Lagged Development and Structural Imbalances: the Relative Position of Italy*

1. Introduction

This paper is largely based on the main findings of the research on the state of the utilization of the labour force in Italy, carried out by a group of economists at the Faculty of Economics and the ISTAO of Ancona, in 1974-1978. The starting point of the study was the problem of the abnormal fall of the official rate of activity of the Italian population in the last twenty years. The increasing dissatisfaction with the partial explanations of this problem induced our research group to extend the field of investigation to international comparisons on topics like the level of economic development, the structure of productive capacity and of income distribution, and their relations with the labour market. This perspective led us to stress the links between the clear signs of the lagged level of development of the Italian economy, the structural imbalances of the productive system, and the dualism in the labour market between the regular employment sector, which is unable to absorb all the potential labour supply, and the irregular one, which is not covered by the official rate of activity.

In September 1976, G. Fuà, the research director of the project, published an overview of the main issues of the research[1]. Since the final results are now available in a series of 6 volumes,[2] collecting all

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[1] Cf. Fuà, *Occupazione e capacità produttive.* An abridged English version was published by this *Review*, No. 122, September 1977, pp. 215-244.

[2] Cf. Alessandrini (ed.): 1 - *Lavoro regolare e lavoro nero,* 2 - *Struttura della forza lavoro e sviluppo economico,* 3 - *Conflittualità e aspetti normativi del lavoro,* 4 - *Costo del lavoro e occupazione,* 5 - *Retribuzioni, produttività e prezzi,* 6 - *Specializzazione e competitività internazionale dell'Italia.*

the reports prepared for the project, the main purpose of this paper is to provide an overall view of the most important empirical conclusions of the study. This article is far from being an exhaustive survey of all the topics concerned. But, at the same time, it is not simply a restatement of the original results. Indeed, in the following pages attention is mainly focused on the latest findings and, above all, on those issues which were examined after the publication of Fuà's seminal book such as: the new estimates of real GDP; the sectoral distribution of productivity, labour cost, and employment; and, finally, the up-to-date and more disaggregated analysis of the cost of labour, of international specialization, and of the dualistic structure of productive capacity.

2. Comparative Level of Development and Labour Force Absorption

European countries differ considerably in their level of development. This is due to differences in their economic structure, mainly related partly to natural endowments and partly to the fact that in some countries the process of modern industrialization started much later than in others. For 1976, table 1 shows comparisons based on indexes of real and nominal GDP per capita, valued at a common set of prices[3] and at national prices converted at current exchange-rates respectively. The former indicator reveals that Europe can be bisected (see dashed line in table 1) into a highly developed *centre*, grouping 11 countries with levels of GDP per capita all above average and relatively uniform, and a less developed *periphery*, where the levels of GDP per capita of its 7 countries are all below average and highly differentiated.

Italy is at the top of this second group. The Italian level of development is 1/5 below the average of all European countries and, among EEC countries, only Ireland comes below Italy.

Differences among countries are much higher on the basis of nominal GDP per capita. This is due to the different price levels (table 1, column c), which tend to be higher the more developed the countries. Owing to devaluations of the exchange rate, the Italian price level in 1976 was in line with its relative level of development.

[3] For further explanations, see Crivellini-Ercolani, *Livelli di sviluppo*.

Table 1

INDEXES OF LEVEL OF DEVELOPMENT IN EUROPEAN COUNTRIES
Year 1976

Countries	Real GDP per capita (common set of prices) (*a*)	Nominal GDP per capita (national prices converted at exchange rates (*b*)	Index of price level (*b*)/(*a*) · 100 (*c*)	% share of agriculture in total employment (*d*)
		Italy = 100		
Sweden	189	302	160	6.2
Norway	174	256	147	9.4
Denmark	165	251	152	9.3
France	165	215	130	10.8
Belgium	163	221	136	3.4
Germany, Fed. Rep.	161	241	150	7.1
Netherlands	157	214	136	6.5
Switzerland	156	293	188	7.9*
Finland	143	199	139	13.8
Austria	129	178	138	12.4
United Kingdom	126	127	101	2.7
Italy	100	100	100	15.5
Greece	93	79	85	34.3
Ireland	87	81	93	23.8
Spain	87	95	109	21.4
Yugoslavia	68	55	81	n.a.
Portugal	61	54	89	27.4
Turkey	43	25	58	62.8*
weighted averages:				
— all countries	120	148	122	16.2
— EEC 6**	144	190	130	10.1
— EEC 9**	140	176	125	8.4

* 1975.
** except Luxembourg.
Source: Crivellini-Ercolani, *Livelli di sviluppo*, table 3; OECD, *Labour force statistics*.

It was lower than in many other European countries, even though in the 1970's the Italian rate of inflation was one of the highest.

