The Italian Long-Term Program submitted to the O.E.E.C.

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OBJECTIVES AND ASSUMPTIONS.

1. - The program submitted by the Italian Government to the O.E.E.C. in November 1948 consists of a general report and a number of monographs devoted to the several branches of production. It indicates, together with a series of careful forecasts, the main lines of the economic policy the Government intends to pursue during the next four years so as to reach in 1952-53 the target at which E.R.P. aims, i.e. to achieve and maintain a satisfactory level of economic activity, without extraordinary outside assistance. The expression "main lines of economic policy" indicates the fundamental character of the program which is not so much a rigid plan as a complex of ways and means directed towards objectives of a general nature (1).

2. - To make matter clear to the foreign reader it may perhaps be well to give an outline of these structural features that place Italy in a relatively less favourable position than the other participating countries:

(a) Scanty Natural Resources. In the mountainous and hilly regions, the agricultural land is not, as a rule, very fertile, and rainfall is badly distributed over the year. Moreover, Italy is almost devoid of the three fundamental requirements of modern industry: coal, mineral oil and iron.

(b) Large-scale Unemployment that cannot be ascribed to cyclical causes, but to a fundamental disunity between the growth of population on the one hand, and the natural resources and accumulating of capital on the other. The modern productive system in which the rate of increase of capital is more than proportionate to the increase in manpower employed, tends to deepen this disparity.

The long-term program has had to be drafted on the lines laid down by the O.E.E.C. for the national programs. It is well to remember that these were (a) the attainment of a viable economy in 1952-53; (b) the attainment, in the same year, of a balance in the current items of international payments, without recourse to external aid of an exceptional nature; (c) the maintenance of the standard of living at a reasonable level.

3. - Italy's national income in 1947 stood around 2,500 million lire (for purposes of comparison, the income for 1938 is also given in Table I). The general estimates for production drawn up for the period 1948-50/1951-52 lead us to believe that the national income in 1952 will approximate to 7,100 million present-day lire, being a 17% increase in total income and a 5% increase in per capita income over that registered for 1938. From 1947 to 1952 total income would however rise by 45 per cent, i.e. at an annual rate of 7.8%, considerably higher than the prewar figure (3.7 per cent from 1931 to 1938) and nearly the same as that obtained in 1947.

To attain this level, investments have been planned for the four years 1948-49/1951-52.

In Table I:

<table>
<thead>
<tr>
<th>Year</th>
<th>Livelli lire</th>
<th>Livelli lire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>45,000,000</td>
<td>100,000,000</td>
</tr>
<tr>
<td>1947</td>
<td>7,100,000</td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

Investments totalling 3,842 million lire represent a very considerable amount for the Italian economy when we consider that the disposable income will not exceed, on the most optimistic estimate, more than 26,000 millions of lire (45.2 billion dollars) in the four years.
The expansion in industries producing capital goods will be considerably greater than that in industries producing consumer goods. Thus, while the output of consumer goods and services for the home market will exceed very slightly the index of population growth, a 5% per cent increase over the 1938 level is planned for capital goods.

In conformity with this program, the per capita level of consumption in 1953 would be only 7% above that of 1938, which was already low, the aim being to reach a level which will not endanger the physical health and productive capacity of the population (4).

The Chief Investment Plans.

5 — The target of the different production plans is an increase in the volume and a reduction in the costs of production, high in special account the need to increase exports. These plans are concerned with the sectors of production, of which Italy is naturally best suited. Not self-sufficiency but the Italian division of labour is the objective.

The investment in industrial production should be above all result from a fuller use of existing equipment. The aim is an increase by 5% over the volume of 1938. In the case of agriculture, production should exceed by 15% the level reached in the four years of Italy's immediate previous war (the increase would only be 5% if measured against the production of a particularly favourable crop year such as 1938). As regards transport and communications, the increase should be 20%, in commerce and credit, insurance, 15%.

