

Some Structural Aspects of the Southern Problem: The Complementarity of "Emigration" and Industrialization

1. Introduction

In an article published last year in "Lloyds Bank Review", I argued that a quick solution to Italy's Southern problem would require that, for a certain period, the movement of Southern labour into Northern industry should assume proportions much larger than those which had prevailed during the 1950's. During the past three years (1959-61) such a movement has in fact been occurring at a greatly accelerated pace.

In the present article I shall return to a point which in the previous one I was obliged, given the limited space, to take more or less for granted. It concerns the positive role which, in certain circumstances (which I judge to be those of the Mezzogiorno), the relief of population pressure on an area can have in facilitating that area's economic development. In the otherwise ample debate which recently took place in Italy on her Southern policy, this point did not receive the attention it deserves. The view taken by most "Southernists" was that "emigration" to the North is merely a substitute for industrial development in the South itself, and not a factor helping to promote such development.

My main purpose here will be to set out in rough quantitative terms the aspects of the Southern problem which make it appear that a redistribution of population between South and North — a redistribution of moderate dimensions I shall argue — is in fact a necessary part of the solution.

2. Policy Aims

Our judgement both as to how successful the Southern policy of the past decade was, and as to how adequate the new measures

adopted or proposed for the future are likely to be, must partly depend on how we define the aim of Southern policy. Concerning this point there is, perhaps, less agreement at the present time than there was some years ago. The principal division of opinion can, I think, be summed up by distinguishing between two aims, which I shall call the "major aim" and the "minor aim" respectively.

The "major aim" is that of gradually narrowing the present gap between the levels of average income per head in the South and North, so as eventually to bring the two levels to "approximate parity". This was once the officially recognized aim. It was, for example, embodied in the Vanoni Plan, which looked towards bringing *per capita* income in the South from a proportion of initially about 50 per cent of that in the North to one of 75 per cent. In order to reach this, or a similar aim (we need not at this point be concerned as to exactly how high the final percentage ought to be) it would, of course, be necessary for income per head to grow for some time at a faster pace in the South than in the North. It is generally agreed that, during the decade of the 'fifties, a movement of this kind did not occur.

A further distinction which we need to draw is that between achieving the "major aim" in the "short period" of, say, a decade or so (as was the intention of the Vanoni Plan), and achieving that aim in the "long period" of several decades or perhaps half a century.

The apparent difficulty in making any progress so far towards the "major aim" has caused an increasing number of people, among them many "Southernists", to fall back on the "minor aim". This implies being satisfied if, first, the income level per head in the South is kept rising at a good pace in absolute terms, and if, secondly, there is set in motion in that area an "autonomous development mechanism". Those who see the problem in these terms would not be unduly concerned if, in the "short period" at least, there failed to occur a gradual approach to "approximate income parity" between the areas. Judged by these same standards, the progress made in the 'fifties was satisfactory in one respect but not in the other. The income of large numbers of people in the South, who had previously been living at close to subsistence level, had by the end of the decade been raised perceptibly above this level.

There had not, on the other hand, yet appeared any sure sign of the existence of an "autonomous development mechanism" (1).

Although, in the light of actual events, the aim of the Vanoni Plan appears to many commentators to have been very ambitious, it still seems to me that this aim was, and is, a feasible one, and that it should have been possible within a period of ten years, and still more within one of twenty, to make significant progress towards it. Moreover, there are strong reasons — connected with the geographical pattern of contractual wage rates in industry — which, as I shall argue in more detail below, almost oblige us to opt for this aim in preference to the minor one. Accordingly, I shall be mostly concerned with two questions. First, what are the obstacles which have in the past prevented progress from being made towards this aim? Secondly, what are the foreseeable changes in circumstances, and the policy measures, that may remove these obstacles in the near future? At a first stage I shall consider the question of the policy measures taken specifically for the benefit of the South under two limiting assumptions relating to other aims of Italian economic policy. The first assumption is that it is desired to keep the national income of Italy rising at the maximum possible rate. The second assumption is that it is not intended to subsidise Southern industry (or agriculture) on a large scale or for long periods. (In the past, in fact, the avowed intention was that the subsidies granted should be of modest dimensions and short duration). I shall postpone until a second stage the consideration of various "extra-economic" or "social" aims for which it may be deemed worth while, both sacrificing some amount of national income as the latter is usually defined, and extensively subsidising Southern industry and agriculture by transfers of income from the North.

3. Shortcomings of Southern Policy

In the debate which took place in the winter and spring of 1960-61 the participants pointed to numerous *lacunae* in the Southern policy as it had been conceived and implemented during the 1950's. And I do not doubt that all, or nearly all, of these

(1) Cf. Comitato dei Ministri per il Mezzogiorno, *Relazione sulla attività di coordinamento*, April 1961, p. 5.

bear some part of the responsibility for keeping the pace of income growth and of industrialization in the South below what had originally been hoped for and what was possible. What I do doubt is that they give us a complete explanation of why it has proved so difficult, both to make progress towards reaching the "major aim", and to set going a "spontaneous process of industrial development".

Among the past faults of the Southern policy that have been mentioned are the following: the making of some of the public investments in the wrong places and wrong sectors, at the cost of leaving gaps in the most essential parts of the "infrastructure" of industry; the tendency to spread investment funds over too wide an area instead of concentrating them; the lack of co-ordination of the investment programmes of the different public authorities; the failure in some cases to execute the programmes swiftly enough; the slowness of the bureaucratic procedures associated with obtaining access to the privileged finance and other "incentives" offered by legislation to private industry in the South; the inadequate information services available to Northern entrepreneurs who are potential investors in the South; and the insufficient attention given to education, both general and technical.

Many students of the problem believe also that the difficulty of industrializing the South is largely due to a scarcity of the entrepreneurial factor. They complain of an insufficiency of entrepreneurs ready to respond to the incentives to investment in the South which have been created by the various measures in favour of that area. Their complaint extends both to Northern industrialists who were expected to undertake the investment in sectors where the units are very large, and to potential Southern entrepreneurs who were expected to invest in small- and medium-sized industry. The remedy commonly suggested for this situation is the provision of entrepreneurship by the State.

It is not my purpose here either to confirm or to deny the assertion that there is in Italy a deficiency of "entrepreneurial talent" or of the "readiness to take risks". Nor do I want to contest the point that if the shortcomings, mentioned above, of the first decade of Southern policy are remedied in the second, this will render that policy more effective. The question which I want to discuss is of a different order. It is that of whether the "incen-

tives" to industrial development in the South are really sufficient to "justify" investment on the desired scale, or whether there is not something missing.