Another general feature distinguishing the less developed European economies is a larger share of agriculture in total employment. In this case, however, Italy is closer to some countries of the more advanced *centre* rather than to those of its group. This fact can be related to the impressive reduction of the active population in agriculture in the post-war period. Table 2 shows that, in Italy, the phenomenon is on a more extensive scale than in other countries, and, above all, that it is far in excess of the capacity of absorption of the non-agricultural sectors. The final result is an exceptional fall in the total activity rate and the widening of the gap with the higher rates of the other industrialized countries.[4] In this connection, the following two empirical remarks are relevant.

First, the contribution of non-agricultural sectors to the evolution of the activity rate from 1951 to 1971 is not particularly different in Italy from the other countries considered, leaving aside the exceptional case of Japan.[5] In France, Federal Germany and the UK, too, the activity rate in industry declines in the second half of the period examined, while in the services ("other sectors") it continues to increase. The peculiarity of the Italian non-agricultural sectors is in the *level* of the activity rate, which is very low in industry (and also in manufacturing industry) and is lowest in the services (see table 2).

Second, the extension of the analysis to secular trends[6] for the industrialized countries examined in table 2 and to cross-sections[7] for 68 countries, including LDC's, confirms the existence of a pattern in which the change in economic structure from a mainly agricultural to a modern industrialized one implies a fall in the activity rate.[8] Only

[4] This trend has not been biased either by a larger increase of the Italian population or by a different evolution of its age structure. Among the countries considered in table 2, Italy has had one of the lowest rates of population growth and there have been no marked differences in age structure, as shown by Fuà, *Occupazione e capacità produttive*, table 4.

[5] The Japanese total rate of participation has gone up, even though the rate of growth of the adult population has been higher than that of the total population. In fact, the active population has successfully increased at the same rate as the adult population, as the result of a very marked absorption of labour force by the non-agricultural branches of production and notwithstanding the remarkable negative contribution of agriculture, as shown in table 2.

[6] Cf. Robotti, "Tassi di attività".

[7] Cf. Galeazzi, "Tassi di attività".

[8] From this point of view the phenomenon is mainly the physiological result both of adjustments of productive capacity, induced by structural shifts in demand, and of rational choices made by the family nuclei in order to improve their standard of life. The level of living usually rises, even though the family's activity rate declines, owing to gradual replacements of low income agricultural activities, in which almost all the family is engaged (including oldsters, juveniles, housewives), with better paid non-agricultural jobs for only one or two members of the family. According to Fuà, *Occupazione e capacità produttive*, p. 28, this is the most plausible explanation of the fall in the activity rate. The migration of labour force seeking higher incomes, and the consequent fall in the activity rate, are directly affected by the intensity of sectoral and territorial imbalances, as pointed out by Salvati, *Sviluppo economico*, pp. 78-81.

Table 2

ACTIVITY RATE BY BRANCH OF PRODUCTION

	Agriculture	Industry	of which, Manufacturing Industry	Other Activities	Total
Italy					
1951	18.9	13.0	11.5	10.8	42.7
1961	11.9	15.5	12.6	12.1	39.5
1971	6.0	15.1	11.6	13.7	34.8
France					
1954	12.4	16.3	12.3	17.1	45.8
1962	8.5	15.8	12.0	18.1	42.4
1968	6.5	15.6	10.7	19.5	41.6
Germany, F.R.					
1950	10.7	19.5	13.8	16.0	46.3
1961	6.6	22.4	17.6	18.6	47.7
1972	3.2	21.1	17.1	19.6	43.9
United Kingdon					
1951	2.4	21.9	17.3	21.9	46.2
1961	1.7	21.5	16.8	23.7	46.9
1971	1.4	20.7	18.0	24.1	46.3
Japan					
1950	21.1	9.6	7.9	13.0	43.6
1960	15.4	13.7	10.2	18.0	47.1
1970	9.9	17.3	13.0	23.8	50.9

Source: I.L.O., *Yearbook of Labour Statistics*, different years.

at the higher levels of development is there a stabilization, or even, according to cross-section results, a moderate upswing of the rate, mainly owing to increases in the female rate of activity. From this point of view, the downward trend of the Italian activity rate is in line with the general pattern, and appears to be typical of an economy still "lagged" along the path of economic development. Indeed, even though the direction is correct, the size of the fall remains exceptional.[9]

The difficulty of interpretating this phenomenon has called in question the reliability of official statistics on the labour force and stimulated further analysis. Several local surveys have proved the existence of a considerable part of the population employed in jobs which escape official registration and which, in most cases, are not in order with the law and wage agreements. The survey in four small districts in the Marches, under our research project,[10] has estimated that actual rates of activity are much higher. Nearly 1/3 of female workers are employed illegally and there is extensive "moonlighting". Two surveys, carried out on a national basis by ISFOL-DOXA (1974) and by ISTAT (the Central Statistical Office) (1977), confirmed that a remarkable share of *registered inactivity* was in reality *non-registered activity*.[11]