The estimated rate of increase in industrial activity is considerable, taking into account the present level which amounts to about ninetenths of the prewar figure (5). Less rapid is the rate of increase for agriculture, as a result of natural conditions regulating that activity; it should, however, be borne in mind that 1938 was a year of bumper crops and that agricultural production now stands at nine tenths of that level. When the proposed increases have been secured, Italy will still have a mixed agricultural-industrial economy with no great difference from the present complementary character of the two sectors.

Agriculture and Food Production.

6.— The reconstruction plan for agriculture has the following two objectives: (a) a return is about the pre-war level of per capita food consumption; (b) the maximum increase of exports in those sectors in which Italian agriculture can meet competition on the international market.

While the general level of consumption in 1953 should be a little higher than in 1938, the level of food consumption, planned for 1953-55, would be slightly lower, at 1,620 calories per day per person against the 2,723 in 1938 and 2,615 in the period 1934-39. In spite of the insufficient volume and quality of food consumption in Italy at that period (when it was definitely below not only the level in the other countries of Western Europe but also below the Italian level in 1920-29), it has not been thought advisable to aim at a higher figure so as to avoid overburdening the trade balance with food.

Tough the food consumption level will thus remain practically unchanged, agricultural production should be raised in the course of the next years, as stated above, by 15% over the 1935-36 average (25% above the present level) so as to meet the needs of the larger population (estimated at about 12% between 1935 and 1952), and the expected revival of certain types of export. For this purpose, Italian agriculture will have to face fundamental problems, transforming its structure from one of self-sufficiency protected by customs into one open to world trade.

We cannot enter into details here (6) but present production (8) for year 1947-48, (6) targets for 1952-53. As these figures show, the increase over prewar production planned for 1952-53 relates substantially to the products of the problems of Italian agriculture related to ERP, see below n. 7 of this Review (October 1949), G. Mussi, The ERP and the problems of Italian agriculture, p. 146 et seq.

(7) In 1939, for instance, the price of wheat in the United States was $8.9 per bushel, the exchange rate of 18 lire to the dollar to about 150 lire. In Italy the price on the farm was 159 lire per ton. Conditions now prevailing on the world markets for farm products make a choice of an economic policy in this field difficult, for the deficiency of growing wheat will depend largely on the policies followed by the governments of the leading producer countries. Should a policy of price support be practically relinquished, then some degree of protection for our wheat growers would be inevitable. In this sector, Italian policy may aim at lowering costs by rationalizing production, which should make it possible to secure in 1952-53 an output of 7.5 million tons of wheat (a figure equal to the highest average reached in the period 1936-49) grown on an area of less than 5 million hectares, which in the following years should be still further reduced without affecting production.
animal husbandry and fruit and vegetable crops. Compared to present output, the increase for cereals and sugar is also high; it is not very marked in the case of fruit and vegetables, cultivation of which has already been greatly stimulated in these past-war years by the higher level of prices.

The planned increases in agricultural production may be secured by following simultaneously two parallel lines of development: (a) increasing the "normal" farm output through a greater use of chemical fertilizers, the execution of a large-scale plan for mechanical equipment, the wide use of selected seed, the more active control of plant diseases and diseases of livestock, a more generalised and better training of farmers, etc.; (b) increasing the area available for cultivation by a vast land-reclamation, irrigation and land improvement program.

The program for the principal sectors of industry is as follows:

**Fuel and Power.** The volume of electric power generated should be about double that obtained in 1938, i.e. 32.8 million Kwh in 1937-38, of which 28.3 would be provided by hydro-electric power stations (present total output stands about 23 million Kwh). The investment needs estimated are particularly high, amounting to 304 million lire. The output capacity of the mineral oil refineries should be greatly increased, and inclusive of production on commission, should be more than three times that of 1938. The plans foresee in 1937 imports of 9,615,000 tons of crude oil at a cost of 153,122,000 dollars, from which 8,760,000 tons of petroleum products would be obtained: 5,316,000 for home consumption, and the remainder for export yielding a receipt of 144 million dollars.

