of sources of raw materials, importing patents and encouraging highly capital-intensive investments.

If one takes into account the sector’s characteristics, the rate of increase of agricultural output was fairly high, and the loss of its share of gross product (which dropped from 20.0 to 17.4 per cent) was counterbalanced by marked increases in productivity due to the removal of redundant manpower, to mechanisation (the machine total tripled) and to the enormous use of fertilizers, mainly nitric (+10 per cent per annum, also because E.N.I. joined the sector). This greatly helped to keep the external deficit for foodstuffs (or was around an average of 50 billion.10) And yet, "...when in 1957, the European unification process began, Italian agriculture was still lagging behind that of the other European countries, and was very much unprepared to meet foreign competition. This situation may explain why Italy requested a continuation of the support measures in favour of community agriculture." 11

Development in the services sector was sustained, particularly in money terms (from 31 to 35 per cent of income). 12 This can definitely

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10 Cfr. ISTAT, Annuario..., op. cit., Tables 9, 13 and 14.
13 Cfr. ISTAT, Annuario..., op. cit., Table 53, p. 117.
be ascribed to the increase in rents (partly due to the gradual removal of rent-control) and, more generally, to the inflationary potential of the low growth rate of productivity and to the lack of competitiveness of the entire sector, where inefficiencies had been accumulating since the beginning of this period. The shift in the terms of trade in favor of the services sector as a whole, which has been continuous since 1950 up until today, was in fact particularly marked until 1958-59. Within the sector, another characteristic feature of the behavior of Italian relative prices was already evident in this first period and was to remain so subsequently: along with housing, the highest rates of increase in prices are to be observed in credit, insurance and free-lance professions, whereas prices in trade and in transport and communications continued to rise at a lower rate than the average for the sector.

In terms of overall employment, the results of the 1951-58 development do not appear particularly brilliant. In fact compared with an average annual increase in production of 5.0 per cent, the increase in employment only amounted to 0.5 per cent. In 1958, employment had grown by 278,000 persons; of this increase 578,000 can be attributed to the private sector as the result of a 1,666 thousand drop in agricultural employment, a 1,274 thousand rise in industrial employment (+476 thousand in the building industry) and a 291 thousand rise in the services sector (+585 thousand in trade). The manpower expelled from agriculture was mainly absorbed by the rise in self-employed workers (443 thousand persons) in the services sector.

For the entire economy, the small increase in total employment entailed, in 1958, an official unemployment figure of 1,300 thousand (6 per cent of the labour force), along with heavy emigration, at a rate of about 160,000 persons per annum.

Therefore, from the point of view of supply, the production expansion during this period is largely attributable to the increased productivity of labour (in full-time units), particularly in the manufacturing industries (+5.3 per cent). Along with this there

was the re-organisation of agriculture — with an outflow of "excess" workers at an annual average rate of 3 per cent — which helped to bring the increase in aggregate productivity (excluding the public administration) to 4.7 per cent. In general, the introduction of advanced production techniques, widely used abroad and already well-known to Italian entrepreneurs, was behind the increased industrial productivity. The rapid introduction of these techniques was probably linked to the possibility of attaining the minimum size levels necessary to exploit them advantageously. This recovery, undoubtedly incomplete, from the technological gap we inherited made it possible to have both economies of labour and economies of scale, as indicated by the falling trend of average capital/output ratios.

The stimulus to invest given by the productivity gains achieved with the new techniques may help to explain the fairly sustained, although not very marked, performance of private investments in industry, which took place in spite of consistent margins of unused productive capacity (9 per cent, on average, compared with a norm of around 6 per cent, measured against a conventional "hundred".) As we have seen, it is above all to the mediocrities of the private consumption that we can ascribe the high degree of unutilised capacity which characterised the growth of our economy during this period: the car was travelling fast, but, as happened again between 1955 and 1971, it was still not being pushed to its maximum.

The increase in employee compensation per man in industry seems, in fact, a mild one (+4.5 per cent per annum, on average), because of the sluggish development of labour demand. On the whole, the cost of labour per unit of output was basically constant, and at the same time there was a certain sectorial link between productivity and wages, the intersectorial wage differentials being rather narrow.

The mild rise in wages allowed domestic industrial prices to remain basically stable, whereas export prices fell in many sectors (particularly in chemicals, means of transport, metallurgy and textiles; an important exception was engineering where prices held steady),

34 Cf. id., also Table 15, p. 31.
35 For figures on employment, we refer the reader to ISTAT, Occupati presenti in Italia, 1951-71, Roma, 1973 (Gallach proof).
36 Fifty per cent of new workers in trade is accounted for by self-employed workers.
37 Cf. O.E.C.D., Manpower Statistics, various years; Ministero delle Arti e Artigianato, Problemi del lavoro italiano all'indotto, Roma, 1971, Part 2, App. 1, Tables 1 and 2.

