Economic Development and the Growth of the Trade Sector in Italy

Between 1951 and 1961 Italy witnessed what might be called a "retailing population explosion". During that decade of vigorous economic growth, the resident population in Italy rose by about 6 per cent, the number of non-agricultural establishments rose by 6 per cent as well, but the number of retail stores increased by a phenomenal 32 per cent (2). Meanwhile retail prices have risen much faster than wholesale prices. In 1961, for example, the wholesale price index for food products stood at 100.2, while the equivalent retail price index had risen to 113.8, both computed with 1953 as the base year (3). This growing gap between wholesale and retail prices, coupled with the increase of nearly one-third in the number of retail establishments, suggests that the country's economic development has been accompanied by a marked and costly increase in excess capacity in retailing.

In an economy in which industrial employment opportunities are not expanding as rapidly as the work force, people can easily drift into trade, a sector into which entry is relatively easy for the small firm. If the number of retailers multiplies too rapidly, the sales volume of the average store falls and retail margins must be raised to maintain profits. As a result, part of the country's development efforts are wasted in the sense that prices to consumers are higher than they would be if some capital and labor were diverted from retailing into more productive uses.

(4) The Assembly of the Union Commerciale of Milan was told recently that had the large stores been free to enter in metropolitan Lombardia, there would at that time have been 153 supermarkets instead of the 14 actually in existence. A non-official report has indicated that in 1960 some 70 supermarkets had sprung up in Italy, 16 in Milan and 12 in Rome. See SAVATIÒ RAVALLI, "Prime esperienze dei 'supermercati' in Italia", Mondo Economico, July 1, 1961, pp. 17-20.
restrictions on large-scale retailing should be removed; but these firms are not likely to kill off the smaller retailer and become powerful monopolists. On this question Italian merchants seem to have an inaccurate impression of the experience in the United States. Finally, the growth of large scale retailing is desirable not only because it can invigorate price competition and thus keep down the cost of distribution but also because it can play an active role in accelerating the economic development of the primary and secondary sectors of the economy.

Excess capacity in Italian retailing

A firm might be said to be operating with excess capacity when its rate of output falls short of its least-cost rate of output. An industry, then, is operating with excess capacity when the representative firm is in this situation. Common observation would suggest that the typical retail outlet in Italy could sell perhaps twice its present volume without increasing its capital or labor requirements, but data on cost functions and sales volume are not available to test this point (6). However the complaint that there is costly excess capacity in retailing, or that this excess capacity is increasing, warrants particular attention only if this problem is somehow worse in retailing than in other sectors. Here, too, data are lacking. But rather than drop the question, we can turn to an alternative definition which under the circumstances is slightly more useful.

Let us say that excess capacity exists in retailing when too many resources are employed in this sector in the sense that the return to labor and to capital at the margin is lower than in other industries (7). In a perfectly competitive society in equilibrium, returns to all the factors would be equated among the several industries. Lower returns in a given industry could only be explained by imperfections or by individuals' willingness to accept lower returns to their labor.

(6) This supposed excess capacity in retailing is not, of course, unique to Italy; no doubt retailing in even the highest-income countries of Western Europe and North America is marked by at least some degree of excess capacity since retailing generally operates under conditions of monopolistic competition.

(7) This might be true even if every firm in the economy were operating at its least-cost rate of output, that is, even if there were no excess capacity by our first definition.

capital, land or entrepreneurial talents because of psychic income or other non-price considerations.

With regard to capital, the returns in retailing may be low even in equilibrium for at least four reasons. First, the capital market may not be developed to the point where the individual can readily invest in firms other than his own. Second, his preference for working for himself may be so great that he is willing to employ his capital in his own firm even at some sacrifice in return on that capital. Third, this management preference may cause him to accept a lower return on his capital in the same way that liquidity preference may push an investor toward short-term securities with lower yields, away from long-term investments with higher yields. Fourth, in the absence of the first two factors he may prefer to manage his own capital because he distrusts others who might do it for him. Perhaps this should be referred to as a "security preference." Finally, and perhaps most important alternative employment opportunities may be so scarce that the individual with a bit of capital either works (together with his capital) for himself or not at all. The combined return to his labor plus his capital may be maximized in this way even though the return to his capital alone is lower than in other industries.