**Iron and Steel.** The problems relating to the iron and steel industry, which grew up in Italy behind a high protective barrier, have given rise to lively controversies, dating back a long time, and relating more especially to the engineering trades which have to purchase their steel requirements from the domestic industry at much higher prices—sometimes 100 per cent higher—than those ruling on world markets. The question is now of greater importance than ever, as the national plan aims at a large expansion in the export of engineering products and for this purpose it is essential that steel should be available at internationally competitive prices.

The four-year plan looks more especially to securing the modernisation of the plant and rationalisation of the productive system, which should lead to a reduction of unit costs and a marked increase in output. In the case of pig iron, output should rise from the 567,000 tons of 1938 to 700,000 tons; crude steel from 2,320,000 to 3,1 million tons. The output should suffice to cover most of the demand on the home market and steel imports could then be reduced to 250,000 tons per annum.

**Mining.** A large increase in the output of iron ore is foreseen (800,000 tons, 350% of the 1937 production), zinc ore (720,000 tons, 80%); sulphur (250,000 tons, 40%); pyrites (1 million tons, 50%). The average increase over present production figures is estimated around 35-40%. The total estimated investment amounts to some 50 million dollars, of which 50 million should be spent abroad on the purchase of machinery and the remainder in Italy. The labour employed in the mining industry would rise from 137,000 to 200,000 in 1952.
The output estimated for 1952 would amount to a value of some 2,400 million dollars, of which 600-700 million for export. The export estimates are based on the growth of trade for the countries of Western Europe, the Mediterranean Basin and Central and South America (10).

**Textile Trades.** — The other large sector of Italian industry is that of textiles, which in 1938 employed 592,000 persons with a capital investment of some 10 million lire and had the largest export trade. Here again the plan provides for a substantial increase in productive capacity than for modernisation and rationalisation of the existing plant. It is expected that in 1952-53 the textile industry will achieve export sales of some 400 million dollars, as compared to 300 million in 1937, allowing for a probable lowering of prices as a result of fierce foreign competition.

The Chemical Industry. — For this industry an important increase in output capacity is planned. The value of the Italian production of chemical goods was estimated in 1938 at 500 million dollars and output potential at some 800 million. For 1952-53 production should show the following rates of increase:

- Nitrogenous fertilisers: 110% increase from 1938-40 to 1952-53.
- Phosphatic fertilisers: 110% increase from 1938-40 to 1952-53.
- Copper sulphate: 100% increase from 1938-40 to 1952-53.
- Sulphuric acid: 100% increase from 1938-40 to 1952-53.
- Carbonate of soda: 100% increase from 1938-40 to 1952-53.
- Caustic soda: 100% increase from 1938-40 to 1952-53.
- Organic dyes: 100% increase from 1938-40 to 1952-53.
- Synthetic resins: 100% increase from 1938-40 to 1952-53.
- Manpower: 100% increase from 1938-40 to 1952-53.

(c) Public Works and Public Utilities.

8. — Transport. — An adequate development of the network of inland and sea communications is closely related to production programs, and investments amounting to 150 million lire for the former and to 350 for the latter have been planned.

The Ministry of Transport plans for the railways provides (a) for completion of the reconstruction of lines and services in operation before the war; (b) for improvement in the plant and operating systems so as to lower working costs and speed up transport; (c) for an increase in the length of electrified lines by 700 kilometers, of which 565 are on three-phase current. When the plan is carried out the goods carriage potential should be 20-25% higher than now and the facilities for carrying passengers should be double those of 1938.

The problem of sea transport is very difficult and is closely related to that of the shipbuilding industry (11).

On June 30, 1948, the tonnage of the Italian merchant marine amounted to 2 million tons as against 3,320,000 on December 31, 1938. It is expected that by 1952 the tonnage will have risen to some 3,650,000, being approximately 30% below that of 1938. But the result of technical improvements the carrying potential should amount to 85-90% of the pre-war figure. Even so, the tonnage of the merchant marine will still be inferior to the needs of cargo and passengers, which are expected to exceed by 30-35% the pre-war figure, and the cost of ocean freight rates will still weigh on our balance of payments for some 57 million dollars.