4. A Missing Link?

The ultimate incentive to the expansion of industry is obviously the existence, or prospect, of a profitable market for its products. Most of the participants in the recent discussion have taken it for granted that a market big enough to support industrial development on a greatly increased scale does in fact exist. What I shall suggest here is that, in part at least, they are mistaking for a shortage of the entrepreneurial factor what is in reality the lack of a market.

The reasons of this group for thinking that a market exists are based on a variety of conceptions of the way in which markets come into existence or grow. For present purposes we may distinguish between three such conceptions. These are of varying degrees of sophistication.

The first and simplest view of the problem makes reference to the large population — nearly 19 millions — of "potential consumers" in the South who have a big unsatisfied demand for industrial goods. Supporting evidence is drawn from the results of enquiries among Southerners about the way in which they would spend additional income if they had it. They evidently have a high income elasticity of demand (about 2.0) for industrial goods, and a low one (less than unity) for food products.

This first view is over-simple. It is a long step from the proof of the existence of a *potential* demand, in the sense just described, to the proof of the existence of an *effective* demand. For what we still need to know is whether it is possible to achieve the real income expansion which will turn potential demand into effective demand. In the second and much more complex view, the process by which effective markets for various types of goods come into existence or grow is in fact inextricably bound up with the process of real income expansion. The two processes are seen as two aspects of one and the same thing. Both of them involve an intricate structural problem. They depend, that is to say, on the possibilities of matching the qualitative structure of the extra supply of goods associated with the increase in output to the structure of the extra demand associated with the increase in income. Limita-

tions on the extent to which this matching process can take place are limitations on the extent to which real income can be increased. For if the matching does not take place, certain sectors will find themselves producing more than they can sell at prices that cover costs, while other sectors will have shortages. In Keynes' terminology, there will be excess capacity in some lines over and against bottlenecks in others. The need for this matching process constituted the essence of Say's "Law of Markets"; and it underlies the more modern "doctrine of balanced growth" and the related concept of "external economies". Many students of the problem of Southern Italy have had these ideas in mind without, however, allowing for the possibility that the prerequisites for balanced growth might not exist in that area.

A third view is that, once a certain income stage has been reached, the question of balanced growth ceases to be relevant. In fact the modern growth models, conceived in terms of very broad aggregates (such as consumption, investment, savings, and the capital-output ratio), abstract from this structural problem in a way which the models used by the early Classical economists did not. Whether we are justified, even if only as a first approximation, in abstracting from it surely depends on the income stage which the particular economy that we are examining has reached. We may be justified in so doing for an economy which is in the stage that has been reached, for example, by the United States or even perhaps Northern Italy. But are we equally justified in so doing in the case of Southern Italy?

Prof. Vito (2) has drawn a distinction between what he calls "backward economies", in which the level of income is exceedingly low, on the one hand, and "underdeveloped economies", or economies in which development towards higher income levels is already under way, in the other. In the first group, he says, balanced growth is an indispensable condition, while in the second group (as well as *a fortiori* in that of the "highly developed" economies) it is not. And in the second group he places Italy's underdeveloped areas.

The view which I shall take here is that, in considering the need and the conditions for balanced growth, it is appropriate to

(2) F. Vito, *Essay on I fondamenti della politica di sviluppo economico regionale* in F. Vito and others, *Lo sviluppo economico regionale*, Milano, Vita e Pensiero, 1961, pp. 20-21.

distinguish between not two but three different stages of economic development corresponding to three different income stages. The aspect of this division which matters is the way in which the consumption patterns of individuals, and of whole communities, move as they pass from one income level to another.

The first stage is that of the "subsistence" economy, where the income level is so low that it covers only the bare necessities of food, clothing and shelter. Here the consumption pattern is rigidly set. The consumer has few, if any possibilities of substituting one product for another in response either to changes in the terms on which the various products are offered, or to changes in the types of product offered. The quality differentiation of output is here very limited.

The second stage is that of a middle income range. Here the consumption pattern for the excess of income over and above the minimum which characterized the first stage is more flexible than it was for that minimum income. Nevertheless, for the "representative" (3) consumer at least, there is still only limited flexibility. He will spend a large part of each new increment in income on goods which, once the higher income level is reached, come to be considered as "essentials". For example, the desire for more, and more varied, food will still claim a good part of such increments, and there is little possibility of significantly changing this part of the expenditure pattern in the direction of inducing people to substitute industrial goods for food products. If we divide goods into two "bundles", one consisting of food, and the other of industrial produce (and services), it is chiefly within the one bundle or within the other, and not between them, that substitutability exists; and even then the degree of substitutability is small. At this stage increments in income are still in large part "committed" to a well-defined group of products.

The third stage is that of a "high" income level. Once this stage is reached the expenditure pattern for further increments in income will be highly flexible in response to changes in the relative prices of different items and to changes in the types of product offered. "Luxury" food items will to some extent compete with industrial produce (and services), and one type of industrial produce

(3) I refer, of course, to the "modal" behaviour. I do not exclude that some consumers will be at each of the two extremes, one where they spend almost all their additional income on "non-essentials", and the other where they spend almost all on food.

(or service) will compete with another. At this stage a large part of each additional increment in income is what we may call "uncommitted".

It is only with respect to this "uncommitted" part of income — a part which is only small in the second stage, but is large and increasing in the third stage — that we may perhaps say that the doctrine of balanced growth is not relevant, or is so only in limited degree. It is at the third income stage that "innovating" entrepreneurs (in Schumpeter's sense), profiting from the large proportion of "uncommitted" income, can create new wants, new fashions, and new tastes, and successfully launch new products on the market. We may say that here the entrepreneurs largely mould the pattern of additional consumer demand to the pattern of additional output which they have to offer, instead of being obliged, as in the first and second stages, to shape the output pattern to a more or less rigid consumption pattern. At this third stage, the pattern of demand is characterized by a high degree of qualitative differentiation and flexibility. And if it is difficult or costly to increase the supply of one type of good, the consumer may be induced to shift his expenditure to another type of which the supply is more elastic.

My view, however, would be that the mass of the population in the Mezzogiorno has not yet reached this third income stage, but is only at the second, and that therefore the necessity of balanced growth still exists.