The returns to labor may be lower in retailing than in other sectors even in equilibrium because of preferable working conditions, because the individual is willing to accept a lower annual income for the privilege of working for himself or in a family enterprise, or because of imperfections in the labor market which prevent him from taking employment at higher wages.

In the Italian case, however, objective and conclusive evidence that excess capacity exists in retailing is lacking. But surely there is some "management preference", some preference for working for oneself, and some imperfections in the capital market; and labor is less than fully employed in Italy, so that trade may well be attracting people who cannot find employment elsewhere. Such an impressionistic statement is of little interest, however, especially when it no doubt holds for other countries as well. So the more interesting question is: In Italy is excess capacity in retailing unusually great compared with other countries?

International comparisons are not easier in retailing than in other industries. Data on neither value added nor sales are at hand
for Italian retailing. Even if they were, comparisons would be difficult because lower value added per worker in Italy than in higher-income countries might be explained by the lower price of labor relative to capital. We do know that in 1951 Italy had one retail unit for every 72 persons, compared with one for every 74 persons in Great Britain and the United States (in 1950 and 1948, respectively), and one for every 79 persons in Canada (1951) (8). Considering that in 1951 income per capita in Italy was about 90 per cent of that in Great Britain and less than 25 per cent of that in Canada and the United States, it would seem that sales per retail outlet in Italy must be only a fraction of that in the other countries mentioned (9). Furthermore, between 1951 and 1961 in Italy the persons per unit fell from 72 to 62 whereas in the U.S. it rose (between 1948 and 1958) from 74 to 97. Personal consumption expenditures on goods per retail unit stood at about 10.7 million lire in Italy in 1961 versus nearly $100,000 (62.5 million lire) in the United States in 1958 (10). But all this simply says that sales per retail unit are lower in Italy than in the other countries mentioned; it proves nothing about sales (or, more accurately, value added) per unit of capital.

The degree of possible excess capacity (by our second definition) in the labor force in retailing is also impossible to determine. Italy has about one-third as many people in retail trade per thousand population as do Great Britain, the United States and Canada. But especially in view of the relative incomes, mentioned above, of these countries, this proves nothing. Even if one could demonstrate that value added per worker in retail trade in Italy is less than in the other three countries, this might be explained simply by a higher labor-capital ratio arising from a lower ratio of the price of labor to the price of capital.

This excursiion into the data leads to the conclusion that the existence of excess capacity, either of our definitions, in Italy cannot be proved or disproved, nor can we say that this excess capacity is greater or less than in other countries for which we have good data.

Fortunately, the evidence is a bit clearer on the question of changes in this excess capacity over time. Over the 1951-61 period, while the number of persons in retailing increased by about 30 per cent, the total consumption expenditures for goods rose by more than 50 per cent in constant prices. This latter percentage probably understates the increase in consumption expenditures in retail stores; we would expect that with economic growth of the country, a smaller proportion of consumption expenditures would be in the form of purchases direct from producers. For example, it seems clear that the ready-made clothing industry in Italy is growing rapidly, so consumption expenditures for clothing are shifting away from the tailor and seamstress and toward the retail store. Thus it would seem that the physical volume of goods moving through retail stores is increasing considerably faster than the number of persons engaged in retailing.

The number of retail units has increased by only 22 per cent (11). This 22 per cent is scarcely an accurate measure of the increase in the quantity of capital engaged in retailing, but the average retail outlet would have to have increased its total capital invested by more than 23 per cent in order for the increase in capital in retailing to remain proportional to the increase in the physical volume of sales. If the increase in capital per store were less than this, the physical volume of goods per unit of capital increased over the period.

If output per unit of labor in retailing has increased, as it apparently has, this may reflect only a rise in the labor-capital price ratio and consequent substitution of capital for labor, leaving the degree of excess capacity (by the first definition) unchanged. If, however, output per unit of capital has increased as well, it would seem likely that excess capacity has been reduced (12). On balance it may be true that excess capacity in retailing in Italy has probably been reduced, 1951-61, but this conclusion is highly speculative.

