None of the structural problems is any nearer to its solution despite the grandiloquent employment creation plans. The level of production is still at least 15 per cent below the level which could be attained in the short run by appropriate planning and control;

3) the further intensification of demand due to the recent turn in international political relations and the general rearmament to which it gives rise will certainly result in a continuation and intensification of this trend. The dollar shortage and the difficulty of obtaining markets has for the moment disappeared — however dangerous the reasons for the improvement. But all this shows the correctness of the Keynesian analysis and of Keynesian policy. Rearmament means merely an intensification of the policies advocated in this paper to relieve distress — alas only for destructive purposes (*);

4) such improvement in Germany as has been experienced was made possible solely by the moderation of the Trade Unions which held back wage demands. The worsening of the distribution of the national income continues. On this basis no doubt even Dr. Erhard's system can be made to work. But it is unlikely (and undesirable) that the Trade Unions should consent to permit the continuation of this situation.

(*) It is significant, however, that few entrepreneurs buy confidence as if it is rearmament which is financed and managed by Keynesian means. It is the change in their solicitude — implicit in social policies calculated to make democracy real — which gives rise to their resistance.

Fiscal Policy and Italy's Economic Development

by SERGIO STEVE

I. — In previous periods the fiscal policy centered around the effects of public finance on the distribution of national income. But since some decades we find a large and growing interest in the relations between fiscal policy and the size of national income and consequently also in the use of finance to promote and to control the rate of economic development. The main line of this evolution has been made up by researches about the function of public finance in offsetting cyclical fluctuations and in ensuring the maintenance of full employment. For this purpose new objectives and new tools of fiscal policy have been elaborated with reference to the conditions and requirements of economically mature countries.

The development of backward countries has indeed also aroused remarkable interest, particularly during and after the last war. It has been recognised that policies suitable for these countries can be based partly on the schemes derived from the experience of mature economies. The instability of these economies is accounted for mainly by the cumulative effects of changes in effective demand and in income: changes in one direction in demand evoke changes in income which react, always in the same direction, on demand and so on. A similar circle is found also in backward economies: demand is scarce because the employment of factors and income are scarce; on the other hand, the demand (and income) do not expand because they are not stimulated by a sufficient demand and so on. The use of fiscal policy to promote recovery, by expanding total expenditure during a depression, resembles its use against the vicious circle of poverty which creates poverty, by bringing into being through public expenditure or a lowering of taxes or other inducements to private expenditure — a new demand which speeds up economic development. The analogy is still more obvious if, instead of comparing this function of fiscal policy in the economic development of backward countries to a policy of cyclical stabilisation, we compare it to the expansion of total demand as a means for shifting mature economies from an under-employment equilibrium to a full employment equilibrium.

On the other hand a far-reaching difference between the policies suitable for mature economies and a policy aiming at the development of backward economies, is commonly held to depend on the fact that the latter lack a proper degree of complementarity between the available factors of production. The relative scarcity of certain factors of production might easily lead to inflationary pressure if a policy aiming at expanding demand were adopted. In the case of backward countries, such a policy must therefore be supplemented or even substituted by measures fitted to preserve the equilibrium between demand and supply — on the whole and in each separate sector by eliminating or at any rate restricting inflationary pressure. These measures may be divided into two groups: foreign financing and a system of financial and, if necessary, physical controls to check consumption and regulate investments.

The scope of foreign financing is deemed to be rather narrow both because the concrete size of requirements is usually far higher than the flow of foreign capital which is possibly expected to be (1), and because main reliance upon domestic financing is the pre-requisite for enabling countries to implement the social, political and economic policies which they consider most suitable for the improvement of

their standards of living (2). In conclusion, therefore, the main role in the development of backward economies has to be played by domestic funds mobilized by an efficient fiscal policy.

2. — Italy occupies an intermediate position between the more advanced and the more backward economies and, moreover, its economy is characterized by substantial differences in the stage of development between one department and another. There are departments where economy as a whole, including agriculture, industry and services, may be compared with that of the most advanced countries, and others which present all the features of backward economies: a low per capita income, a low level of industrialization, a large surplus population in agriculture and even an insufficient development of monetary economy.