The building trades. — The housing problem, which is much more severely felt in Italy than in other countries of Western Europe, ranks beside that of unemployment as one of the most delicate aspects of the Italian economic situation. The need to use E.R.P. help for productive purposes will make it necessary to rely mainly on the home market to finance building works. In the course of the next four years building operations financed wholly or partially by government grants should attain the following proportions:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-49</td>
<td>200,000</td>
</tr>
<tr>
<td>1949-50</td>
<td>300,000</td>
</tr>
<tr>
<td>1950-51</td>
<td>500,000</td>
</tr>
<tr>
<td>1951-52</td>
<td>500,000</td>
</tr>
</tbody>
</table>

Total: 1,000,000

In this connection it should be remembered that merely in order to return to the housing situation as it existed in 1931 almost 4,000,000 living rooms would have to be built (12).

The Labour Market.

9. — We have already referred to the chief causes that make the disparity between available manpower and possibilities of employment a particularly serious one in Italy (13).
disparity finds practical expression not only in the figure for unemployment but also in the low ratio between occupied and total population.

At present the number of unemployment is estimated around two million. The normal growth of the population in the next four years will increase the number of workers by some 960,000. The Italian long-term program provides in the next four years for the employment of 1,160,000 to 1,250,000 persons in the following ratios as between the several sectors of production:

- Agriculture: 25,000
- Industry & handicrafts: 425,000
- Building and public works: 400,000
- Civil service, trade & transport: 400,000
- Total: 1,160,000

The employment of additional labour in industry alone, exclusive of handicrafts, may be estimated as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Present</th>
<th>Present</th>
<th>Expectation for 1953</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>500,000</td>
<td>560,000</td>
<td>800,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Textile industry</td>
<td>400,000</td>
<td>470,000</td>
<td>370,000</td>
<td>97,000</td>
</tr>
<tr>
<td>Paper, wood</td>
<td>400,000</td>
<td>450,000</td>
<td>500,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Food industries</td>
<td>600,000</td>
<td>650,000</td>
<td>700,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Building materials</td>
<td>200,000</td>
<td>250,000</td>
<td>300,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Chemical industries</td>
<td>100,000</td>
<td>150,000</td>
<td>200,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Mining</td>
<td>100,000</td>
<td>150,000</td>
<td>200,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Steel and metallurgy</td>
<td>100,000</td>
<td>150,000</td>
<td>200,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Water, gas, electricity</td>
<td>100,000</td>
<td>150,000</td>
<td>200,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Total</td>
<td>2,500,000</td>
<td>3,160,000</td>
<td>3,400,000</td>
<td>340,000</td>
</tr>
</tbody>
</table>

Now, even taking for granted the success of these plans, there will still be in 1952 an estimated 1,800,000 unemployed. There is therefore nothing for it but to resort to large-scale emigration. But what dimensions can such emigration attain? Although all estimates in this field are extremely risky and uncertain, nevertheless, on the basis of the immigration plans of the several countries concerned, and also of the ratio between the agricultural population and the area fit for cultivation shows a density of 25 persons per sq. km., which is double that of France, three times that of Great Britain, and exceeds that of the prevailingly agricultural country of Eastern Europe.

The Balance of Payments.

10. The Italian trade balance has almost always closed with a deficit; since the beginning of the century a credit balance has been secured only in 1941 and 1942, and this was accounted for by the distortion and reduction of trade due to war and not by a real change of trend. The chronic nature of this deficit is essentially due to the lack of certain essential raw materials above all coal, petroleum and iron, and in the second place to the food requirements of a population forced to live on a relatively insufficient and insufficent land.