38 With regard to the trend of capital/output ratios we refer the reader to the recent work by G. Du Mar, Un' econonima d' interno economico italiana, 1955-1971, Rome, ISTAT, 1973, Table 3, p. 161.
39 Banche d'Italia figures. We also refer the reader to G. M. Risi, Una misura della capacità produttiva unitaria nel setore industriale, "L'Industria", 1956, pp. 360-370.
under the stimulus of international competition which was taking the form of a simultaneous tendency for import prices to drop.

Thus, the increased scale of production and the restrained rise in the cost of labour caused a considerable increase in the amount of profits, and perhaps in the profit rate itself. This favoured a pursuit of the investment process, and laid the foundations for the exceptional economic development of the following period.

Low wages made it possible to absorb the pressure on costs which came, more or less directly, from the persistent technological backwardness of the manufacturing industry itself, from the fact that the building industry was still a long way from being adequately industrialised, from improved but not yet efficient agriculture, and from low productivity in the backward services sector, especially in certain branches. This pressure was present but remained latent in the case of the profit and loss accounts of the more efficient firms. It took the form of a continual and fairly heavy increase in the cost of living (+2.8 per cent per annum, on average), which greatly affected the performance of real wages.

Already, those economists most aware of the structural problems affecting our country felt the need for forceful action, aimed at increasing the productivity of the backward sectors. However, development continued and was about to enter its most sustained phase. It is not surprising, therefore, that there was widespread difficulty in understanding the importance of the problems, even on those occasions when it was explicitly pointed out. Thus, a tendency to regard public action rather in the light of social welfare and the progress of a civilised society prevailed over a tendency to consider it in terms of a policy aimed at guaranteeing the conditions for economic growth.

3. 1959-63: Faster Integration and Growth

It was during this period that the expansionary exogenous effects of integration — to which one must add those linked to the return to currency convertibility and to the "guidelines" for liberalising capital movements issued by the E.E.C. — interacted with an already growing demand, and helped to start the phase of more marked growth in real income (+6.3 per cent per annum), in gross

investments in machinery and equipment (+12.3 per cent) and in means of transport (+20.5 per cent).

It is widely believed by those who study the customs unions that Italy has benefited more from economic integration than the other member countries, an opinion which the authors also hold.

In fact, the Italian economy was in the best position to enjoy the positive effects of wider markets and, above all, the impulse towards a fuller and more efficient utilisation of its own resources. We have seen earlier how our industrial structure had already undergone a certain modernisation process. Moreover, Italian customs tariffs on industrial products were highly protective (on average 18 per cent), compared with those of our competitors, with the exception of France. And if one considers the low level of Italian wages, our industry no longer needed so much protection, which therefore now acted mainly as a source of inefficiency. Moreover, it is well known that the more positive effects of a customs union are, in such cases, felt by the country with the greatest protection. And again, the exchange rate, which according to some people was already undervalued when it was fixed (1949), was even more so in 1958 owing to the performance of Italian prices compared with those of competitor countries. Finally, whereas it was reasonable to expect marked productivity increases, there was no likelihood of large wage rises in the manufacturing sector: the cost of labour was not only an average a quarter below that of Italy's partners, but had also increased only slightly, a tendency which it was felt would prevail in the future.

Thus, the situation justified entrepreneurial expectations favouring capitalisation, both to increase potential supply and to continue to set industrial structures in the direction required by the integration

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42 Cf. ISTAT, Annuario, op. cit., Table 9, p. 18 and Table 39, p. 96.
of our economy with those with a high degree of development. In fact, one must not forget that around 1958 Italian income per capita only equalled 50-60 per cent of the Community average; moreover, the output of agriculture still accounted for 17.5 per cent of the total, services was the most important sector (36 per cent of income), and industry had, among other things, a large building sector (33 per cent of industrial output). At the same time, exports of manufactured goods already represented 16 per cent of the sector’s demand and, respectively, 39 and 7.9 per cent of world and of Community exports. In some branches of industry, direct dependence on exports was already very marked: 24 per cent for means of transport, 19 per cent for textiles, 17 per cent for engineering, 15 per cent for chemicals. If one considers total dependence (including indirect dependence), these figures rise to 25 per cent for the first two sectors and to 22 per cent for chemicals, whereas the metallurgy sector appears to depend on exports (28 per cent) more than the other sectors.48

Between 1958 and 1962, this structural situation was accompanied by an increased expansionary process in our foreign trade, which was largely interpreted as the “E.E.C. effect.”

Exports of goods grew, overall, at an average annual rate of 16 per cent, but their flow was mainly deviated towards member countries (+26 per cent per annum). During the preceding period 1951-58, the rate of increase was about 10 per cent, irrespective of the destination. However, exports to non-E.E.C. countries speeded up to a certain extent (+12 per cent), in proof of the fact that Italy’s increased competitiveness was not only linked to the reduction in trade restrictions, but also to endogenous factors which found favourable ground in the healthy performance of the Community economy.