Now there are certain constellations of circumstances which render it difficult for an economy to achieve the balanced growth, or the matching of the structure of supply to the structure of demand, which is necessary for it to pass out of the first income stage into the second, or out of the latter into the third. They are circumstances which create a food bottleneck in the way of economic development in general, and of the effective expansion of the market for industrial produce in particular. They help to explain why some economies get held up at these stages, or why they can develop only very slowly and are continually outdistanced by other economies which, because they have succeeded in getting beyond these stages, henceforth enjoy a free road ahead. (This does not, of course, mean that the latter group will not run into some other kind of obstacle to further real income growth at a much later stage. One such possibility is a "space bottleneck").

5. The Problem of Matching the Structure of Output to the Structure of Demand

I shall assume, then, that we are confronted with an economy which is still at the second of the three income stages between which I have distinguished. This means that possibilities of:

- (a) achieving balanced growth,
- (b) raising the level of real income per head, and
- (c) expanding the market for industrial produce,

are three facets of one and the same process. And if we want to evaluate how great these possibilities are, we must look at the whole pattern of elasticities of supply in relation to the elasticities of demand for the various products, or various groups of products. It is not sufficient to look at the demand elasticities alone.

This point may be illustrated by a simple example. Let us imagine an economy in which there are only two goods, "food" and "industrial produce", which are not substitutes for each other in the system of consumers' preferences. Let us suppose further that the following situation prevails. For industrial produce, the income elasticity of demand is high, and so is the elasticity of supply (in response to additional employment of capital and/or labour). For food, the income elasticity of demand, though low in comparison with that for industrial produce, is high in comparison with the elasticity of supply (in response again to additional employment of capital and/or labour). At the same time the economy has few opportunities for profitably exporting industrial produce in exchange for imports of food. (This does not, of course, exclude that it may export one kind of agricultural produce, in which it has a special advantage, and import another kind).

In such circumstances the slow rate of growth in the domestic output of food will act as a drag on the growth of real income. The farming population will be without the surplus of agricultural produce over and above its own needs that would allow it to exercise a large demand for industrial produce. The stimulus which such a surplus provides to the expansion of the local market for industrial goods will be lacking. The hope — widely entertained in Italy in recent years — that, provided many industries are set up (or expanded) simultaneously, before the markets for their produce

are patently in existence, those markets will appear *ex post* in response to the working of the "external economies" of industrial growth, will be disappointed. Industrialization will fail to gather momentum spontaneously. If, on the other hand, it is "forced" by government intervention, some of the industrial output will remain unsold, or will have to be sold at a loss, or will have to be financed by subsidies from outside the area. At the same time a shortage of food will develop unless it is avoided by increased food imports from abroad which are in effect paid for out of the subsidies to local industry.

In this situation the offering of small subsidies to private industry can hasten its growth only in borderline cases. Much bigger subsidies than those so far offered in the South of Italy may be required in order to render industrialization profitable on an extensive scale. And if we believe that such a situation has prevailed so far in that area, the hesitation of many potential entrepreneurs in the South to affront the risks of industrial investment there, and the high proportion of failures which is reported to have occurred among those entrepreneurs who did affront them, must appear to us in a different light from that in which they have usually been depicted.

6. Some Dimensions of the Problem in the Mezzogiorno in the 1950's

What reasons have we for thinking that the situation which I have just described, or what may be called the "inadequacy of the market growth factor", was in fact holding back industrialization in the Mezzogiorno during the past decade? And if it prevailed then, what are the chances that it will be overcome within the next decade?

Before trying to answer these questions, I may point out that they are relevant just as much if we believe that the private entrepreneurial factor is scarce, and that therefore public enterprise must take its place in the South of Italy, as if we believe that private initiative can be relied upon to exploit the opportunities for industrial expansion whenever such opportunities genuinely exist. I am still keeping, for the present, to the assumption that it is not the intention of the government to engage in massive subsidisation of Southern industry, whether in the form of "incentives" to private firms or in the form of subsidised public enterprise.

Another assumption which I shall make, and shall retain throughout the rest of this article, is that even if the State intervened as "entrepreneur" on the production side, it would not seek to control the pattern of consumption. Southerners would, like Northerners, be free to spend their income as they chose. No products would be rationed in the South. (I am not aware that, in recent years at least, the opposite proposal has ever been advanced in responsible quarters).

In my attempt to answer the two questions formulated above, I shall try to quantify, in a necessarily very broad fashion, the critical items in the structure of the Mezzogiorno's economy during the past decade, and to make some guesses about the way in which these items will develop in the future. Not all of the data which would be useful in this connection (such as, for example, "foreign" trade figures for the Mezzogiorno) are available. And most of those that are must be considered very rough. But even if it lacks many refinements, the picture which I shall present gives, I believe, a close approximation to the dimensions of the problem.

EXPENDITURES ON FOOD AT VARIOUS INCOME LEVELS TABLE I

	(1)	(2)	(3)	(4)
	1950	1960		1970
	Estimated actual situation	Estimated actual situation	Hypothetical situation	Hypothetical situation
North:				
(1) Income per head	100	150	...	200
(2) Per cent of (1) spent on food . .	40	33	...	...
(3) Amount spent on food	40	50	...	...
(4) Percentage increment in (3) with respect to actual situation in 1950	...	25	...	...
South:				
(1) Income per head	50	75	112.5	150
(2) Per cent of (1) spent on food . .	58	50	38	33
(3) Amount spent on food	29	37.5	42.75	50
(4) Percentage increment in (3) with respect to:				
(a) actual situation in 1950 (1) .	...	26	47	...
(b) actual situation in 1960 (1) .	...	(0.6)	(0.4)	...
		...	...	33
				(0.3)

(1) In brackets are the corresponding income elasticities of demand for food.