The best way of giving a general idea of these local differences is to compare some indices of economic activity in Southern Italy with the same indices in the rest of Italy, bearing in mind however that there are very important differences even within these two large groups. According to the last census of the population (1936), the active population in Southern Italy was 23.7% per cent and the population engaged in industry and transports 10.1% per cent of the total (as against 46.3% and 17.0% in the rest of Italy). The persons engaged in industry in Southern Italy, represented 19.3% per cent of the Italian total, but this percentage varied from 32% per cent for handicrafts and small industries to 15% per cent for medium-size and 11% per cent for large industries (figures of the 1938 industrial census). In 1938 the income per capita was estimated at 1,700 lire in Southern Italy and at 3,100 lire in the rest of Italy (3).

Consequently, Italy's conditions offer a wide scope both to the measures suggested for solving the cyclical and structural problems of mature economies and to those suggested for forwarding the development of backward economies. Further, since the economic relations between regions in the same State present some close affinities with the economic relations among States, the fact of having regions at different stages of development, side by side under the same political and economic regime, offers an interesting test for certain aspects of economic relations between backward and advanced countries, namely foreign loans and the effect of the industrialization of backward countries on the size of international trade.

At this point, it needs to be further stressed that the industrialization of backward countries is not detrimental to the development of international trade, but generally encourages it (4). Applied to the region of Italy, this means that the development and industrialization of Southern Italy may be accompanied by an expansion of trade between Southern Italy and the rest of the country and consequently by further economic progress for the latter. Conflicts of interests between the regions may therefore accompany a policy capable of promoting the economic development of the country as a whole, but not in the case of an active policy which exploits the industrial capacity of the advanced regions in order to promote progress in the rest of the country, so that this progress may in turn expand markets and the possibilities of development in the advanced regions.

3. — In considering briefly the relation between fiscal policy and economic development in Italy, we must observe first of all that the existence of an economically advanced area, with unused productive capacity (5), forms a more favourable background for the development of backward regions than is to be found in countries where backward conditions are general. (6) We have already seen that, in the latter case, the possibility of forwarding economic development by an expansion of total demand is limited by the disequilibrium existing between the large supply of certain factors — mainly unskilled labour — and the scarcity of others, mainly industrial equipment and technical knowledges.

But if the factors which are scarce in one part of the country are available in fairly large quantities in the other, a policy in favour of the less developed areas, through public expenditure and inducements to private expenditure, is faced with less danger and less immediate bottlenecks than in typically backward countries planned and carried out on a national scale.

For instance, a concrete analysis of the possibilities of development of Italian economy, would probably show the main bottleneck in a shortage of skilled labour, particularly in certain regions (7). But this shortage could obviously be overcome far more slowly and with greater difficulty in a country at the first stage of industrialization than in a country like Italy where there is already a considerable number of trained workers, an extensive even if unsatisfactory school system, and, above all, the possibility of efficient vocational training. Fiscal policy (in this case public expenditure) finds a readily responding environment and an aim, therefore, at rapidly removing the bottleneck of skilled labour.

To give a further example, another serious bottleneck might arise from monopolistic restrictions (7). Here again the very existence of a comprehensive governmental apparatus affords, in spite of its shortcomings — important tools for overcoming the obstacles placed in the way of development by monopolistic practices. The more so because the State control of some leading industrial sectors affords wide means of direct action in framing the industrial and price policies. That State ownership and control of industry has not been worked up to achieve a consistent economic policy (9) is another matter and does not exclude the possibility of efficient action.

4. — It should be added moreover that, with the exception of very primitive economies, the difficulty of finding productive factors in adequate proportions never means the existence of absolute limits to a policy of economic development. The combinations of factors of production are not rigid, but can vary considerably. It has in fact been remarked in the main consumption goods industries that a choice between more or less mechanized methods of production is possible and the yield per unit of capital is not necessarily greater in a highly mechanized factory than in a small one (9). Moreover, even in certain industries the yield of more capital-intensive processes appears at first sight to be lower, in overpopulated countries this is not a decisive reason for putting aside combinations which require more manpower and a lower capital outlay (10). In fact it is necessary to consider for making the immediate social costs saved as a result of a given production system the prospective advantages of a growing economic activity, in terms of external economies and of an expansion of the home market.