These remarks do not simply raise a problem of statistical measurement. They show that in Italy there is still a large gap between the size of the labour force and the opportunities of *regular* employment. In this respect, the post-war evolution in job conditions has been only a nominal one for part of the active population. There has simply been a switch from under employment, recorded in the official activity rate, to *irregular* employment, and, therefore, to "under-participation" in the official labour market, a sector protected by the law and wage agreements.[12]

There are several factors favouring the creation of the irregular labour market. In some cases, the worker himself is interested in accepting and concealing irregularities. In our survey, nearly 2/3 of all disguised workers declared that they were reluctant to accept employment under different conditions, and almost 16% of them did not admit spontaneously to having a job.[13] This is clearly the result of the search for more flexibility in working conditions and of a desire to evade social and fiscal charges both by employers and by employees. Such illegal benefits, in particular, make it possible for many firms with a low productivity to survive. At the same time, they facilitate the absorption of some of the weaker components of the potential labour force, which are either less competitive in the regular labour market (married women, the older and younger age groups) or not formally part of the market (pensioners, students).

[9] Disaggregating by sex and age group, Italy has been always characterized by relatively low rates of participation for females, but it has at present reached an extremely low rate for males, owing to declines, in the post-war period, particularly in the 21-24 and 55-64 age groups, which are far sharper than that in the activity rate of older and younger males recorded in all countries. For further explanations, see Robotti, "Tassi di attività", pp. 57-66.

[10] Cf. Canullo-Montanari, "Lavoro regolare".

[11] A short up-to-date review of these results is provided by Pettenati, *Illegal and Unrecorded Employment in Italy*.

[12] Cf. Salvati, *Sviluppo economico*, p. 59.

3. Income Distribution Among Sectors

Let us first consider whether the Italian economy is characterized by anomalies in income distribution among productive sectors. Graph 1 shows an international comparison with some EEC countries of the sectoral distribution of both the product per person employed and the labour cost per employee, with the manufacturing sector being taken as the point of reference (index = 100, for each country). The graph is drawn in such a way as to show whether the relative position of each sector and sub-sector of the Italian economy *(represented by a star)* was inside or outside the range *(represented by a rectangle)* of the relative positions of the other countries, in 1970.

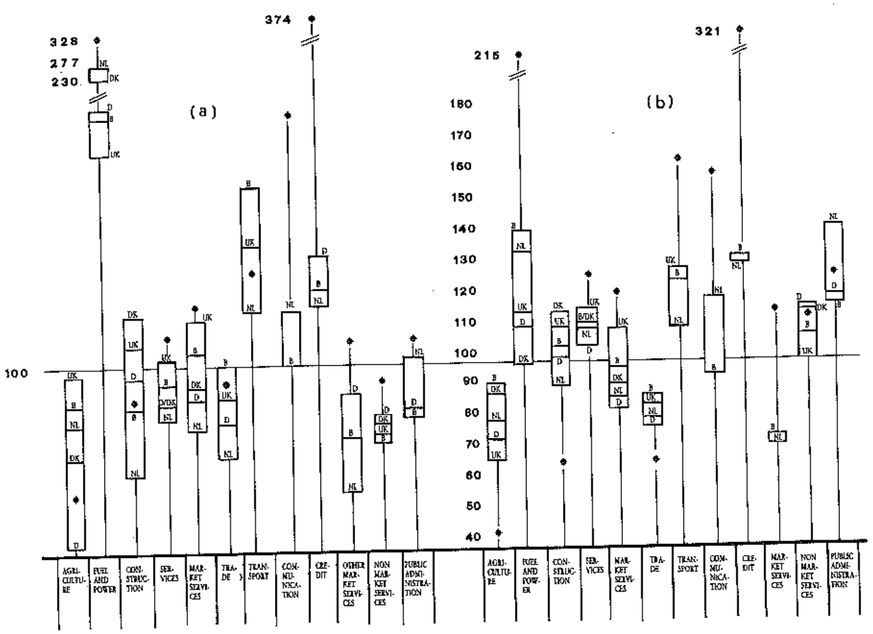
If we take the product per person employed, we find that manufacturing industry in all countries is in a better position than agriculture and non-market services and in a worse position than the fuel and power industry, transport and credit & insurance services. However, income distribution by sector in Italy appears to be characterized by greater imbalances and by a comparatively less favourable position for the manufacturing industry than in the other countries considered. The relative positions of the fuel and power industry, of credit & insurance, and of communications are exceptionally favourable. Still in a more advantageous situation, but to a lesser extent, are the services and most of their sub-sectors.

The same structural situation is reproduced by the sectoral distribution of the labour cost per employee. Looking at the right hand side of graph 1, the star indicating Italy's position is always outside

[13] Cf. Canullo-Montanari, "Lavoro regolare", table 4 and p. 169.