Table V, which shows the value in 1947 of imports and exports, classified by the main groups of merchandise, and forecasts the situation for 1952-53, clearly shows these underlying facts. Italian foreign trade consists of bulk imports of raw materials and foodstuffs and of exports of finished and semi-finished products, 60% of which come from the engineering and textile trades.

The Italian plan to reduce the present deficit provides for a substantial increase of exports, which should rise from the 672 million dollars of 1947 to 846.6 million in 1948-49 and then jump to 1,489 million in 1952-53.
The balance of current items in 1952-53 would therefore be as below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Million of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net trade balance</td>
<td>248.6</td>
</tr>
<tr>
<td>+ balance invisible items</td>
<td>+ 95</td>
</tr>
<tr>
<td>of which: 'Travel'</td>
<td>+ 95</td>
</tr>
<tr>
<td>Tourist expenditures</td>
<td>+ 200</td>
</tr>
<tr>
<td>Emigrant remittances</td>
<td>+ 205</td>
</tr>
<tr>
<td>Foreign investments</td>
<td>+ 15</td>
</tr>
<tr>
<td>Net balance on current items</td>
<td>+ 10.4</td>
</tr>
</tbody>
</table>

As these figures show, it is expected that the current items will close with a net surplus of 10.4 million dollars. On the other hand, it is estimated that transactions on capital account will close with a net deficit of 24.5 million dollars, thus leaving a final deficit balance of 13.1 million dollars.

The geographical distribution of the net balance of international payments will be as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Million of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>North &amp; Central America</td>
<td>- 98.7</td>
</tr>
<tr>
<td>South America</td>
<td>- 17.8</td>
</tr>
<tr>
<td>Non-participating sterling area</td>
<td>- 44.3</td>
</tr>
<tr>
<td>Participating countries</td>
<td>- 19.1</td>
</tr>
<tr>
<td>Participating countries of the sterling area</td>
<td>- 32.2</td>
</tr>
</tbody>
</table>

Total: - 150.0

The deficit of 15 millions of dollars should be covered by normal commercial credits.

Co-ordination of the various programs.

11. - Difficult problems arise in the effort to harmonize the programs of the 19 countries participating in the O.E.C., whose different targets must be examined in the light of general European interests.

All the European countries are planning to reduce their imports of finished products while increasing their imports of raw materials. On the other hand, exports should be guided by the opposite policy of greatly increasing exports of finished products while reducing those of raw materials. An economic policy thus devised is obviously mistaken; the long-term plans of the countries participating in E.R.P. have sounded the alarm and have clearly shown with the help of available statistics that the economic policies proposed were not only un-coordinated but quite impracticable. Getting down to a study of the different sectors, the discrepancies in the various programs become apparent. In the engineering sector, for instance, the exports that the participating countries are planning to make to the same group of states in 1952-53 exceed by 1.6 million dollars the imports planned by the group.

Other discrepancies have been brought to light in regard to the supply markets. In these efforts to reduce their dollar deficits, all the participating countries are planning to import large quantities of raw materials from South America, Africa, and Asia. Enquiries not yet completed have made it evident that the imports planned from Latin America and, in lesser degree, from the other Continents, would not be physically possible (15).

The same remark holds good for exports: thus, for instance, exports for the South American markets are considerably in excess of what are believed to be the import possibilities.

Moreover, anxious as they are to reduce their respective dollar deficits, all the countries are planning to limit very considerably their imports from North America. But such a policy might accentuate deflationary forces in the American economy and therefore, as it has frequently been pointed out, the United States should try to enable the European countries to earn the largest possible quantity of dollars, in order to allow Europe to re-establish the circulation of imports from the United States.

There are some of the more general problems that emerge from an examination of the long-term programs of the participating countries, but it is clear that super-national planning must go further than this. We need only mention the problems of production costs, sales markets, the coordination of efforts in the commercial field, etc., all problems that have been discussed only in a very summary manner and which will probably have to be dealt with at the next session of the O.E.C. We may mention that some countries favor a division of export markets, or at least would urge an understanding between the great producing industries, a policy to which others object, as they would like exports to be based, at least for the present, on production costs.