In the above table, columns 1 and 2 contain estimates (in index form) of the relationships between net income per head and expenditures on food, in the North and South of Italy respectively, as these relationships actually were in 1950 and 1960. Column 3 gives the figures for the South as they probably would have looked in 1960 on the hypothesis that during the previous ten years income per head in the South, instead of increasing at about the same percentage rate as that in the North, had risen at a rate sufficient to bring it from 50 per cent of the level in the North in 1950 to 75 per cent in 1960. (This latter ratio is what I shall henceforth refer to as "approximate income parity"). The assumption here is that, at the higher income level, the expenditure pattern (as regards the division between food on the one hand and all other items on the other) of the Southern population would have been about the same as the expenditure pattern of the Northern population was at the same income level some years earlier. Finally, column 4 represents the situation as it might look in 1970 on three assumptions: first, that real income per head in the North increased between 1960 and 1970 by the same percentage as in the previous decade; secondly, that by 1970 income per head in the South was brought to 75 per cent of that in the North; and, thirdly, that the expenditure pattern of Southerners would again be about the same as the pattern of Northerners had been at the same income level. Also shown in the table (in brackets) are the income elasticities of demand for food in the South over the relevant ranges of income growth. The figures are low, i.e. between 0.6 and 0.3. And the income elasticities of "demand" for all other items together (industrial produce, rent, services, savings, taxes, etc.) are correspondingly high (i.e. between 1.5 and 1.7).

It appears from the table that passing from the actual situation of 1950 in the South to the *hypothetical* situation of 1960 would have implied an increase in food consumption per head over the corresponding ten-year period of about 47 per cent. Over this period the increase, in real terms, in the output of agricultural produce (consisting predominantly of foodstuffs) per head of the population was probably between 25 and 30 per cent. The South was, and is, an exporter of some kinds of foodstuffs and an importer of others. But if we suppose that in 1950 the area was not a *net* exporter (nor a *net* importer) on any considerable scale, it follows that the increase in domestic food production in the area

was far from sufficient to cover, whether directly or indirectly (i.e. through the international exchange of one type of food product for another) (4), the *hypothetical* increase in domestic consumption. It looks as though, in order to have reached the hypothetical income level, the Mezzogiorno would have had to rely on net food imports from abroad sufficient to cover some 12-15 per cent (5) of its food consumption. Assuming that these had to be paid for by exports of industrial produce or of services to the North of Italy and abroad, the Mezzogiorno would have had to make such exports, for the purpose of paying for food imports alone, equivalent to about 5 per cent of the hypothetical income. To these have to be added exports for the purpose of covering the imports of raw materials, fuel, equipment, etc. required by the South's industry, except in so far as, for the time being at least, cover was provided by foreign aid and investment. Here it should be noticed that, with the income level as it actually was in the Mezzogiorno in 1960, "aid" of all kinds (investments, loans, gifts, subsidies) from "abroad" was already providing the area with resources from outside equivalent to an estimated 25 per cent of its domestic income (6), and to a figure which exceeded the estimated volume of net investments in the area (7). "Foreign" resources were, that is to say, sufficient to cover part of consumption as well as the whole of the net investments in the South. This was a situation which could not persist over the longer run if the area's economy was to become an unsubsidised one.

Is a reliance on exports of industrial products (and services) to an extent equivalent to, say, 10 per cent of income much or little? If we look at the national income and foreign trade figures for Italy as a whole, we find that her exports of non-food products (coming mostly from the North of the country) still amounted in 1959-60, after the increase of recent years, to "only" 10 per cent of national income. Nonetheless they obviously played a pivotal

(4) For a more accurate measurement of the gap we should need to take account of whatever change occurred in the terms of trade between the export items and the import items.

(5) Cf. previous footnote.

(6) Cf. *Comitato dei Ministri, Relazione sulla attività di coordinamento*, April 1961, p. 152. The figure excludes remittances by temporary "emigrants", which are included under the income of the South.

(7) The transfers from "abroad" were estimated at nearly 900 milliard lire and net investments at about 500 milliard.

role in the process of national income formation; and there is every reason to expect the proportion they bear to income to increase as income rises further in the future. An aspect of the present structure of the economies of the two areas of Italy which is worth noticing is the following. Agricultural output per head of the population (I am referring here not to the agricultural population but to the whole population) is perceptibly higher in the North than in the South (8). With the distribution of population between the two areas remaining what it is to-day, it looks, therefore, as though "approximate income parity" between the two areas could be achieved only if the South relied more, and not less, in *per capita* terms, than does the North on net imports of food, and therefore on exports of industrial produce. (It seems highly unlikely that the income per head from a third source, namely the foreign tourist traffic, could become so much higher in the South than the North as to render this greater dependence on industrial exports unnecessary).

Presumably the South's exports of industrial produce (to the North of Italy and abroad) in 1950 were very small in comparison with those of the North of Italy (to the South of Italy and abroad). And if the industrial export solution was to have been the way of breaking the food bottleneck in the South, and hence of reaching the hypothetical income level for 1960, it would have implied that, over the decade of the 'fifties, that area should have increased its industrial exports faster, percentagewise, than did the North. The question of how far the South was actually in a position to do this involves a very controversial point: that of how good a location the South of Italy, or parts of it, present for developing industrial exports, or even of whether location matters at all.

7. Industrial Location and Exports

The factors governing entrepreneurs' preferences for one location over another, and the effect on industrial costs of choosing one location rather than another, are a matter about which opinions

(8) The average figures for 1959-60 of gross saleable output in agriculture per head (calculated with reference to the *de jure* or "resident" population) were: 73,000 lire in the North and 58,000 in the South.

now differ widely. Some people continue to refer to the awkward geographical shape of Italy, to the long distances between North and South, and to the peripheral position of the South with respect to the closest large areas of concentrated economic activity abroad, as being a serious handicap for the Mezzogiorno. Others claim that, under modern conditions, distances, as reflected in transport costs, are as a rule unimportant (9), and that from a production and sales point of view the location selected for manufacturing industry is, within very wide limits at least, a matter of indifference. They argue that in choosing an industrial site the entrepreneur is guided by other factors. One such factor which has recently been emphasized is the preference of businessmen and of managerial staff, and of their wives, for living in areas that have already reached a certain stage of development. To meet this difficulty it has been suggested that the State should provide the missing entrepreneurship in the South until such time as the industrial development in that area has brought its amenities up to the level of those already offered by the old urban centres of the North. (It is evidently presumed that government employees and their wives will more readily forego these amenities for a while than will the employees of private firms or the self-employed).

We need not doubt that many factors, including the one just mentioned, influence entrepreneurs in their choice of industrial sites. What we may doubt is whether, once some of these factors have been evened up as between the South and the North, transport costs and other costs of "distance" will not still be there as a factor which sometimes tips the balance in favour of one area or the other. Even those who minimize the importance of the costs connected with distances are apt to suggest that the latter should be "shortened" by the institution of rate systems for carriage by rail (or eventually also by road?) which charge according to "virtual distances" shorter than the real ones. A parallel proposal is that passenger traffic to and from the South, when of a business nature, should be similarly aided. The putting into practice of proposals of this kind would, of course, be one way of subsidising Southern industry; and for the present I exclude it as

(9) The reader may here be reminded that transport is not the only cost item which has, in recent times, been thus considered. The same view has been taken regarding, for example, interest charges and electricity rates.

a possible solution, in conformity with my general plan of dealing first with solutions that do not create the need for such subsidisation.