The relative importance of exports of foodstuffs was halved, in favour of exports of manufactured goods (90 per cent, in 1962), within which category the trend of exports of engineering products (mainly electric machines, home appliances and non-electric machines), chemicals, footwear and clothing was especially lively. Instead, textiles, oil derivatives and vehicles lost ground, in spite of the fact that the E.E.C. weakened this tendency.

48 These figures are obtained from the matrix of sectoral interdependence for 1950. We refer the reader to V. Costi - G. Landi - G. Tenenti, Struttura ed evoluzione della domanda e dell’offerta nell’industria manifatturiera attraverso le matrici delle interdipendenze settoriali, "Constituenti della ricerca economica", Busca d’Italia, 1973.
derivatives, where large deficits gave way to growing surpluses following an international policy to regionalize investments. Finally, there is the foodstuff, beverages and tobacco sector which seems to offer an example of “despecialisation”, since it stopped registering a surplus and began to show growing deficits.

The trends observed during these years did not change much in the following years. Thus one can consider that the impact effects of the common market on the structure of Italian trade with the E.E.C. were exhausted in 1959-63.

More specifically, it appears that the engineering, means of transport, rubber and paper sectors (which in 1971 accounted for over 30 per cent of our trade with the E.E.C.) and, as far as trend is concerned, the metallurgy and artificial fibres sector, managed, or at least almost managed, to achieve equilibrium between exports and imports. This could be the beginning of a future specialization in these sectors. If, however, one considers that our country, having watched its economy undergo fundamental changes during the past twenty years, has now settled down to an industrial structure comparable to that of the more advanced countries (the discussion might be different as far as the relation between the industrial sector as a whole and the agricultural and services sectors is concerned), it appears more likely that the characteristic trade of manufactured goods which we are discussing is destined to remain a feature of our foreign trade even in the future. Moreover, the structure of trade between the other industrial countries, and in particular between the various E.E.C. countries, would seem to indicate that this is the prevailing tendency.

The discussion of Italian specialization during the entire period 1951-71 can therefore be concluded by observing that, if one takes into account trade with countries outside the E.E.C., the overall framework did not change radically, with the exception of the tendency of the engineering industry to register increasing surpluses.

As was mentioned at the beginning of this paragraph, the removal of tariffs occurred when Italian economic activity was speeding up (1959). This improvement was partly the result of the surge in exports of goods, which increased by 13.3 per cent in money terms, following the very modest rise during 1958. The stimulus to invest linked with the Treaty of Rome thus added its impact to that of a tendency to re-absorb unused productive capacity. Until 1961, the increase in profits caused by the faster growth of productivity and the slight rise in wages had the same effect.

Although it is difficult to quantify the effects of each of these forces there is no doubt that they did, as a whole, act in motion a faster development process, which, for the first time since the war, was also supported by an increased average propensity to consume. In particular, one should also underline the lively performance of private demand for durable consumer goods, and especially for means of transport (+ 32 per cent per annum, on average).21 In this last sector there was a halt and partial turnaround in the export-led tendency of preceding years; the sector’s foreign surplus dropped in relation to turnover from about 20 per cent in 1958 to 7 per cent in 1963.22

However, on the whole, the 1958-63 boom seems to have mainly affected investments.

The average accumulation rate during this period (22.6 per cent) was the highest during the postwar period (20.5 per cent in 1953-58; 19.5 per cent in 1964-71). Contrary to previous events, it was mostly private industrial investment which grew, whereas the expansionary impulse of investments by the agricultural, public administration, housing, transport and communications sectors, which had slackened between ’58 and ’63 from 56.3 to 51.5 per cent of gross investment at constant prices, began to weaken. As far as industrial investments are concerned, the annual rate of increase in the metallurgy and engineering branches was exceptionally high (32 and 21 per cent). The means of transport sector’s share of industrial investments remained steady (around 10 per cent), whereas that of the chemical, oil derivatives and textile sectors dropped, although it did remain fairly high (22 per cent).23

This considerable expansion in demand and productive investment caused the largest average productivity increase since the war, particularly in the manufactured goods sector. Only in 1963 was there a slowdown, owing to the almost complete utilisation of the

21 Cf. ISTAT, Annuarie..., op. cit., Table 32, pp. 64-66.
22 One must remember that in 1958 the means of transport sector enjoyed the greatest customs protection (30 per cent), compared with an average for manufactured goods of 16 per cent and that the relative reduction of the tariff, between 1958 and 1963, was 17 percentage points, compared with an average of 22. Cf. C.M. Finozzen - A. Uberti, op. cit.
23 Taken from ISTAT data.
Until the first six months of 1963, the expansionary process affecting economic activity and investments was, in fact, fostered to some extent by a decidedly expansionary monetary policy. Between 1958 and the whole of 1962, the monetary base (net of Post Office deposits) grew at an average annual rate of around 13 per cent, a figure considerably higher than that registered (9.2 per cent) during the years of "permissive" policy: 1964-68 (until the new tightening up in 1969). The sustained expansion of the monetary base between 1958 and 1962 helped to allow enterprises' gradually increasing recourse to the money and financial markets to take place at long-term interest rates which decreased below the plateau registered between 1951-57. Then, in 1958 and 1964, there was a turnaround in the tendency for rates to drop, even though it is likely that monetary restriction (in 1963 the increase in the monetary base equalled 4.4 per cent) was mainly operating through rationing phenomena.