GRAPH 1

SECTORAL DISTRIBUTION OF THE PRODUCT PER PERSON EMPLOYED (A) AND OF AT HE LABOUR COST PER EMPLOYEE (B) - MANUFACTURING SECTOR = 100; ITALIAN POSITION = *



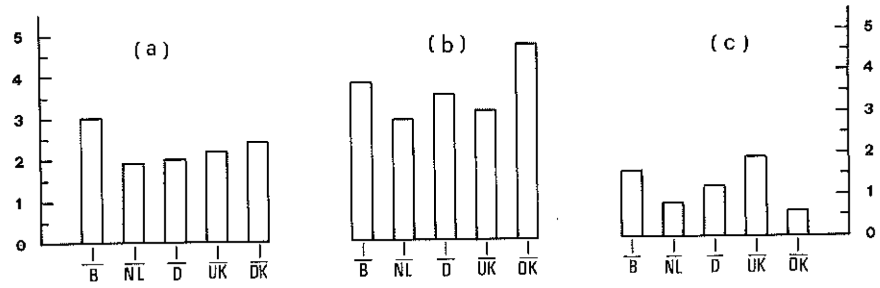
Source: ERCOLANI, *Divari settoriali*, Tab. 4 and graph. 1.

the range of the other countries (except for non-market services) and is farthest from the horizontal line (=100) representing the manufacturing industry. The Italian sectoral differences in the labour cost per employee are not only higher than in the other countries considered, but show a wider scattering than in the product per person employed. This is demonstrated with greater precision in graph 2. It follows that, in 1970, Italy was the only country of those considered in which inequality of income distribution by sector was accompanied by relatively more inequality in the average pay of the employees. This means, in other words, that the relative advantages in the product per person employed obtained by the most favoured sectors[14] went mainly to employees and not to gross profit margins.

[14] That is fuel and power industry, and market services, particularly credit & insurance, transport, and communication.

GRAPH 2

MEAN DEVIATIONS % (OTHER SECTORS VERSUS MANUFACTURING IND.) IN: *(a)* PRODUCT PER PERSON EMPLOYED, *(b)* LABOUR COST PER EMPLOYEE, *(c)* GROSS PROFITABILITY INDEX; (RATIO ITALY/OTHER EEC COUNTRIES).



Source: Elaboration from ERCOLANI, "Divari settoriali", table 5 and table 6.

In fact, the average pay in such sectors was, at that time, far above the level achieved by the same sectors in the other EEC countries.[15]

According to the analyses on the pattern of growth, inequality in the sectoral distribution of income, and, in particular, the more favourable position of the services tend to be less marked in the more advanced countries. Hence, from this point of view, the fact that the Italian economy appears to be characterized by greater imbalances than its more developed EEC partners need not cause surprise. It is disconcerting, however, that, around 1960, such imbalances were much more marked than would have been justified by the relative Italian level of development, as has been pointed out by Ercolani.[16] Only during the second half of the 1960's are there signs that income inequality among sectors started to decrease in Italy, as shown forward (table 4). It is therefore very likely they are still behind the general pattern.

What are the main implications of the anomalies in product and labour cost distributions by sector so far examined?

First of all, let us underline that the majority of the most favoured sectors are sheltered from international competition, as they belong to the services, whose production is essentially non-tradeable.

[15] Cf. ERCOLANI, "Divari settoriali", graph 2.

[16] Cf. ERCOLANI, "Divari settoriali", pp. 223-237 and, in particular, table 7.

TABLE 3

EMPLOYMENT DISTRIBUTION (%) BY BRANCH IN THE EEC COUNTRIES

Countries	Years	Agriculture	Manufacturing industry	Other industries	Services	Services : manufacturing industry
Italy	1970-71	18.2	27.8	10.9	43.1	1.55
	1974-75	15.3	28.4	9.8	46.5	1.64
France	1970-71	13.1	26.8	11.0	49.1	1.83
	1974-75	10.8	26.9	10.3	52.0	1.93
Germany Fed. Rep.	1970-71	8.3	36.2	11.1	44.4	1.23
	1974-75	—	—	—	—	—
Netherlands	1970-71	6.9	25.2	12.1	55.8	2.21
	1974-75	6.5	23.6	10.8	59.1	2.50
Belgium	1970-71	4.5	30.3	10.8	54.4	1.80
	1974-75	3.6	28.8	10.1	57.5	2.00
United Kingdom	1970-71	3.1	32.2	9.6	55.1	1.71
	-1974	2.7	30.4	9.6	57.3	1.88
Denmark	1970-71	11.0	27.9	9.5	51.6	1.85
	1974-75	9.6	22.8	8.8	58.8	2.58