I shall proceed, then, on the assumption that more often than not distances do exert an effect on costs and selling prices. Quite a small difference, due to extra transport costs, in the delivered price abroad of a product may be critical in a highly competitive market. Not all of these extra transport costs occur at the marketing end. Certain imported goods used by industry (such as equipment from Northern Europe) will have a higher c.i.f. price when delivered to Southern factories than when delivered to Northern ones. Nor can the influence of the distance factor be measured solely in terms of transport costs. Part of the advantage of nearness consists in the possibility of maintaining direct contacts with markets and sources of supply. The fact of being centrally situated with respect to a large number of markets and sources of supply will be especially important for firms which produce for export to those economies which have reached what I called above the "third income stage" and on the markets of which new products are continually being launched.

We do not at present have any means of precisely measuring the relative advantages of alternative lay-outs of economic activity in space, and hence of calculating how great a cost (or loss of national income) is associated with choosing a particular non-optimum lay-out in preference to an optimum one. Probably, however, we shall not go far wrong if we adopt a simple scheme which may seem to some people a very obvious one and is not by any means novel. It divides Italy's export markets into two groups. The first are markets in North and North-Western Europe, to which goods are transported mostly by rail or road. The second are markets overseas, to which goods are transported mostly by ship. With respect to the first group, locations in Northern Italy will, as a rule have a clear "natural" advantage over those in the South. With respect to the second group, locations in the South will not have a clear disadvantage, and may sometimes even have a clear advantage, compared with those in the North. It seems common sense to suppose that, generally speaking, a firm which expects that the market for its produce will at all, or most times be mainly in Northern Italy and/or North-Western Europe will find it convenient, if other conditions (e.g. wage costs) are equal, to choose a site in, for

example, the Province of Reggio Emilia or of Parma rather than in the Province of Naples or of Palermo. Similarly, a firm which expects its market to lie mostly in Sicily and in North Africa will have an advantage in choosing a site in Sicily.

Now if it were a fact that the second group of markets, and especially those in Africa and Asia, were developing very rapidly, this might be a sign that the Mezzogiorno had good chances of solving the structural problem which I described above (i.e. the problem of filling the food gap) by industrial exports. How did the two trade streams actually develop over the past decade? If we compare the average figures for total exports to various areas (I do not have the figures for industrial products alone) in 1950-51, with the averages in 1959-60, it appears that over this interval Italy's export trade with Europe (excluding the USSR) increased by 135 per cent in value terms, while that to all other destinations increased by 123 per cent. The first stream had been growing faster, then, than the second. In 1959-60, Europe took 60 per cent of Italy's total exports. Africa and Asia combined took only 15 per cent.

8. Zonal Differences in Wages

In theory the "natural" disadvantage of one location compared with another may be compensated for by lower wage rates. Regional differentiation in wage rates is a perfectly normal phenomenon, and is allowed for by the collective bargaining machinery in most countries, including Italy. To some extent these zonal differences are offset, from the point of view of the worker, by differences in the cost of living.

In the particular case of Italy, it has often been supposed that the advantage of lower wage rates in the South ought, for many industries, to outweigh whatever disadvantage there was from other points of view in a Southern location. How marked have these zonal differences in industrial wage rates actually been?

The zonal pattern of the minimum contractual rates fixed by the 1954 Agreement was generally recognized to be an unsatisfactory one. In part it had been dictated by the need for preserving certain situations inherited from the past; and the intention had always been to overhaul it as soon as circumstances

were favourable. Under that agreement the maximum gap, i.e. the extent to which the lowest rate, applying to Zone XII (an exclusively Southern zone), fell short of the highest rate, applying to Milan in Zone O (that of the "industrial triangle"), was 30 per cent. This was fairly high; but Zone XII comprised only Caltanissetta and Enna (both in Sicily) and Reggio Calabria. As between alternative Northern locations, e.g. between the "industrial triangle" on the one side, and most of the provinces of Emilia-Romagna on the other, there was a gap (calculated as before) of 13-15 per cent. Emilia-Romagna was as low a wage area as Naples, and almost as low as Palermo. As between Emilia-Romagna or some of the provinces of the Veneto, on the one side, and such Southern provinces as Bari and Taranto (which are among the places recently designated as "poles of development" in the South), on the other, the gap was only 5 per cent, or a little more. Some Southern areas were thus on a par, or nearly so, with many Northern areas; and the gaps between different Northern areas were in many instances as wide as, or wider than, the gaps between these and Southern areas.

Predominantly Southern zones which clearly were "low wage areas" were Zones XI and XII. These contained Brindisi (another of the "poles of development") and most of Sicily. They also contained Latina, which (though belonging to the "North") has been a beneficiary of the special incentives to Southern industry, and enjoys, besides, the advantage of a favourable location with respect to both Rome and Naples. It has thus been triply favoured so far as an area of industrial development, and its success in this direction is not surprising. Nor is that of other Southern areas which have benefitted from "natural" factors as well as low wage rates. Examples are certain parts of Sicily, where new mineral resources have been discovered, and where the more-than-average progress made in nearby agriculture has produced the "surplus" output which creates a local demand for industrial produce. In fact it is not at all difficult to explain the progress made, during the 1950's, in individual areas of the South in terms of the "Classical" theory of industrial development.

Some readers may object that the zonal differences in the contractual wage rates are not the same as those in the effective rates. Here we must make a distinction which is important in connection with various aspects of the Southern problem. The Southern

worker's rate of pay has in the past varied markedly with the size of the employer. It seems to be broadly true that, while in the North "industrial" firms (I am not referring to artisan units) both big and small have respected the terms of collective contracts, in the South large firms have respected them, but the smaller ones have not. A rough check on this point is provided by the Ministry of Labour figures for hourly earnings. (These are given us by Regions and not by Provinces). If, for example, we examine the figures for the chemicals industry, where the unit of enterprise or of production is everywhere large, it does not appear that the effective zonal spread has been greater than the contractual one. Much bigger discrepancies are detectable in industries where the size of the establishment is less uniform. The figures are not, of course, perfectly comparable from one Region to another, especially because of differences in the proportion of overtime and in the proportions between the numbers of workers in the different skill grades. But even if we make allowance for these factors, it seems fair to conclude that the spread in the *de facto* rates did not markedly diverge from that in the minimum contractual rates, so far as large firms or establishments were concerned. Workers attached to such establishments in the South were, that is to say, recently earning between 70 and 100 per cent of what workers of similar skill and occupational grade were earning in the North. It was in the small firms, "industrial" as well as artisan, that the low-paid Southern workers were to be found. They were in the past a majority; and many of them were very poorly paid indeed.