In 1964, the credit squeeze was accompanied by a restrictive fiscal policy, the public administration making practically no contribution to the expansion of real income. The impact on overall demand and, above all, on investment was particularly marked because these policies affected a cycle which had already reached its peak some months earlier. The growth of gross investment was already slowing down in 1962 and 1963. This was followed by an 8.6 per cent drop in absolute value (at constant prices) in 1964 and a 7.5 per cent drop in 1965. These last two years were also the weakest since the war (until 1971) from the point of view of income growth: 2.9 and 3.6 per cent, respectively.

As far as the aims pursued are concerned, the results in terms of the balance of payments were immediate and already in 1964 surpluses were registered both on current account (620 million dollars) and on capital movements (110 million). The results were less promptly, if progressively, felt in terms of prices. The implicit G.N.P. deflator, which rose by 7.6 per cent in 1963, revealed increases of 5.7 per cent in 1964 and of 3.6 per cent in 1965.

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54 Cf. E. Tammiahi, "Risultati del lavoro, salari e inflazione", Rome, 1959. Average capital/output ratios reveal a slowdown in their decrease during this period.
55 Agriculture: -1.7 per cent per annum; manufacturing industry: +8.3 per cent; building: +5.1 per cent; services: +7.2 per cent.
58 For balance-of-payments figures (on a transaction basis) see F. Manara, Rilevazione dei pagamenti dell'Italia (1947-1959), Banca d'Italia, Rome, n.d.
These, briefly, are the events which took place during the most intense phase of integration of the Italian economy in the international economy and during the boom of activity which coincided with this. The resulting structural changes were certainly far-reaching; however, they were not such as to alter certain negative constants, not even in manufacturing industry itself. In 1965, the gap between the average productivity of Italian labour and that of the other major industrial countries (the main exception being the United Kingdom) was only slightly less than in 1938. Although manufacturing industry still relied on a few giants, it remained founded on a network of small to medium-sized enterprises. Moreover, there was relatively little activity in the advanced technology sectors, both in relation to Community production and in relation to domestic production.

In reality, the few years of heavy investment in plant and machinery were not enough to achieve any definite quality improvement in our productive system, which during that period made greater use, in relative terms, of wider margins of excess supply of manpower than other countries and thus witnessed this traditional advantage rapidly diminishing. Moreover, once the impact of "creation" of trade and stimulus to accumulate had worn off, economic integration placed our economy in an international framework characterised by the toughest and newest forms of competition which we have mentioned earlier. Thus, one of the premises for later difficulties was created.

4. 1964-71: The Years of "Re-Organization" and their Contradictions

Taken as a whole, the more recent years appear, as does the period 1951-58, to have been characterised by relatively modest productive investments and by a chronic underutilisation of the country's productive resources.\(^{66}\)

\(^{60}\) Cf. A. Maccagni, op. cit., p. 170.

\(^{64}\) With regard to the degree of concentration of Italian industry during this period, see L. Boni, Aspetti della dinamica strutturale delle industrie manifatturiere nelle regioni italiane, Milano, Giuffrè, 1970, pp. 16-17.

\(^{65}\) Cf. Ennio Diotallevi, Relazione annuale per il 1965, Roma, 1970, Table 45, p. 79.

\(^{66}\) The latter is illustrated in the index of industry's utilized capacity, which registered, between 1965 and 1971, an average value of 89.2 compared with 99.5 for the period 1956-63.

Once the expansionary effect of entry to the E.E.C. had worn off, both a rapid recovery from the crisis and a satisfactory subsequent development of global demand could only be achieved with decisive expansionary policies, since the Italian productive system had never given proof of possessing sufficient endogenous capacity for self-propulsion.

In practice these expansionary policies were lacking: although monetary and fiscal (in the wide sense) policies did not exert strong restrictive effects, they applied additional pressure to resources which, on the whole, turned out to be inadequate. This could, perhaps, have been foreseen in the case of monetary policy, since it has a very limited capacity for stimulating expenditure. Therefore, taking into account the dangers of even greater capital outflows than in fact occurred, one can understand the "permissive" line followed by the Italian monetary authorities until 1969. This took the form of direct action to hold interest rates steady on levels apparently little removed from those consistent with the internal equilibrium of the system.