(2) See Mobilisation and Economic Reconstruction in Underdeveloped Countries, United Nations, Lake Success 1949, p. 114. See, in the same sense, a memorandum of the International Bank for Reconstruction and Development reproduced in the above mentioned volume, p. 94.

(3) These figures are taken from a study by A. Molinar, Southern Italy, in this review, 1949, p. 25 ff., which contains further ample documentation.

(4) See Industrialisation and Economic Reconversion, op. cit.

(5) No analytical figures concerning the degree of exploitation of industrial plants are available, though some estimates were attempted in Italy, Country Study, ICA, Washington, February 1949, pp. 16 ff. Since the time to which these estimates refer, the exploitation of industrial plant has increased in a whole but judging from the economic press, statements made by industrialists and industrial associations, etc., there is reason to believe that there are still large margins of unused capacity.

(6) Foodstuffs, another bottleneck to which attention is often confined, is probably less important. In fact agriculture is production hardly reached pre-war levels in 1949 and could be substantially increased by using fertilizers and other productive implements which could be manufactured from the present surplus capacity (see Italy, Country Study, op. cit., p. 40). On the other hand, markets for certain foodstuffs are depressed, even at current levels of production and steps have to be taken to sustain prices. A progressive increase in demand should be filled up rather easily.

In reality, those persons who in Italy assert the rigidity of productive combinations and the impossibility of choosing the solutions best suited to our economic structure base their conclusions, explicitly or implicitly, on the necessity of adjusting our costs to international prices. But this necessity, in the extremely crude form in which it is frequently asserted in Italy, is only compatible with a conception of the advantages of international trade based exclusively on the consideration of short-run cost for a single firm. As soon as we take account not only these costs, but also long-run effects and the expenditure of taking international prices as parameters of action becomes a matter to be considered case by case (12). Once the limit of a strict adjustment to international market conditions has been removed, there is a reasonable freedom of choice between the possible combinations of factors of production, and policy is faced with setting the problem of substituting the combinations which would have been chosen by private decision by others more in keeping with social costs and benefits. If such a conception is to be realized, a number of factors are important which are not accounted for, and even if private accounting may disregard them, they should be allowed to play a due part in determining economic development.

Fiscal policy can work to this end with a set of means. On the one side there is the full recognition of private motives and the attempt to harmonize them as far as possible with social motives, so that the social cost and benefits may become elements of the private calculation. This is what happens in the case of tariffs (if the latter are on a level with the social advantages of protection) and still more typically in the case of various forms of subsidies and incentives (13).

On the other side, private decision can be replaced in part by collective calculation through nationalizations and the creation of public undertakings. Here too there is no lack of an example such as forests, roads, and railways. Needless to say the true substance of the nationalization of certain economic activities lies in the substitution of criteria of collective utility to criteria of private utility. If a public undertakings endeavours to act according to the criteria of a private manager, it loses sight of its very aims.

In the same way fiscal policy should have wide opportunities as to the specific Italian problem of the disequilibrium between economic levels in different regions. Clear evidence is indeed that, at the present time, this disequilibrium does not depend upon, or it at least only partially accounted for, by natural causes (14), but is due to a difference in environmental conditions, ranging from less efficient public services in the Southern regions, to the poverty of Southern markets, to lesser external economies for Southern industry as a whole and to the persistence of backward social structures (15). In a situation of this kind the spontaneous mechanisms, which should re-establish equilibrium through the movements of factors towards the areas where they are comparatively scarce and the levelling of the marginal productivity of factors among communities, place and place, and another, do not function. There is, on the contrary, a cumulative action which, if it is not offset by public bodies, leads to greater and greater differences in the economic standards of rich and poor areas (16).

Quite apart from phenomena of inertia or friction or from considerations which escape monetary estimation, this can easily be explained by the fact that in backward areas there is not only a shortage of capital, in the meaning and dimensions of business accounting, but there is also a shortage of environmental factors (including the productivity of labour) which are not in the private enterprises. Since the decisions to invest depend upon the global productivity of capital, including the productivity of environmental factors, it is perfectly plausible that a shortage of capital may be accompanied by a low marginal productivity, and that investors may prefer to lay out their money in the areas where there is a shortage of capital, but in those where capital is plentiful.