The zonal pattern of contractual wage rates has recently (August 1961) been revised. The new agreement makes a much clearer-cut division between Northern and Southern provinces than the old one did. The maximum gap, or that by which the rate in the lowest-paid zone (Zone VI), now containing more than twenty Southern provinces, falls short of the top rate (applying to the province of Milan) will henceforth (10) be 20 per cent. The rate in these Southern provinces will, however, be only 13-15 per cent below the rates in the *bulk* of the Northern provinces, since the rates set for the latter are in most cases 5-8 per cent below

(10) Some of the new rates will come into force by stages over the next two years.

the top rate. For the remaining Southern provinces (with the exception of Naples which occupies as before a special position) the rates will be 10-15 per cent below the top rate, and 5-10 per cent below the rates in the bulk of the Northern provinces. (Bari and Taranto belong to this second Southern group). Zonal differences of this size are not, I believe, large by the standards of other countries.

Industrialization of the South obviously means establishing more of the modern industry in which the units are of large or medium size, and in which the contractual wage rates, or in some cases rates higher than these, must be paid. It does not mean creating more of those artisan, or near-artisan activities in which the levels of remuneration are now usually far below the contractual rates. And it is to be expected — and desired — that the big disadvantage hitherto suffered by many of the workers in the smaller “industrial” establishments, as well as by those in artisan firms, in small trading units, and in agriculture, will be corrected. In other words, one of the ultimate effects of Southern policy must be to remove the dualism in earnings levels which prevails within the Southern economy as much as between it and the Northern economy.

A point to notice here is that, as a matter of simple arithmetic, the zonal pattern of industrial wage rates considerably restricts our freedom of choice between what I called previously the “major” and “minor” aims. It practically obliges us to opt for the former. Part — so far it is only a small part — of the working population in the South already enjoys “approximate income parity” with the working population in the North. And progress towards industrialization in the South essentially means increasing the numbers in this category. But this in turn signifies that, unless the “major” aim is achieved for the South as a whole, dualism in income levels within the South cannot be overcome.

9. The Prospects for the 1960's and Beyond

Always assuming, then, that the “major” aim prevails, let us now consider how the terms of the problem, which is essentially that of filling the food gap in the South, are likely to change over the future.

In one respect, certainly, they will be more favourable during the next decade than they were during the last. For as income rises further, the proportion spent on food falls. In the hypothetical situation depicted in Table 1 above, the achievement of “approximate income parity” between South and North by 1970 would imply an increase in the South in food consumption per head between 1960 and 1970 of only 33 per cent (instead of the 47 per cent increase that would have been involved in reaching “approximate parity” between 1950 and 1960). The food gap is smaller, then, in this new hypothetical situation than it was in the previous one. On the other hand, we should recall that the definition of “approximate income parity” used in the table implied bringing *per capita* income in the South to only 75 per cent of that in the North. In view of the new zonal wage structure, this ratio is probably on the low side; one of 85 per cent might be more appropriate. But this would *ceteris paribus* (11) give us an increase in food consumption in the South somewhat higher than the figure just mentioned.

At the same time we are confronted by a big question mark concerning the prospects of filling this food gap. A first doubtful point is the rate at which the output of agricultural produce in the South will increase over the next decade. What matters in the present context is, as I said previously, the rate per head of the whole Southern population. Part of the problem therefore consists in the pace at which this population continues to grow. The progress — not all of it due to investments — made by Southern agriculture during the 1950's was undoubtedly exceptional by past standards. Granted that some of the investments made during these years have not yet yielded their fruits and will begin to do so only in the 'sixties, it may yet be optimistic to expect the rate of growth in agricultural output to be as rapid in the next decade as it was in the last. And the same holds true for the rate of growth in output per head of the population if we assume that the latter continues growing in the future at about the same pace as in the recent past.

(11) If income per head in the North increased less fast than I have assumed, this would be a factor working in the opposite direction.

One of the points raised in the debate on the policy of the *Cassa per il Mezzogiorno* was how far the investments made by the latter in the agricultural sector during the 'fifties were justified in terms of what they have added, or will add, to the productivity of Southern agriculture. Some of the contributors to the discussion seem to be strongly of the opinion that many of these investments were not thus justified. It is impossible to demonstrate the validity of this view on the basis of the data at our disposal. Certainly we cannot do it by comparing the capital-output ratios for agriculture and industry respectively, or for South and North, as some of the *Cassa's* critics have done (12). Nevertheless, much expert opinion holds, on what are probably more substantial grounds, that so far as "fixed" investments (in land improvement, etc.) are concerned, there now remain relatively few unexploited opportunities that are capable of giving a good yield in the "short period". (I neglect the suggestion that large investments should be made *à fonds perdu*, since this conflicts with my general plan of dealing first with solutions that do not involve subsidisation). Many of the still unexploited opportunities are of a kind (e.g. reforestation) which begin to have an effect only in a fairly distant future. This does not mean that these investments should not be made. But relying on them would mean falling back on the "long period" solution of the Southern problem. Indeed, as we advance further and further into the future, it becomes more and more likely that the problem will have the "natural" solution envisaged by Luigi Einaudi.

There are, it is true, other types of agricultural investment, such as those in farm stock, and equipment, etc., which are capable of giving results in the "short period". But some of these entail shifts in the "crop pattern" (e.g. from cereals to livestock farming) which, in many parts of the South, will become possible only when the number of people living on the land has been reduced to the point where those who remain are relieved of the necessity of engaging in purely subsistence farming. The extent of the investment opportunities of this kind is, that is to say, dependent on the rate of exodus of labour from agriculture. And this is a matter which properly belongs to a later stage of my argument (see Section 10).

(12) The complicated question of how the profitability of such investments should be calculated is not one which I can examine here.