At the beginning of the 1960s, the public administration's inability to take flexible action on demand seemed less foreseeable. Further, subsequent events reveal that the fair amount of trust placed in fiscal policy was totally unfounded, partly for technical and institutional reasons. During the years 1965-70, in particular, the expansionary effect of the public administration was, on the whole, slight — with the sole exception of 1965 (the Treasury's taking up part of employers' social security contributions) — and probably not very different from that exerted in 1957-58. Despite the large increase in the deficit in absolute value compared with 1960-64 (the annual average rose from 53 billion to 1.187 billion), the public administration only contributed 1.5 per cent of the annual 5.7 per cent increase in real income.\(^{67}\)

The system, for its part, was not sufficiently able to recover from the 1964-65 recession, a fact which justifies the impression that the brilliant growth during the "miracle" years cannot easily be repeated without the presence of powerful, exogenous stimulating factors.

Private consumption increased in line with income, and constantly accounted for about 70 per cent of net income at current prices.\(^{68}\)

The propensity to consume showed no tendency to increase, not even

\(^{67}\) Cf. Banca d'Italia, Relazione annuale per il 1972, Roma, 1973, Table 84.

\(^{68}\) Cf. ISTAT, Annuario..., op. cit., Table 84, p. 112.
following the redistribution of income in favour of employed workers that occurred at the end of the period. The relatively constant structure of Italian consumption during the 1960-70 decade is confirmation of their mediocre performance. Compared with the other E.E.C. founder members, in Italy the composition of expenditure for consumption followed the same line — a drop in the percentage for “foodstuffs, tobacco, footwear, beverages, clothing”, an increase in the percentage for “health and hygiene, transport and communications and other goods and services” — but much more slowly. Moreover, a comparison between the structure of Italian consumption in 1960-70 and that of the other E.E.C. countries during the two years when their per capita income was closest to that of Italy in 1969-70, reveals that expenditure for private vehicles was “abnormally” high, as was that for foodstuffs and beverages, whereas expenditure for furniture and durable goods for home use was “abnormally” low. The overall impression is therefore one of a considerably “carnivorous” Italy, but also of a country little inclined towards an affluent demand for other durable consumer goods.

From the point of view of the development of the Italian economy, the drop in the aggregate rate of accumulation was particularly serious, especially if viewed within the context of the E.E.C. area. Moreover, compared with the 1959-63 period — admittedly one of expansion — investments in machinery in industry subsequently fell in absolute value, whereas those in machinery and equipment in all sectors increased only slightly (see Table 4).

<table>
<thead>
<tr>
<th>Table 4</th>
<th>CROSS FIXED INVESTMENT (YEARLY AVERAGES)</th>
</tr>
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<tbody>
<tr>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>in industry</td>
<td>1,793</td>
</tr>
<tr>
<td>In machinery</td>
<td>639</td>
</tr>
<tr>
<td>In machinery and equipment</td>
<td>1,474</td>
</tr>
</tbody>
</table>

SOURCES: ISTAT, Annuario di Contabilità Nazionale.

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The reasons for this mediocre performance of investment could be found in the entrepreneurs' propensity to accumulate and therefore the explanation would be entrepreneurial "animal spirits". However, the reasons can also be found in the events of the preceding period and in some of the structural characteristics of the Italian economy.

The opening up of the Italian market to foreign competition had stimulated the capitalisation process and caused a large increase in investment, but at the same time it had created the premises for the subsequent reduction in the share of profits at the very moment when the economy was nearing full employment. Moreover, enterprises were stimulated to begin a re-organisation process in order to better exploit the new plant which had been put into operation. Thus, especially in the manufacturing industry, supply could grow at a considerable pace, solely as a result of these increases in productivity. Naturally, the re-organisation process tended to reduce the accumulation rate, and would have done so had it not been accompanied, on the part of the exogenous components of demand, by a healthy performance which was also capable of increasing the employment level. However, this only took place in part, and the lower utilization of productive capacity did not allow us to step up the growth rate of investment, when profits were slowly rising. These profits were also brought down by international competition, partly because it increased their exposure to pressures caused by the changed situation in the labour market and by rises in relative prices in the less efficient and less competitive sectors.

Therefore, understandably, most of the task of supporting the mediocre growth during this period fell to the foreign component. From 1965 to 1971, the balance of payments on goods and services was constantly in surplus, on average by about 700 billion a year. The balance on goods (f.o.b.) registered a very slight deficit in 1967 (13 billion) and a larger one, linked however to factors which in a certain sense were contingent, in 1970 (278 billion). In industry, the foreign component accounted for 30 per cent of overall demand. According to the input-output tables, in 1969 total dependence on foreign trade amounted to around 47 per cent in engineering, 40 in means of transport, textiles and rubber, 35 in chemicals. Consequently, the role of industrial exports is essentially compensatory in relation to domestic demand. Contrary to what occurred before 1963, the correlation between annual rates of increase of exports and those of
domestic demand is markedly negative in 1964-70: along with the two peaks recorded by exports in 1965 and 1968 (+20 per cent roughly) there were, correspondingly, two minimum points registered for domestic demand (−5 per cent and +4 per cent). Confirmation of the compensatory nature of exports can be found in the fact that exports of capital goods grew faster, at a time when the domestic accumulation rate was particularly low. This, perhaps, was the only period for which one can, without doubt, talk of Italian economic activity being assisted, rather than led, by exports.