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(10) No doubt a higher proportion of personal consumption expenditures are accounted for in retail stores in the U.S. than in Italy, so the difference in retail sales per unit is surely greater than the above figures suggest.
(11) The number of retail stores increased, 1951-61 by 32 per cent but the number of peddlers (ambulant) declined, so that the number of stores plus peddlers increased by only 26 per cent.
(12) Conceivably the price of both labor and capital could rise relative to land and entrepreneurship, leading to such a great substitution of the latter two for the former that an increase in the output per unit of both capital and labor results even when excess capacity (by the first definition) remains unchanged.
The tertiary sector, trade, and economic development

If the excess capacity in Italian retailing has been declining over the decade, what might be the explanation for the growing gap between wholesale and retail prices? To set this in proper perspective, we must note how the retailing sector behaves in the course of economic development.

The fact that the percentage of the work force reported to be engaged in the tertiary sector (trade, transportation and communications, government, personal and domestic service) increases with economic development has been widely noted (13). For example, Kuznets' data for seven groups of countries classified by income per capita show a nearly consistent increase from 23.7 per cent of the work force in the tertiary sector for the lowest income group to 45.3 per cent for the highest income group (14). For trade, banking and finance, the percentage rises even more sharply, from 5.8 per cent to 15.1 per cent as one moves from the lowest to the highest income group. Berger's study of distribution in the U.S. shows the percentage of the total work force engaged in retail and wholesale trade rising from about 6 per cent in 1869 to about 16 per cent in 1949 (15). Some of these increases in the proportion of the work force engaged in trade is no doubt fictitious in the sense that in low income countries, specialization in trade is not fully developed. People reported as occupied in agriculture actually spend much time trading, so the data for the distribution of the labor force understates the proportion of man-hours devoted to trade (16).

But even though the data may exaggerate the expansion in the proportion of the work force engaged in trade, the logic of economic development would seem to point at least some increase in this proportion under certain common circumstances. If economic development finds the average family becoming less self-sufficient, i.e.


(17) Since only about one-fourth of the employment in this sector in 1951 was accounted for by credit and insurance, it is improbable that the growth in this percentage to be explained solely by growth in these latter two fields.
to or greater than the percentage for the Mezzogiorno. Over this 1871-1951 period, therefore, Italy’s experience would appear to be consistent with the hypothesis that with economic development the percentage of the labor force engaged in trade increases. The preliminary data for the 1961 Census in Italy suggest a further sharp increase in the percentage of the work force in trade from about 6 per cent of the active population to over 9 per cent (18).

The most common explanation of the growing percentage of the work force in retailing is that mentioned above, namely the reduction in the degree of self-sufficiency of the average family and the corresponding increase in the reliance on the retail market as a source of supply of consumer goods. But at least two other possible causes of the expansion of retailing’s proportion of the work force can be cited. First, retailing in underdeveloped areas (and often developed areas as well) is so easy to enter that it provides a refuge for people who would otherwise be unemployed. In fact, retailing can be thought of as affording a relatively efficient unemployment compensation plan. There is an automatic “willingness to work” test, since the person concerned cannot collect his unemployment compensation payments, i.e., his income from retailing, without working in retailing. Furthermore, the cost to the state of administering such an unemployment compensation scheme is zero. The chief difficulty, however, is that the unemployment compensation payments (the retailer’s income from his business) is financed by a regressive tax, since the higher retail margins which result from such excess capacity in trade bear more heavily on the poor than on the well-to-do, who typically spend a lower proportion of their income in retail stores (19). Retailing even in the developed economy might provide a haven for the unemployed; there is no reason why this phenomenon should appear during one phase of economic development rather than another, unless the developed economy is marked by larger, more efficient retail firms which operate on such low margins that the prospective small merchant finds the sector unattractive.

(18) ISTITUTO CENTRALE DI STATISTICA, pp. cit., pp. 150, 151.


In Italy, the postwar exodus from the rural areas to the cities has been widely noted (20). It is certainly conceivable that at least some proportion of these people drifted into trade in the towns and cities in the absence of alternative forms of employment.