A second point about which we are in doubt is how far the emergence of what has been called "a new geographical position for the South of Italy within the new political and economic world of the Mediterranean" can lead to that development of industrial exports from the South which would allow the food gap to be closed by imports. It seems to me probable, however, that this solution too would be a "long", and not a "short" period one. A reason for so thinking is that the underdeveloped countries of the Near and Middle East and North Africa are either in the same "income stage" as is the Mezzogiorno, or in a still lower one. And they are thus faced with a similar problem of filling a food gap before they can reach an income level at which they can exert a rapidly expanding demand for consumers' industrial goods. It is true that if these countries were the beneficiaries of large "untied" development loans or grants from third countries, some part of the relevant funds might be spent on machinery and other producers' goods manufactured in Southern Italy. The magnitude of this factor is, however, diminished by the fact that a good part of development loans and grants are, in one way or another, "tied" to exports of the lender or donor country.

Taking all these factors into consideration, it seems to me improbable that even the beginnings of the process which would lead to "approximate income parity" between South and North will appear in the 'sixties, if the Southern population continues to grow at more or less the same pace as in the 'fifties. The process might possibly start in the 'seventies, when the various factors which we have considered all become, perhaps, increasingly favourable. We are getting into the "long period".

Is there a "short cut"? I think there is. But this brings me to what has so far been a highly controversial subject, that of the internal migration of labour.

10. How "Emigration," Contributes to the "Natural," Solution

The above attempt to size up the chances of achieving the "major aim" in the "short period" was based on the assumption that the South of Italy, with its relatively poor agricultural resources and poor geographical position, compared with the North, continued to support the present proportion (37-38 per cent) of the whole

population of Italy, or possibly a higher one (13). I want now to consider the role which "emigration" from the South of Italy to the North (or abroad) can play in improving the situation.

The ultimate purpose which the migration of labour from the South to the North serves is to help create the necessary structural balance (discussed in Sections 4-6 above) between the supply of goods of various kinds and consumers' demand for those goods, or, more specifically, to help overcome the food gap. It has this effect as regards the people who leave the South by moving them to an area which is in a better position to expand industrial exports. But it has this effect also for the people who stay behind; and, since this second effect seems for most students of the problem to have been the less obvious of the two, it is with this that I shall be especially concerned here.

One way of describing the way in which "emigration" improves the development prospects in the South is to say that, by reducing the rate of population growth (or, in an extreme case, reducing the total population) in the area, it makes the food gap which has to be filled by imports smaller. Alternatively, we may look at "emigration" in terms of its effect in raising productivity, and income, per head among the mass of the agricultural population in the South to a level at which that population can become consumers on a substantial scale of industrial produce.

There are two processes by which productivity per head among the agricultural population in the area can be raised. The first consists in the investments and technical improvements of which we have already taken account in the previous sections. The second is an increase in the land-labour ratio. This second process can, of course, take place only to the extent that labour can be drawn off the land into industrial and other non-farming activities. The second process is thus dependent on the first, so long as employment for all of the labour which leaves Southern agriculture has to be found within the South. For if the increase in productivity per head of the agricultural population due to the first process is slow, the rate at which people can be absorbed by local industry and other

(13) In some of the forecasts of future population movements it has been supposed that Southern Italy might (assuming that net emigration from the area remained at what seems to be an "accepted" average annual level) contain a larger proportion of the whole Italian population in the later decades of this century than it does now. (See, for example, SVIMEZ, *Statistiche sul Mezzogiorno*, 1954, Table 63).

non-agricultural activities will (failing the development of export markets for that industry) likewise be slow, and so therefore will be the rate at which they can leave agriculture. This is a vicious circle. But it can be broken if part of the labour force in the area can be drawn off to employment "abroad". The exodus of population from agriculture can then be accelerated, the income per head of those who remain in agriculture can rise more rapidly, and the local market for industrial produce can expand more rapidly. In other words, "emigration" helps to provide the ultimate "incentive" to industrialization in the South by allowing a faster expansion of the local market for industrial produce.

It is thought that during the decade of the 1950's the labour force working in Southern agriculture was reduced by several hundreds of thousands (14). And in the years 1959-61 the exodus was evidently proceeding at a much accelerated pace. Some of those who left went "abroad"; some (a comparatively small part) went into local industry at good rates of pay; but many went into artisan and near-artisan activities, or into retail trade, where their earnings were still very low. For many among this last group the improvement in living standards was so far minimal. Their motive for leaving agriculture lay less in the immediate gain in earnings than in the hope of eventually being able to move on to industrial or commercial employment in the fuller sense of the term. The movement out of agriculture must still continue in the future if the *per capita* incomes of the mass of the farming population are to be brought to the desired level. But the problem is not merely one of finding non-agricultural employment at the desired wage level for those who still have to leave agriculture or who will join the labour force for the first time in the future. It is also one of finding such employment for those who have already left agriculture, or have already found their first job outside it, but who are at present working in extremely poorly paid activities on the fringes of the industrial society.

The role of emigration in helping to solve this problem is very different from what many people have taken it to be. The purpose is not that Southern Italy should be "abandoned as a potential

(14) For Italy as a whole it has been estimated that the net reduction in the agricultural labour force over the past decade may have been a million or more. We lack separate figures for the South.

area of economic development", that it should be "rendered an exclusively agricultural society", or that "future industrial growth should be reserved to the North". The purpose is that the agricultural society in the South should be made rich enough to be able to support, alongside itself, a fair-sized industrial society of the modern kind (15). It would be an industrial society catering principally for a local market, and doing so in response to a "spontaneous development mechanism" not dependent on subsidisation.

How large would the "emigration" from the South have to be? This is a question to which it is obviously impossible to give a precise answer. I do not believe, however, that the extent of the "emigration" required amounts to anything like "mass depopulation". It should be remembered here that emigration enters the picture as a third factor, additional to the two others (i.e. continued progress in agriculture due to investments and technical progress, and the development of a limited industrial export trade) which we expect to make some contribution towards the solution. It is not the only factor at work; but it is one which is capable of providing the additional weight that finally tips the balance in favour of the creation of an "autonomous mechanism of economic development" in the South.

Southern Italy is a traditional area of emigration, and in previous periods it remained, nonetheless, a low-income area. The failures of past history are, however, not necessarily an omen for the future. The circumstances at the present time are much more favourable to a solution of the Southern problem obtained partly with the aid of emigration than they were earlier on. The higher level of income (and hence lower income elasticity of demand for food) already reached, the more rapid rate of progress in Southern agriculture, and the slower rate of natural population growth in the area, are all factors which render the extent of the emigration required smaller now, in proportion to the population, than it would have been previously. At the same time the more rapid expansion of employment opportunities in Northern Italy makes emigration easier. It is no longer a question of requiring large numbers of people to move to destinations overseas.