As far as imports are concerned, under the impact of the weaker performance of domestic demand, their rate of growth was modest (+9.3 per cent) despite the large rise during 1970 and 1971. As a result of growing trade, imports satisfied more than a third of the demand of the metallurgy, engineering and chemical sectors and, between 1959 and 1965, climbed considerably, continuing to do so at a slower pace even after that date. As testimony of the integration of the markets for the same sectors, one should recall that the increased importance of foreign goods among the finished goods sectors, was felt both by capital goods and consumer goods (particularly by means of transport and “various” manufactured goods).

As we have mentioned previously, the entire industrial sector, saw a rise in its productivity during the 1964-69 period, the fastest pace being registered in engineering, metallurgy, non-metallic minerals (where the re-organization process was most marked) and in chemicals. Consequently, employment in the sector rose by only 50 thousand; in building it in fact dropped by 130 thousand, something which had never happened in previous years. The only sector where employment increased substantially was the services sector (+300 thousand) and, especially, trade, indicating that it still played a residual role in employment and thus made it possible to absorb some of the workers who left agriculture (−94 thousand). The low average unemployment rate (3.6 per cent) was thus mainly due to the drop in the labour force, since private employment fell by 500 thousand.

One can observe that in the manufacturing sector the average percentage increase in actual earnings in Italy was similar to that in the other Community countries until 1970, with the result that the absolute advantage in terms of cost of labour which Italy initially possessed remained. This helped to maintain the competitiveness of our exports, at a time when the prices of our competitors continued to rise. This situation is less clearcut if one takes into account social security contributions, one of the more obvious sources of inefficiency in our system. In 1969, these contributions accounted for 29 per cent of the total cost of labour in the Italian manufacturing industry, compared with 20 per cent for the remaining E.E.C. countries.70

Finally, to conclude the suggested outline of interpretation, one must recall that the system has been able to continue working until today in the way described thanks to the massive net exports of capital which took place each year, beginning with 1965 (yearly average for 1965-71: 1.390 million dollars). They were in a certain sense “residual” exports, that is to say, exports resulting, in the final analysis, from a decision not to invest within Italy which was taken, mainly irrespective of differentials with foreign yields, on the basis of a variety of reasons which have already been mentioned. Also with regard to exports of capital by households, one must add the limited range of financial assets offered by the Italian market and the structural need for a greater differentiation in portfolios, by including foreign securities.71

Therefore, most likely these exports of capital were difficult to offset through simple liquidity and domestic interest rate manoeuvres. In any case, they meant that the likelihood of a lira revaluation never became pressing, and kept the system’s modus operandi centred on exports. Moreover, if one considers the composition of foreign financial assets and liabilities of the Italian economy one can see that, at the end of 1971, the portfolio investment section was basically in equilibrium (2.6 billion dollars), whereas in the direct investment section assets did not reach 90 per cent of liabilities (3.4 and 5.6 billion dollars, respectively). Taking these figures at their face value, it can be said that the Italian economy made relatively little use of the current account surpluses which were characteristic between 1965 and 1971 (cumulatively equal to at least 1.5 billion dollars) to adapt to the “multinational” tendency of modern capitalism.72

70 Banca d’Italia, Relazione annuale per il 1973, Roma, 1974, p. 106.
71 With regard to exports of capital during these years, we refer the reader to P. Virgili, Il processo di integrazione mono-finanziaria dell’economia italiana nelle CEE, Contributi alla ricerca economica, Banca d’Italia, Roma, 1971.
72 We refer the reader to B. Boninsegni, op. cit., p. 205.
On average during the 1964-71 period, the results of the functioning of the system, as described by us, appear to be only mediocre. The fact that gross national product and industrial production increased to a certain extent, that overall investment also rose and that we exported a lot must not, we feel, lead one to underestimate the following negative points:

(a) Although it is probably obvious, it should be stressed that the 1964-71 results, from whatever point of view, were the least satisfactory of the twenty years examined (Table 5). This is particularly serious in a country such as ours, where growth must continue to be the main objective, Italy's persistent relative backwardness, and her enormous social problems do not leave room for irony on the subject of "growthmania".

(b) The private sector is in a serious crisis situation, with profit rates, falling as a result of the rise in costs (not only wages) and of the pressure applied by a low domestic demand and the tendency for international competition to increase. The problems of small enterprises and the increase in borrowing, are, along with others, aspects of a single phenomenon, which has, as we said, international scope. However, private Italian entrepreneurs — with the exception of some large enterprises — appear in fact to react less


(c) The manufacturing sector's increased dependence on foreign demand is also worrying from certain points of view. It could become a factor of rigidity, capable of limiting the maneuverability of the composition of aggregate demand. It could, moreover, reveal itself to be a cause of instability of demand, to the extent to which Italian exports of goods, capital goods included, are not based on a stable technological lead, but on a strict price competitiveness, artificially emphasized by low domestic demand.