Source: EUROSTAT, *National Accounts Yearbook.*

We can therefore reasonably expect their prices not to be in line with those prevailing in other countries. Hence, the Italian imbalances in the product per person employed could be simply the result of a price system which favours services more than in other countries. If this is the case, the expansion of the Italian sectors producing tradeables (mainly the manufacturing industry) would be negatively affected by comparatively heavier burdens in the cost of services and by the limited freedom to transfer them on to prices owing to international competition. This view is not directly confirmed by the estimates made by Crivellini. According to them, in 1970 the non-tradeable sectors had lower prices in Italy than in France and Federal Germany (except in the case of credit services) and appeared to be less inefficient, relatively to the corresponding French and German sectors, than the tradeable sectors.[17] Nevertheless, it is still clear,

[17] Cf. CRIVELLINI, "Prezzi ed efficienza", pp. 284-289, in particular table 7 and table 8. This result holds with the remark that, in Italy, some prices are artificially kept at low level by Government intervention.

after this analysis, that the international competitiveness of the Italian manufacturing sector *has not benefited* from the fact that the employees of the majority of the services are overpaid in relation to the standards of the other EEC countries. Had their earnings been reduced to at least these standards, the prices in Italy of the services could, with the same profit margins,[18] have been substantially lower.

A second aspect of the problem of the sectoral disproportion in the level of pay is its impact on the sectoral distribution of employment. The maintenance of considerable barriers to entry to some sub-sectors of the services has obstructed the balancing inflow of more employees, while, at the same time, the higher remuneration has probably attracted a more qualified labour force than necessary. Table 3 shows that Italy has the lowest share of total employment in the services and one of the lowest ratios of employment between services and manufacturing industry among the EEC countries. Moreover, the share of females in the total employment of the services is much lower in Italy than in other industrialized countries.[19] Since international differences in techniques of production of many branches of the services are not usually marked, it seems reasonable to consider this substantial underutilization of females as the consequence of competition for such better paid jobs, in which the weaker components of the labour force, such as women, remain at a disadvantage. It is significant that this happens only for regular jobs, but not for irregular ones, where female employment appears to be quite extensive according to the sample surveys.

Finally, the disproportionate sectoral distribution of incomes has been one of the main incentives for the "explosion" of the cost of labour in the Italian economy in the 1970's. It has induced the running-up of wages and salaries, owing to rival claims between employees in the less remunerative sectors, who try to narrow their relative disadvantages, and employees of the more remunerative sectors, who try to defend their relative privileges.[20] In addition to this domestic "imitation-incentive", there has probably been an international "imitation-incentive" to achieve the higher standards of living of the more advanced EEC partners.

[18] Or with the same Government subsidies, in the cases of administered prices pointed out in footnote 17.

[19] Cf. CANULLO, "Retribuzioni e occupazione", table A1, p. 159.

[20] Cf. ERCOLANI, "Divari settoriali", pp. 246-247.

TABLE 4

INDEX OF INEQUALITY IN THE LABOUR COST PER EMPLOYEE AMONG 10 BRANCHES OF PRODUCTION, ITALY, 1951-1977

Years	Mean value of labour cost per employee (manufacturing industry = 100) (a)	Mean deviation (b)	Mean deviation % (c) = (b) : (a) · 100
1951	126	58.6	46.4
1955	131	65.7	50.0
1960	137	70.5	51.6
1965	147	77.1	52.4
1970	131	60.8	46.6
1970 (*)	134	68.2	51.0
1977 (*)	121	51.3	42.3

(*) 9 sectors.
Source: ERCOLANI, "Divari settoriali", table 9.

The rise in labour cost and reduction in its differentials have been common to other industrial countries, especially in the EEC area.[21] Italy diverges from this general trend only as regards the higher intensity of its transformations, which has led to a rapid narrowing of some of the gaps with respect to the pay structure of the developed European countries.

Table 4 gives an account of the post-war evolution in Italy of inequality in the labour cost per employee among 10 branches of production. It is evident that, while in the first 15-20 years the differentials increased, only in the 1970's are there clear signs of a narrowing process in favour of employees in the manufacturing industry, whose relative position is below the average (table 4, column a). This balancing process has affected not only manufacturing industry vis-à-vis the other branches of production, but also many of the various forms of inequality inside the manufacturing industry itself, as will be demonstrated below.

21 Cf. SCHIATTARELLA, "Costo del lavoro", p. 34; SCHIATTARELLA, "Retribuzioni ed occupazione", p. 70; CANULLO, "Retribuzioni ed occupazione", p. 111.

4. Structural Evolution of the Cost of Labour in the Manufacturing Industry

In the middle of the 1960's, manufacturing industry in Italy was still, among EEC countries, characterized by the lowest hourly labour cost, by the highest wage dispersion by sector and seniority of service, and lastly by a wide gap between salaries and wages, lower (but only just) than that in France alone. Since then, there has been such an impressive narrowing of the pay differentials, as can be checked by reference to table 5, that in the first half of the 1970's the Italian gap between salaries and wages had already become the lowest, while the wage dispersion by sector was lower in Italy than in Belgium and France.