Hence the difference in economic standards can only be overcome by the action of public bodies, both by creating incentives for the development of backward areas through public expenditure, and by allowing an adequate accounting of the advantages which individual enterprises present from the point of view of the collectivity. It has been pointed out that in fact (17) that in a backward country each enterprise contributes to an extent which may often be considerable — to the improvement of the conditions of the existing enterprises and of those which may subsequently come into being, either by expanding their markets or by reducing their costs in a number of different ways. For lack of integration, these advantages may go to the enterprise which creates them and cannot therefore become an element of the entrepreneurial decisions. Here again, if these advantages are to have full weight in determining economic development, there are two ways to follow: to impute the entrepreneur part of the advantages he creates for the collectivity, via the granting of bonuses, subsidies etc.; or to cover various enterprises with a unified accounting, so that the advantages which each of them affords to others show itself in the unified balance-sheet (18).

6. — The conclusions which can be drawn from this summary are the following:

(i) The problem of economic development in Italy, as in all under-developed countries, can find no satisfactory solution if it is left to the free play of economic forces. To quote from a recent F.A.O. report, "a rocket or moon-ship must attain a definitely established speed of release" before it can escape from the slow process of economic development.

(ii) A national policy of development, as stated in the previous note.

(iii) A national policy of development, as stated in the previous note.
The Economic Integration of Western Europe

by

FRANCESCO COPPOLA D'ANNA

1. Unification, an age-long aspiration of Europe.

The unification of Europe is not — as many are inclined to believe — a problem arising from World War II. It is an old problem dating back hundreds, perhaps thousands of years (1). Even since the fall of the Roman Empire, in spite of the incorrigible dissensions of her component peoples, the history of Europe points to the unceasing yearning of her scattered members to be brought together once more in a new and fuller unity, inclusive of areas that had lain outside the dominion of Rome.

This unity, that the peoples have desired and the most powerful monarchs — from Charlemagne to Napoleon — have sought to secure in their own interest, was for long centuries essentially a political one. Following the habit of planning the future on the pattern of the past, the peoples of Europe saw no other way of improving their situation than that of reorganising the Empire or something resembling it, even if with different attribution of the powers and different ranks. The economic problem was not taken into account because it was overshadowed and outranked by the earnest desire, that summed up all others: that of being an authority and an organisation re-established that could assure the possibility of living peacefully together, to peoples differing so widely and yet having so much in common as those inhabiting this old Continent. But political unity implied economic unity, and there can be no doubt that if our forefathers had succeeded in building up a politically united Europe, as other Europeans succeeded in creating, on the other side of the Atlantic, that politically united nucleus which has given rise to the Federation of the Stari and Stripes, the economic situation of Europe would now be totally different from what it is, and the whole world would probably by now have attained that economic prosperity which is still no more than a dream.

However this may be, the problem of the economic unification of Europe or, at least, of the formation within Europe of economic spaces stretching far beyond the political boundaries of the individual States, and covering a large part, if not the whole, of the Continent, was clearly envisaged since the opening of the nineteenth century.

The Continental Bloc, decreed by Napoleon in 1806 and 1809, was already something more than a war measure. But as soon as the Napoleonic wars ceased, discussions and proposals for customs' unions, for the enlargement of economic spaces, acquired really exceptional activity and extension in Europe. And the movement, which perhaps Frederick List had done more than anyone else to set going, drew new vigour from the happy conclusion of the German Zollverein. This enabled it to survive, in spite of the failure of all the subsequent proposals, throughout the century and beyond it, acquiring new impulse from the events of the first world war. Those events gave rise first to Naumann's « Mitteleuropa » and then to the « Pan-Europa » of Coudenhove-Kalergi (2).

The General League of Nations lacked however the courage and foresight to adopt from the start a program for the economic unification of Europe; and when, in 1936, it had to consider Briand's plan, too much water had passed under the bridges of the Rhone and

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(2) See Theodore Huges, Der Einfluss von Krieg und Frieden auf das Europäische Problem, in the above mentioned Europäische Zollunion of Hessen, pp. 27-33.

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(2) See Worr, Veränderung und Tarifunion.