The "Viability" of the Italian economy in 1952-53.

12. - The plans for production and trade which we have summarized may make it possible for Italy to achieve a balance in her international payments in 1952-53.

This result, however, could only be secured if the cooperation of the other participating countries and of the United States make it possible to rely on certain preliminary conditions which it may be well to emphasize. To sum up, the Italian plans are based on the following suppositions:

(a) That in the next 4 years American help will not fall below 2 billion dollars. Italy would be unable to rehabilitate her productive equipment and increase her exports as she plans to do, if she were unable to secure this fundamental contribution. Not only has Italy very limited natural resources on her national territory but, unlike the other participating countries, she is unable to count on the economic contribution made by colonies and possessions;

(b) That the help be timely distributed over the whole period. More than the other participating countries Italy needs to make, in the first E.R.P. period, investments whose beneficial results will only be felt after a comparatively long lapse of time. The "help curve" cannot be the same for all the participating countries and in this matter Italy is a special case;

(c) At the nature of the help, that Italy can count not only on raw materials and capital goods but also on heavy imports of co-

15. In the case of cotton, for instance, the quantities to be imported from South America are largely in excess of available supplies in that market.
standard of living in the "new" countries in all the Continents. Plans of this description would help to raise everywhere the level of economic activity; they would enable the overseas countries to advance more rapidly along the paths of progress and prosperity; they would enable the United States to apply to purposes of production that part of their economic potential available for other countries; they would enable Europe and Italy to find a position of equilibrium in a dynamic and pro-

gressive situation. In such a picture, Italy's labour potential, instead of representing, as it now does, a grievous liability, would become a factor of the prime importance for production. If, on the contrary, it were found to be impossible to carry out such programs, then Italy's effort to secure a stable and lasting economic equilibrium, limited exclusively to the domestic scale, would inevitably be condemned to failure, with unforeseeable consequences in the social and political fields.

## Southern Italy

by

ALESSANDRO MOLINARI

I. The "Crosses" borne by the Italian Economy: Population and the South.

1. — It is impossible thoroughly to understand Italian economic problems in all their intricacy and to lay down rational directions for an economic policy, both domestic and international, without a clear perception of the decisive nature of the two crucial problems besetting the Italian economy: the general problem of over-population and the localised problem of the Southern areas. Both these problems are completely dominated by the social aspect so that the normal and theoretical terms of a strictly economic character are radically shifted.

Since foreign observers in particular, whose experience is restricted to economic conditions in which the demographic and social aspect is of only slight importance, seem to have difficulty in realising these fundamental truths, we feel it advisable to sum them up briefly, even though they are by now well-known commonplace for many people.

(*) Southern Italy covers the regions of Southern peninsular Italy (Abruzzi, Molise, Campania, Puglia, Lucania, Calabria) and the Islands of Sicily and Sardinia. For the sake of brevity, Southern Italy is sometimes called only "the South", all the rest of Italy being "the North".

Let us start with the demographic aspect which, after all, is the basic and determining factor. We will not stop to consider the ratio between territory and population, merely referring the reader to the figures given elsewhere (1), which prove that the "actual" density of population in Italy is the highest in Europe, even surpassing, rationally considered, that of Belgium and Holland. Even more serious is the increase in population as compared with the possibilities of economic development. The natural yearly increase (excess of births over deaths) fluctuates at present between 450 and 500 thousand. It is calculated that there will be an annual increase of about 400,000 units in the productive population (from 15 to 64 years of age) within the next decade. At least 60 per cent of this productive mass, namely about 250,000 persons, needs and will need to find gainful employment (in Italy or abroad) every year, assuming, optimistically, that the remaining 40 per cent may be placed in the so-called "inactive" categories of society (students, housewives, well-to-do persons, persons living on dividends, etc.).

Further, there are at present over two million persons of working age who are unemployed and looking for jobs. Even should it