Moreover, Italy has the lowest wage differentials by professional grade and by sex in EEC countries. The former achievement has been obtained by a considerable levelling up of the wages of the less skilled workers as a result of upgrading. If we look at the wage differential by sex, Italy is first in the EEC area, being second only to Sweden in Europe, and it is far ahead of countries such as the United Kingdom and Japan in securing less unequal pay between female and male workers.

Such transformations and achievements are not general, but affect almost exclusively wage earners. In Italian manufacturing industry, salary earners have lost a great deal of their income lead over wage earners, as we have seen above, and at the same time the structure of their earnings is still characterized by marked imbalances and is in no respect in the van in the EEC area (see table 5).

The evolution of the pay structure as described so far, and, in particular, the levelling up of wages with respect of both salaries and the pay of the more skilled workers have helped to increase the cost of labour.

Long-run trends from 1958 onwards of the relative wage labour costs between Italy and 7 other industrialized countries,[22] valued at current exchange rates, show that the Italian level has risen relatively to France, Great Britain, and USA; remained more or less the same in respect of Belgium, Federal Germany, and Sweden; and declined relatively to Japan and the Netherlands. Finally, in the 1970's, the wage cost of labour in Italy reached a level higher than in Great

22 Cf. SCHIATTARELLA, "Costo del lavoro", graph 2.

TABLE 5

VARIOUS INDICES OF PAY DIFFERENTIALS IN EEC COUNTRIES
MANUFACTURING INDUSTRY

	Year	Italy	France	Federal Germany	Belgium	Netherlands
LABOUR COST						
Salary/Wage % (establishment with>50 employees)	1966	195.1	195.3	144.7	172.9	
	1969	186.9	190.6	156.2	169.4	
	1972	157.8	180.3	136.9	144.6	
	1975	137.0	166.8	137.4	139.0	
EARNINGS						
Wage dispersion by sector (mean deviation)	1967	19.0	15.3	11.3	15.9	11.6
	1969	19.4	15.8	11.8	15.3	10.8
	1972	16.9	16.2	11.4	15.6	10.6
	1975	12.9	14.3	11.9	15.1	8.8
Dispersion by age (standard deviation)						
· wage earners	1966	12.4	13.6	11.1	15.1	23.4
	1972	11.4	10.4	10.6	14.2	21.4
· salary earners	1972	33.7	30.4	24.9	29.9	35.6
Differential by sex (female/male earnings %)						
· wage earners	1972	78.2	74.9	70.1	68.0	66.6
· salary earners	1972	61.3	57.8	62.2	60.5	51.2
Dispersion by professional grades (standard deviation)						
· wage earners	1972	8.7	17.0	13.9	9.9	10.5
· salary earners	1972	48.9	45.3	32.0	24.1	34.2

Source: SCHIATTARELLA, "Retribuzioni ed occupazione"; CANULLO, "Retribuzioni ed occupazione".

Britain and France, still above of the Japanese, nearly 4/5 of that in Belgium, Federal Germany and the Netherlands, and noticeably lower only than those of Sweden and the United States.

The cost of labour per unit of value added, which is a better index of competitivity, substantially confirms the trends just outlined, as can be seen from table 6. The only important exception is that of Japan, which is becoming more competitive than Italy in the cost of labour per unit of value added, even though its wage labour cost is increasing at a faster rate than the Italian one. This is a clear sign of the extraordinary efficiency of the Japanese economy.

The relative Italian position improves with the total labour cost index (table 6), for we have already pointed out that in Italy salaries have been increased at a much lower rate than wages. In any case we have to consider that all these results are affected by exchange rate fluctuations which have favoured Italy. Had the monetary authorities not let the Italian lira depreciate vis-à-vis other currencies, Italy's relative cost of labour would have been much worse.

5. Dualism in Productive Capacity

Section 4 has shown the sharp transformations in the last decade which have changed the Italian distribution of income among employees from an unbalanced and backward structure to one typical of

TABLE 6

COST OF LABOUR PER UNIT OF VALUE ADDED
IN THE MANUFACTURING INDUSTRY
1966 = 100

	1969	1972	1973	1974	1975
Hourly wage per unit of v.a.					
Italy/U.S.A.	93	126	131	140	168
Italy/Sweden	95	99	91	75	85
Italy/Japan	97	115	113	105	116
Italy/United Kingdom	111	126	140	123	142
Italy/France	101	122	110	109	117
Italy/Germany, Fed.	101	97	88	84	104
Italy/Belgium	101	97	87	80	92
Italy/Netherlands	92	99	91	82	95
Hourly wage & salary per unit of v.a.					
Italy/France	101	119	102	102	110
Italy/Germany, Fed.	98	94	81	77	97
Italy/Belgium	99	95	84	76	88
Italy/Netherlands	93	98	88	79	89