A second cause of an increasing proportion of the work force in retailing can be expected to operate in an economy even after it is fully developed (however that term might be defined). Let us suppose that every family is already dependent on the retail market for all its requirements for consumer goods. Assume full employment and, further, there is no excess capacity in retailing. If the annual increase in productivity per man-hour in retailing is lower than in the other sectors of the economy, and if the demand for retailing services increases over time at least proportionally with the demand for other services, it follows that the proportion of the total work force engaged in retailing must increase. Thus an expanding economy marked by rising incomes and full employment may experience an increase in the proportion of the work force in trade simply because of the lower annual increases in productivity in this field.

Both the logic and the available data suggest that the rate of increase in productivity per man-hour in retail trade is significantly below the average for the other sectors of the economy. Mechanization, a primary source of productivity increases in most industries, is not readily applied to retailing services because the exact nature of the service provided a customer differs substantially from one to the next and cannot readily be reduced to a mechanical routine. This is particularly true in the case of goods for which the buyer makes more extensive price and quality comparisons, such as major clothing items and consumer durables. It can be argued that in low income societies the retailing services are in some ways more susceptible to mechanization than in the developed countries. In the former, the smaller number of options given the consumer and the concentration of retail trade in the simpler goods make production retail services a more routine operation than in the high income society, where the variety of goods and versions of goods may well cause more “shopping” per dollar of sales. Thus there are forces
at work to make the mechanization of retailing operation more rather than less difficult in a society as incomes increase.

The available historical and cross-section data support the hypothesis that productivity increases in retailing lag behind those in the rest of the country. For the United States, the rate of increase of output per man-hour in trade (retailing plus wholesaling) for the period 1869-1949 has been estimated at 1.0 per cent per annum as compared with 2.6 per cent in mining, 2.3 per cent in manufacturing, and 1.9 per cent in agriculture (21). The Kuznets’ data cited above suggest a relatively low rate of annual increase in productivity per man-hour in trade; for the percentage of the national product accounted for by trade as one moves from low-income to high-income countries remains relatively stable while the percentage of the work force in this sector nearly triples (22).

In sum, in the foreseeable future we would expect to see productivity increases in retailing in Italy lag behind those in other sectors, as has been the case in other countries. This suggests that, given a demand for retailing services which expands at least as rapidly as the demand for all other goods and services, the proportion of the work force represented by retailing will continue to rise even if full employment is maintained in the Italian economy. The 9 per cent of the active population now engaged in trade in Italy might well rise to the 16 to 18 per cent range, as in Great Britain, the United States and Canada (23). So the fact that the number of people employed in retailing in Italy is large and increasing is not necessarily a sign of under-employment in agriculture or other sectors.

It follows from all this that the growing spread between wholesale and retail prices in recent years in Italy is, over the longer run, likely to continue although not necessarily at the same pace as over the last decade. If productivity increases in manufacturing are passed on in price reductions, and if falling manufacturing costs are not matched by falling costs of distribution, then distribution costs as a percentage of the final price must of necessity rise. So the growing cost of distribution is not necessarily associated with excess capacity in trade.

If there is to be chronic upward pressure on marketing margins, it would seem wise in Italy to encourage price competition in retailing in order to push this sector into achieving maximum productivity increases. There is little doubt that large-scale retailing can be much more efficient than small scale retailing, and price competition is likely to be a more important weapon with the large than with the small retailer (24). This is not inevitably true, for the large retailer might enter the market and use the prices of the small competitors as an umbrella under which to operate, winning trade by product and service differentiation rather than through price competition, enjoying a high gross margin as a result. But experience in Italy as well as in other countries suggests that at least some large-scale retailer would compete vigorously on a price basis in order to achieve a high volume and thus minimize fixed costs per unit of goods sold (25). Price competition from the large firms in Italy may not be as it might simply because of their fear that this would lead to new legislative restrictions or firmer implementation of existing licensing laws.

The threat of large-scale retailing

If unrestricted entry into retailing were instituted, would retail trade fall overwhelmingly in the hands of the large-scale organizations such as the department stores, supermarkets or the chain stores? In discussions about the future of the small retailer in Italy, one hears comparisons drawn with the United States where, it is said, the giants in retailing are rapidly killing off the small firm. The conclusion is that also in Italy, unrestricted entry into retailing would lead to the elimination of the small retailer and to the creation of a few near-monopolists.