(d) The negative effects of the territorial disequilibrium of our economy are increasingly obvious. The advanced northern industry increasingly pays the price, although sometimes indirectly, for excessively high congestion, on the one hand, and for the growing difficulty in entering the labour market experienced by hordes of "frozen" manpower in the South. More generally, a brief glance reveals the social, economic and even management problems of the system on a political level, caused by the "other" Italy, the South, which is increasingly tied, in relative terms, to pre- or para-capitalist methods of production, to forms of rent, of parasitism and of local corruption.

(e) Even the advanced sectors of our productive system still use resources inefficiently. One can take as a rough, but probably not inaccurate, indicator — given the abstract nature of our analysis — the variations in the degree of concentration of the manufacturing sector, which appear from a comparison between figures taken from the last census (1971) and those taken from the preceding one. These figures show a tendency, in terms of percentages of employees, for "artisan" (up to 10 employees) factories to decrease; a tendency for "small" (between 11 and 100 employees) factories to increase; a tendency for "large" (over 1,000 employees) factories to decrease (the main exception being the motorvehicle sector). The Italian manufacturing industry still consists mainly of small or medium-sized production units. This structure, although adapted to the characteristics of the traditional sectors, seems less suitable for industries, such as chemicals, paper and some branches of engineering, where the high capital intensity and the possibility of standardizing production systems make larger plant desirable. The expansion of small industries over the past decade has probably
originated from factors — lower cost of labour, greater possibility for tax evasion, smaller size and reduced segmentation of markets — which are capable of neutralizing the incentive to increase size, which is typical of the weakest phases of development and of periods of stagnation.

(i) As far as the other productive sectors are concerned, without raising the complex problem of the public administration's efficiency, one should note that, along with persistent rent phenomena in the agricultural and building sectors, the services sector is slowing down the whole economy and will probably do so to an increasing extent in the future.

Until the beginning of the '60s the services sector did not, in our opinion, hinder the development of the leading industrial sectors and it is possible that it contributed to this development by absorbing excess manpower and that rents in agriculture and building helped to increase the demand for industrial products, particularly private consumer goods.

The increase in employment in services during the first and last sub-periods and the fact that it remained unaltered during the boom years (1955-63) can be interpreted as rough confirmation of its residual nature. 72

However, the mechanisms which determined the services sector's role as manpower "sponge" have not yet been sufficiently clarified. The proposed interpretations vary from those which insist that the increase in employment in services was among self-employed and part-time workers — similar to that of hired hands in traditional agriculture on a family basis — to those which observe the wage differentials with industry which, given the structure of certain branches of services characterised by flexible coefficients, could have fostered the demand for employees. 76

74 With regard to this point, Lombardini observes, for example, that land and infrastructures account for 57 per cent of the cost of a dwelling in Italy and 50 per cent in France. Moreover, he also observes that 85 per cent of Italian construction work is in "non-industrial" work. S. Lombardini, "I problemi dell'economia italiana. Superamento della crisi e nuove prospettive di sviluppo sociale", Rassegna Generale, Rome, Cinque Lune, 1973, p. 27.

75 For an accurate statistical analysis of employment in services we refer the reader to G. Lanaro, "Occupazione e produttività nel settore dei servizi, "Contributi alla ricerca economica", Banca d'Italia, Rome, 1971, pp. 137-184. 76 The trend of wage differentials between the services sector and industry only partly confirms the second hypothesis.

However, one can reasonably believe that the functional role of the services sector in favour of industry has gradually changed within the new context of a tendential scarcity in the labour force. In this situation, the services sector could successfully compete with industry for the available manpower, since it is able to pay high salaries, to some extent irrespective of the productivity of the new employees. This would seem to be particularly true with regard to the services branches — trade, credit and insurance — where competition is greatly hindered by space monopoly factors which are linked to the number and siting of points of sale. Moreover, in such cases, even when the number of companies is considerable, competition tends to assume different forms than price competition, the preferred method being a more rapid increase in the points of sale, and therefore in the number of employees, than the growth of demand warrants. The heaviest costs for the sector as a whole are then transferred onto prices, which are varied according to criteria of full cost.

Some indication of this changeover from a subordinate services sector which perhaps contributed to industry, to a services sector characterised by an autonomous employment and prices trend, and therefore able gradually to change the terms of trade and employment situation in its favour, can already be seen in events of the last years of the period such as:

— the smaller increase in "part-time" employees: this category grew by about 200 thousand between 1953 and 1958 but, after the re-organisation during the boom period (the transformation of these workers into "full-time" employees), they only increased by 50 thousand between 1963 and 1971;

— the falling share of "self-employed" among new workers;

— the uninterrupted tendency for "full-time" employment to increase and the fact that this type of employment mainly consisted of workers "in their prime", as in industry;

77 The figures of De Cecco indicate that the labour force between 30 and 49 years old increased by 500 thousand in services and by 253 thousand in industry between 1963 and 1969. Cf. M. De Cecco, Un'interpretazione..., op. cit., Tables 11 and 12, pp. 104 and 106.
— the fact that employment in certain branches of the services sector, such as credit and insurance, did not register the inverse correlation with industrial activity as the sector as a whole had between 1957 and 1971.