Source: SCHIATTARELLA, "Costo del lavoro", table 3.

the most advanced countries, with lower differentials and higher labour costs. The first consideration that comes immediately to mind is the sharp contrast between such achievements and the clear signs, analyzed above, of a still lagged level of development (GNP per capita is nearly 40% below the EEC average), with more marked imbalances in the product per person employed among sectors than in any other EEC countries, and, finally, with a disconcerting incapacity of the productive system to provide regular jobs to all the potential labour supply. As pointed out by Fuà,[23] it is significant that, while Italy is ahead of EEC countries in implementing the principle of equal pay between female and male workers and in granting higher remuneration and early retirement to older people, it is also the country with the lowest rate of regular employment and with a high degree of irregular jobs in these categories.

We need now to take a final step in our analysis and fit to these such contradictory aspects of the Italian economy into an overall picture.

TABLE 7

EMPLOYEES IN MANUFACTURING INDUSTRY
PER 10,000 INHABITANTS
(w.e. = wage earners; s.e. = salary earners)

Year	Italy w.e.	Italy s.e.	France w.e.	France s.e.	Germany Fed. w.e.	Germany Fed. s.e.	U.K. w.e.	U.K. s.e.	Japan w.e.	Japan s.e.	U.S.A. w.e.	U.S.A. s.e.
1966	679	117	755	279	1139	398	1192	379	750	275	728	250
1972	711	151	732	308	1111	430	1013	379	763	324	668	246
1974	732	155	745	313	1084	419	1022	382	736	351	690	256

Source: SCHIATTARELLA, "Retribuzioni ed occupazione", table 3.

Table 7 shows that the rate of regular employment in manufacturing industry in total population is much lower in Italy than in the more industrialized countries. This result is due to a very low rate of salary earners, which is only half that in other countries, while the rate of wage earners is more or less in line. This can be considered a first indication of the relative backwardness of the Italian productive system. More evidence for this aspect of the problem is the fact that, in Italy, manufacturing industry employs the highest percentage of unskilled workers and the lowest percentage of skilled

[23] Cf. FUÀ, *Occupazione e capacità produttive*, p. 77.

workers in the EEC,[24] being second only to Belgium. Finally, there is still a substantial concentration of employment in traditional sectors and in small firms.

Empirical details on the last point are given by table 8, where an international comparison shows that Italy has the highest percentage of total employment in firms of the smallest size. One fifth of all employees work in establishments employing up to 9 persons. At the same time, the lower part of table 8 demonstrates that in Italy small units are characterized by lower levels of average labour productivity compared not only with the intermediate and large units, but also with the same small units in the other countries considered.

The productivity gap affecting smaller firms and the proportion of total employees involved in them appear, by and large, to be

TABLE 8

EMPLOYMENT AND PRODUCTIVITY
IN MANUFACTURING ESTABLISHMENTS BY SIZE

Size of establishments number of employees	Italy 1971	Japan 1969	Fed. Germany 1967	U.K. 1968	U.S.A. 1967
	percentage distribution of employment				
1-9	19	15	10	2	3
10-49	21	27	13	10	11
50-99	11	11	9	8	9
100-499	24	22	26	31	31
500-999	8	8	11	15	31
1000	17	17	31	34	33
	value added index by employee (Fed. Germany's total manufacturing = 100)				
	1967	1969	1967	1968	1967
1-19	51	63	73	81	237
20-49	53	73	86	76	221
50-99	62	80	88	76	223
100-199	70	90	92	78	236
200-499	77	110	103	83	252
500-999	87	134	129	90	274
1000	89	157	110	97	305

Source: elaboration from MAZZONI, "Dimensione delle aziende", table 7 and table 9.

[24] Cf. CANULLO, "Retribuzioni ed occupazione", table 11.

inversely correlated with the country's level of development, as shown by table 8.[25]

In other words, a country like Italy, which is still at a relatively low level of development, normally experiences a more marked dualism in its productive capacity than the more advanced countries. This happens, as stressed by Fuà,[26] mainly because, in a lagging economy, there is an insufficient supply of modern entrepreneurial forces — which are able to operate with highly productive techniques and to choose the most suitable size of firm. Instead, there is a large number of low-productivity, pre-modern firms, which are unable to shift to better techniques and to less rudimentary organizational structures, and are, therefore, confined to operate mainly on a small scale[27] and in traditional sectors.