But the popular conception of the changes in U.S. retailing seems to exaggerate the strength of the large retail stores and firms; the small retailer has fared rather well over the last several decades, and is by no means in danger of extinction. About 36 per cent of

(21) See Kuznets, op. cit., p. 52.
(22) Kuznets, ibid.
(23) See Flora, Kravy and Winstor, op. cit., p. 50.
(24) But not the largest stores are not necessarily the least cost stores in many kinds of business in the United States, as least, the sales per person are greatest for the medium-sized stores. See Flora, Kravy and Winstor, op. cit., p. 66.
all retail trade was accounted for by stores with five or fewer employees in 1954, and 48 per cent of all retail trade was in stores with fewer than 10 employees. Fifteen years before, these two percentages had been 38 and 51 per cent, respectively, indicating that the turbulent postwar years in U.S. retailing had not greatly affected the strength of the smaller retail store.

It is seldom noted, however, that the smaller stores lost market share exclusively because of the increase in the average employment size in food retailing. The widely publicized growth of the supermarket definitely reduced the importance of the small store (five or fewer employees) in the food trades, for their share fell from 63 to 41 per cent of all food store sales. In the other kinds of business, these smaller retailers actually gained ground, increasing their market share from 30 to 34 per cent of sales. These other kinds of business account for about three-fourths of all retail trade, so it is accurate to say that most U.S. retailing was marked by an increase in the strength of the small store over the 1939-54 period.

The kinds of business which had the most rapid growth in total sales, 1939 to 1954, were predominantly kinds of business in which the stores are small. Table 2 shows the 10 kinds of business whose sales increased most rapidly, with the average employment. It is clear that increased incomes in the United States, together with the sharp increase in the birthrate after the war, caused a marked growth in those kinds of business dealing in goods oriented toward children and recreation. These retailers, with the exception of the automobile dealers, typically have a smaller than-average number of employees.

These data suggest that as incomes increase in a country, the smaller, specialized retailer may become stronger, rather than weaker, relative to the giants in retailing. And this can occur even in the absence of restrictions on the growth of the large-scale retailing organizations. This may suggest that in an industry characterized by easy entry, any monopolist who then raises his prices unduly will only attract new competition.

We have dealt thus far only with the size of the establishment. What of the growth of the chain store organizations? In 1954 in the United States the single-unit firms still accounted for just 70 per cent of total retail trade, the remaining 30 per cent being in the hands of all multi-unit firms. If we adopt the view that a true "chain" must have at least four establishments, then the chains had

only 24 per cent of all retail trade. This compares with 22 per cent for 1939, a modest increase. The food chains increased their share of food store sales from 36.5 per cent to 38.9 per cent, while among non-food groups the increase was only from 17.8 to 19.1 per cent. Thus even in the United States, where chain stores are thought to be so very strong, they held a rather moderate share of the market.

### Table 2

**Percentage Increase in Sales for the Ten Fastest-Growing Kinds of Business, 1939-54, and Average Number of Employees per Establishment, 1954**

<table>
<thead>
<tr>
<th>Kind of business</th>
<th>Percentage increase in sales</th>
<th>Average number of employees per establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children's, infants' wear stores</td>
<td>7,594.0 b</td>
<td>2.65</td>
</tr>
<tr>
<td>Household trailer, other automotive dealers</td>
<td>7,594.0 a</td>
<td>2.40</td>
</tr>
<tr>
<td>Camera, photographic supply stores</td>
<td>762.0</td>
<td>3.62</td>
</tr>
<tr>
<td>Sporting goods stores</td>
<td>616.6</td>
<td>1.65</td>
</tr>
<tr>
<td>Household appliances, radio, TV stores</td>
<td>541.7</td>
<td>3.47</td>
</tr>
<tr>
<td>Bicycle stores</td>
<td>539.4</td>
<td>0.93</td>
</tr>
<tr>
<td>Music stores</td>
<td>475.6</td>
<td>2.48</td>
</tr>
<tr>
<td>Gift, novelty, souvenir stores</td>
<td>451.4</td>
<td>1.46</td>
</tr>
<tr>
<td>Passenger car dealers</td>
<td>450.3</td>
<td>1.44</td>
</tr>
<tr>
<td>Liquor stores</td>
<td>449.4</td>
<td>1.80</td>
</tr>
<tr>
<td>Total retail trade</td>
<td>310.0</td>
<td>4.15</td>
</tr>
</tbody>
</table>