Conclusions

The considerations, sometimes brief and incomplete which appear in the preceding pages perhaps do not necessitate concluding remarks, precisely because they aim to point out briefly some of the problems raised by the growth of an open economy such as the Italian one.

However, if one looks at the entire period under discussion (1951-71) in order to discover a unifying factor, this can be found in the absence of a policy constantly aimed at managing the development process. On the basis of certain fundamental choices made principally during the initial phases, the growth of the Italian economy was either spontaneous or an uncontrolled reaction, a reaction which was not checked, in the face of exogenous factors or factors pre-determined by the Government only in very general terms.

Among the latter the most significant, along with the original decision to concentrate on industrialisation in certain basic sectors, was the opening up of our economy to trade and then its participation in the European economic integration process. In the first phase (1955-59), this participation increased certain tendencies to invest and to pursue efficiency in the sectors most exposed to international competition. In the second phase, which includes the present, this participation helped to throw light — both because of the tendency for competition to become more marked and, in our opinion, through a simple comparison with our partners’ economies — on some serious contradictions in the development mechanism. Ex post, it appears increasingly obvious that we lost an opportunity during the years (1955-59) when the margins of productive capacity utilisation and the large current account surpluses permitted a degree of freedom which was not fully used to intervene to re-organize the productive structures.

More specifically, rents and inefficiencies in various production branches helped, along with sharper foreign competition, to bring about a highly unfavourable, from the point of view of manufacturing industry, performance of relative prices, and exerted increasing pressure on the profit rate in that sector.

It follows from this that it is necessary to increase and qualify investments aimed at:

— overcoming the technological gap which still exists in some branches of manufacturing industry;
— increasing, similarly, by investment, the productivity of some branches of agriculture and of most of the building sector;
— allowing, through a speeding up of industrialisation — mainly aimed at the sectors producing capital goods with a high technological content — a re-organization of the services sector which definitely implies relative shifts of manpower away from the tendency towards a precocious and inefficient services orientation which has characterised our economy.

As far as the instruments to be used are concerned, undoubtedly those necessary to control the volume of demand will have to be made more efficient and used more decisively, if it turns out to be true that in recent years Italy has been afflicted by a problem of aggregate demand. However, such action will certainly be inadequate without further action aimed at influencing the composition of expenditure itself in the above-mentioned way. In this context, the composition of public expenditure and, more generally, public intervention appear crucial. The latter must support the re-organisation process in the inefficient sectors both directly and through stimuli and obstacles, and at the same time tend to increase price competition.

With regard to the chances of success of such action, we believe that one can only say that they appear more and more clearly linked to the speed with which such action is carried out. One must add to the fact that the system seems in recent years to have shown a lack of autonomous ability to recover from and overcome its structural problems, the danger of a further worsening of these problems. This danger could take the form of a relative stagnation of the industrial sector and of a further, anomalous growth of the services sector, which would be even more difficult to reabsorb.

The need for speed is emphasized by the further time limits proposed for European integration, among which those concerning
the monetary and financial aspects of the process. The disequilibria in the international monetary system which have appeared during recent years have certainly postponed these dates. However, the situation will most probably, although by degrees and in ways different from those stated in the Werner plan, head towards fixed exchange rates for E.E.C. countries. This will involve costly losses of freedom, particularly for Italy which, of all the member countries, is the most "different", in that it is relatively backward; a state of affairs which threatens to grow worse.

However, the proper solution is not to shrug off Community commitments, nor to begin a Community policy aimed at solving the present difficulties faced by our economy. The solution should be sought mainly within the economic and political forces of our country, and participation in the subsequent phases of the integration process should act as a reminder and stimulus to these forces, in full awareness of the fact that the costs of these phases will have to be borne by the Italian economy mainly while Italy is adapting her structures to those of her partners.

Therefore, the opening up of our economy should generally be seen in the light of a competitive impulse to pursue efficiency in the exposed sectors and, through the consequent balance-of-payments constraint and the resulting re-organization intervention in the rest of the productive apparatus. In fact, as we have sought to point out, its role of supporting aggregate demand can be redimensioned with regard to the fifties; was important, but only in the compensatory sense, in the sixties; and appears largely replaceable in the future.

In the hope of concluding this analysis, which is not optimistic, on an optimistic note, we should like to point out that our economic system still possesses considerable amounts of potentially available labour and a high propensity to save. While the margins of backwardness themselves can, as in the past, have a positive effect on the rhythm of development, at least over the medium term.

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