This productive dualism is mirrored in the pattern of international trade, in which the lagging economies tend to remain specialized in the more standardized productions. This point can be checked in graph 3, where the post-war evolution of international specialization is examined, applying the Balassa trade balance index[28] to the three groups into which manufacturing trade is usually divided according to product cycle theory. In the span of the twenty years considered there has been a general trend, among the more industrialized countries, to become less specialized in goods produced with mature techniques. Japan is an oustanding example of a successful shift in specialization from goods requiring traditional techniques to those requiring intermediate and new techniques. On the contrary, Italy does not show signs of progress in this respect and appears to be still lagging in a prevalent specialization in traditional goods, which are characterized by low growth in world demand, higher price competition, and no chance of maintaining previous shares in world exports as soon as the comparative advantage of lower labour cost disappears.[29]

[25] On this aspect of the problem see Fuà, "Sviluppo ritardato e dualismo", p. 80, and Mazzoni, "Dimensione delle aziende", p. 54.

[26] Cf. Fuà, "Sviluppo ritardato e dualismo", pp. 79-82.

[27] Of course, this does not mean that small size always goes with low productivity. In the more advanced countries, production on a small scale has usually a high productivity, being restricted almost exclusively to activities for which this size is the optimum. Cf. Fuà, "Sviluppo ritardato e dualismo", p. 83.

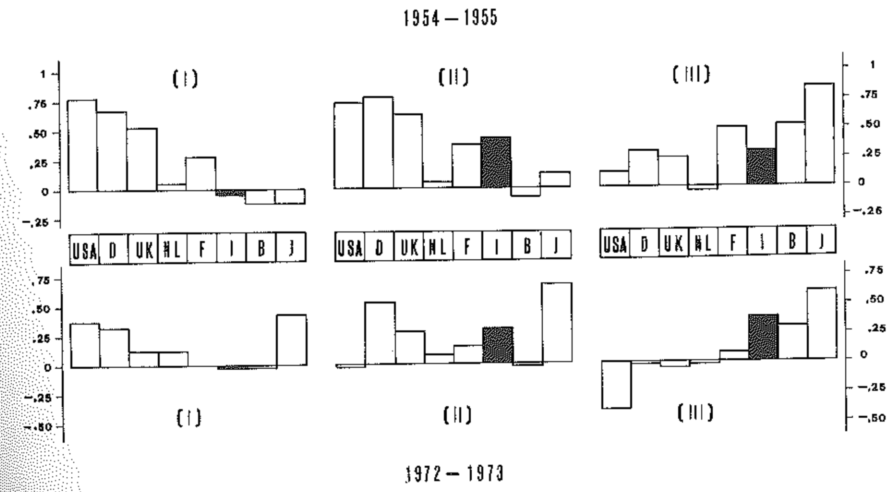
[28] Cf. Balassa, *Trade Liberalization*.

[29] More detailed results and conclusions on this aspect of the problem are provided by Conti, "La posizione dell'Italia". Such features of the Italian specializa-

All these remarks imply that the productive dualism, reinforced by international competition, constraints the structure of labour incomes and working conditions to remain backward and dualistic. In fact, any attempt to reduce the explicit wage dualism, by levelling upwards the various forms of inequality, is bound to apply only to that part of the working population employed in productive and organizational structures capable of reaching the higher level of productivity required.

Graph 3

TRADE BALANCE INDEX $\frac{Xi-Mi}{Xi+Mi}$ FOR NEW TECHNOLOGY (I) INTERMEDIATE TECHNOLOGY (II), MATURE TECHNOLOGY (III) GOODS ACCORDING TO PRODUCT CYCLE THEORY.



Source: Elaboration from Conti, "La posizione dell'Italia".

The rest of the labour supply, which is not absorbed in sufficiently high productive activities, may *a)* remain unemployed, or *b)* it may accept jobs with lower earnings and/or less attractive working conditions in firms which do not comply with official regulations.

The system actually in operation in Italy is a mix of these two possibilities.[30] Only a part of unemployment is officially recognized

tion are more marked in relation to the EEC area, as demonstrated by Falcone, "L'integrazione economica europea".

[30] Cf. Fuà, *Occupazione e capacità produttive*, p. 42, and "Sviluppo ritardato e dualismo", p. 85.

and directly subsidized. Another part of the potential labour force has been kept outside the domestic labour market by extending education and pension schemes, and traditionally (but to a lesser extent now) by encouraging emigration. Finally, there is also a substantial share of the potential labour force which is employed by evading the law and wage agreements. This reveals the existence of a *hidden* dualism in labour market opportunities. While this dualism is not officially registered, as we have seen, it is widely accepted and indirectly sustained. A clear example is provided by the Workers' Statute which offers more protection in Italy against individual dismissal than in France and Federal Germany, but at the same time is less comprehensive, as it does not cover production units with less than 15 employees.[31] The paradoxical result is that, on the one hand, a part of employees benefits from better guarantees of keeping their job than in more developed EEC partners, but, on the other hand, more than 20% of regular employees and, of course, all irregular employees have in fact no protection at all.

Ancona

PIETRO ALESSANDRINI

[31] Cf. ROMEO, "La disciplina dei licenziamenti".

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