* The U.S. Census of Business includes in retail trade certain kinds of business which deal primarily in producers' goods rather than consumers' goods. The figures shown are for the latter only, thus excluding farm equipment dealers, which showed an increase of 2,714.3 per cent in sales, and hay, grain, feed stores, which showed an increase of 453.8 per cent.
* The 1954 category corresponding most closely to the 1939 "Children's, infants' wear stores" was "Infant's wear shops".
* To permit comparison with 1939, it was necessary to include in this group three kinds of business in the 1954 Census: motorcycle, aircraft, boat dealers; household trailer dealers; and automotive dealers, n.e.c.


(20) Preliminary data for the 1959 Census indicate that the chain stores' share of total trade rose from 24 to 26 per cent over the intervening four years.

(21) Data on chain store versus other sales are available only for 8 of the 10 kinds of business listed; for only one of these 8, namely liquor stores, is the chain store share greater than 24 per cent. About 28 per cent of all liquor store sales were accounted for by chains.
in 1954 and this share was not growing rapidly (26). Furthermore, chain stores are considerably weaker among the 10 fastest-growing kinds of business shown in Table 2 than in retailing as a whole (27).

Large-scale retailing as a leading sector

If the U.S. can be used as a case in point, we can see from the above that even if entry into retailing is quite free, the large stores and the large retail chains are not likely to eliminate their smaller competitors. Various devices, particularly retailers' buying groups of different sorts, have served to strengthen the smaller retailers' position.

Large-scale retailing, moreover, to the extent that it does develop, can serve to accelerate economic development of the primary and secondary sectors of the economy and thus help create more employment opportunities in these areas. Assume a country with a distributive sector characterized by small wholesalers and small retailers, with each firm in the sector being independent of every other firm in this or any other sector. Thus there is no vertical or horizontal integration among wholesalers and retailers. The new manufacturer under these circumstances must somehow connect himself with his potential markets by selling either directly to retailers or to wholesalers who then resell to retailers (28). This requires that he establish a sales force that can effectively cover the wholesale or retail outlets, convincing these wholesalers and retailers that the quality and price of the product entitle it to a place in their offerings to their customers. If the product in question has a clear competitive advantage, this may not be difficult. But if the competing products are well established, with consumers having developed a strong preference for the existing brands, it may be especially difficult to persuade the wholesalers and retailers even to add the new product to their current offerings.

Under these circumstances, the reluctance of the wholesalers and retailers to stock the product can represent a substantial or even overwhelming barrier to the success of the new manufacturer. By contrast, consider the case in which the distributive sector in the economy includes at least some large chain store retailers. Such organizations typically buy direct from the manufacturer and perform the wholesaling functions for themselves. The manufacturer's selling costs per unit on orders sold through such concerns are very low simply because the total cost of negotiating the transaction is spread over a large number of units. Often the optimum size of manufacturing plant is small enough relative to the sales through such organizations that two or three such orders alone can assure profitable operation of the plant. In brief, the large integrated wholesale-retail firm can provide the entire link between the new manufacturer and his potential market.

In a country such as Italy, where established brands are common in so many fields, the new manufacturer is likely to have a particularly difficult time entering the market. Under these conditions the existence of the large integrated wholesaler-retailer can facilitate entry of the new manufacturer and thus reduce the monopolistic strength of the more powerful manufacturers. Large wholesaler-retailers, therefore, can be thought of as effective anti-monopoly devices, although they can of course also use their buying strength to exploit their weaker suppliers (29).

Especially in the context of present-day Italy, the development of large-scale retailing would do no doubt help new manufacturers in the Mezzogiorno enter the larger markets. "Making contact" in any firm, long-run sense means more than merely putting the product into retail outlets. If this contact is to be optimal, the work of marketing the product includes such matters as the design and packaging of the product as well as mere physical distribution. Any given product has a multitude of characteristics; it is important that all of these be pleasing to the ultimate consumer. When the new manufacturer in the Mezzogiorno is designing his product, how can he know just what features would be favored by the consumer in Milano? The large retail firm has had experience in a variety of markets, selling a variety of products. The resulting knowledge of consumer tastes and preferences can be invaluable to the manufacturer, especially the new manufacturer, whose experience with consumer markets is likely to be limited. The chain store's knowledge of consumer tastes and preferences, a substitute for expensive

(26) Of course the manufacturer might sell directly to final consumers without intermediaries, but we will talk here in terms of the more common case.

formal market research, is the manufacturer's informational link with the market. He is therefore more likely to produce a product with a constellation of characteristics which meet with the approval of prospective buyers. Furthermore, the manufacturer's selling costs per unit of product are lower because of the large sales to one buyer.

If this line of reasoning is valid, the large-scale retailer can serve to remove an important obstacle to the development of new manufacturing plants, namely the obstacle of marketing problems. Economic development plans generally give little attention to distribution problems, particularly the distribution problems of new industries. The presumption is that if one can find the management, the capital and the labor, then the factory can be built and production can begin. But, strictly speaking, goods cannot be really considered as "produced" until they are in the hands of the final buyer; the really complete production process includes the production of the services necessary to move the goods through the channels of distribution into their final use. The successful distribution of the product is far from automatic, and it cannot be taken for granted. Yet plans for assisting the economic development of an area almost never give much attention to distribution problems. For example, a new marketing firm designed to link new producers in the Mezzogiorno with their markets would be denied all the financial assistance offered industrial concerns because the legislation specifically says that aid is to be given to "technically organized industrial concerns" (90). And the manufacturer who needs working capital to "build" a channel of distribution, i.e., to arrange for representatives in various markets, to establish warehouses with stocks, to invest in initial advertising, finds that this kind of "investment" is not aided or subsidized by the development authorities, even though it may be essential to viable manufacturing operation as is the investment in the plant and equipment.

If developing financing and assistance is not to be directed toward these distribution problems, it becomes more important that large-scale retail firms be encouraged to provide this link between new producer and his market. The few large retail chains now operating in Italy already are engaged in actively seeking out new sources of supply in the Mezzogiorno. If restrictions on the expan-

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(90) See SVIMEZ, Summary of Measures to Promote Industrialisation in Southern Italy (Rome, 1962), p. 5.

section of large-scale retailing were lifted in Italy, supposedly even more retail organizations would arise to perform this very valuable developmental function.

Summary

The rapid multiplication of retail stores in Italy may provide at least part of the explanation for the rising cost of distribution of consumer goods in the country; retailers may be raising margins in order to compensate for the shrinkage in average sales volume. But it is impossible to demonstrate conclusively that excess capacity exists in retailing in Italy, that this excess capacity if it exists is any greater than in other industries, or that it is greater than in retailing in Great Britain, the United States and Canada. It may well be that this capacity has actually been declining, 1951-61, despite the great increase in the number of stores. Over the longer term, Italy can expect to see even a higher proportion of the work force in retailing, though the average size of store no doubt will increase. Furthermore, since productivity in retailing probably will rise more slowly than in manufacturing, the distribution costs are likely to take an increasing share of the consumer's lira. To minimize this increase, free entry for large-scale retailers should be permitted. Not only are these more likely to institute more strenuous price competition, but they are also more likely to be helpful in accelerating the growth of the primary and secondary industries which are oriented toward the production of consumer goods. Small retailers, meanwhile, need not fear complete extinction at the hands of the large competitors. If the experience in the United States is relevant, the fastest growing kinds of business are those in which the typical retailer is smaller than average.

A crowing argument for removing all restrictions to entry into retailing stems from the Treaty of Rome. Article 54 of that treaty commits the members of the European Common Market to a policy of removing restrictions to entry into industry within the community. If Italy is to live up to the spirit of that document, it should permit large as well as small firms to enter retailing if they wish. The evidence would seem to suggest that this might well be the wisest policy for Italy even if the Treaty did not exist.