(15) It may be noticed that in Denmark the proportion of the active population engaged in manufacturing industry is about 15 per cent.

Nevertheless, a stepping-up of the rate of "emigration" is strongly opposed by many "Southernists". The percentage distribution of the Italian population between North and South has, according to the statistics, been remarkably stable over the last hundred years or so. And many people have come to regard the proportion living in the South as more or less irreducible (16). This implies not that they exclude emigration entirely, but that they look to it only as a way of counterbalancing the at present higher rate of natural population growth in the South compared with the North. They would reject the idea that it is necessary finally to redress a situation, of maldistribution of the population between the two areas, which has already lasted too long.

According to rough estimates, there has since the Second World War been net emigration from the South to the North of Italy and abroad to the extent of about a million persons. The average annual rate during the 'fifties may have been 60,000 or slightly more. By the end of the 'fifties, and at the beginning of the 'sixties, however, the annual rate had reached, again according to rough estimates, about double this previous average (17). If this higher rate were to continue over the remainder of the 'sixties it would mean a net exodus over the ten years of between 1.2 and 1.5 million.

It is a guess which I am now making that if emigration actually did continue at the present rate over this period, we might already see, before the decade came to a close, the beginnings of that process of more rapid income growth — partly due to industrialization — in the South which is necessary in order eventually to bring it to "approximate income parity" with the North. But the continuation of this rate would mean drawing out of the Mezzogiorno by far the greater part of the natural increment in the population, and in the labour force, of the period.

"Southernists" evidently consider such a rate too high. What most of them would regard as "acceptable" over the longer run is probably a rate not much more than half the present rate. They want not forcibly to prevent emigration (by, for example, re-introducing the restrictions on internal migration which have

(16) Cf. footnote 13 above.

(17) A rough estimate for 1959 puts the figure at nearly 130,000 (See *Cassa per il Mezzogiorno, Simossi statistica del Mezzogiorno*, 1961, p. 4).

recently been abrogated) but to keep it down to the "accepted" level by a policy of deliberately planning sufficient industry in the South to hold back part of those who might otherwise go North. They object to the present rate on various grounds to which I shall refer in the next section.

11. Problems Connected With Internal Migration

Whatever solution is ultimately found to the Southern problem will inevitably entail large movements of people from the places where they once lived to other places. This necessity starts with the exodus from agriculture to other activities. But even among those people who remain in Southern agriculture, considerable shifts must occur. For, as the exodus proceeds, farm labour must move away from poor areas, or from areas which are still overcrowded, to fertile plots which have been left vacant, or to areas which have become relatively thinly populated. This process of reconstituting farm units in response to the changed labour situation — or what we may call the "real agrarian reform" in the South — is likely itself to require special measures, such, for example, as aid to poor families for moving, new credit arrangements to enable small farmers to purchase farm stock and even land, and so on.

If to the shifts that are necessary within agriculture we add those between agriculture and other activities, it appears probable that, before the Southern problem is solved, some millions of people will have had to change their place of residence and work. The total movement in all directions must, in any case, far exceed whatever part of that movement is directed to the North of Italy and abroad.

Many of the problems associated with such shifts of population are present as much when the shifts take place within the geographical area which is called the South as when they involve crossing the "border" to the North of Italy.

One of the objections that is raised against "emigration" is that it takes off a larger proportion of the productive part of the population than of the unproductive part. This is mainly a problem of the old people, not all of whom will follow their children even when these have permanently established themselves

"abroad". This problem is, however, one which arises also with respect to migration within the Mezzogiorno; and it cannot be allowed to prevent any movement at all from taking place. The plight of the people concerned, in so far as it is not eased by remittances from relatives who have gone away, will have to be relieved by State pensions and other forms of social assistance.

A second objection is that emigration draws off the people with the most initiative, thus lowering the average "quality" of the population that remains, and in particular depriving it of its already small quota of entrepreneurial talent. This view seems to me to reflect undue pessimism about the "quality" of the vast majority of the Mezzogiorno's now nearly 19 million inhabitants. It is not as though we were expecting emigration to reduce the total population — or even that part of it which is in the productive age-groups — to a mere fraction of its present level. By far the greater part would stay behind. Improving the quality of these people is a matter partly of better educational opportunities — for which the new school programme must provide — and partly of better economic opportunities. And the latter will come as much from a "natural" process of industrial growth (which emigration aids) as from a "forced" one. It is worth recalling that, up until a few years ago, it was a widespread notion, both in Italy and abroad, that Southern Italians did not want to work. Experience has shown that, given the opportunity to work for a reasonable wage, they are as willing as others. I suspect that the present pessimism about the entrepreneurial capacity of Southerners will be similarly dispelled once opportunities for profitably engaging in business in the South become more abundant.

A third problem which preoccupies many of the opponents of emigration from the South is the increasing congestion in the North of Italy. They point in this connection to the measures that have already been taken in other countries in Western Europe to deal with the same phenomenon. A few comparisons will help to put this problem into focus. Even within the "industrial triangle", Northern Italy does not yet have any problem approaching in seriousness that of, say, Greater London or Greater Paris. But if we go outside the "triangle", and consider the much broader area of Northern Italy as a whole, the preoccupation with the problem of congestion seems at present premature. The following table allows us to make some comparisons between the degrees of

POPULATION DENSITIES (1)

TABLE 2

	Population (⁰⁰⁰)	Density per sq. k.
Belgium	9,129	294
France	45,300	82
Germany (F.R.)	53,081	214
Italy	50,708	168
Netherlands	11,463	357
United Kingdom	51,985	213
<i>Regions of Italy:</i>		
Piedmont	3,790	149
Liguria	1,693	313
Lombardy	7,153	301
<i>Total of 3</i>	<i>12,636</i>	<i>231</i>
Veneto	3,195	213
Emilia-Romagna	3,665	166
<i>Total of 5</i>	<i>20,216</i>	<i>213</i>
Tuscany	3,293	143
Latium	3,806	221
<i>Total of 7</i>	<i>27,315</i>	<i>201</i>
Other Northern Regions (2)	4,332	101
<i>Total North</i>	<i>31,646</i>	<i>178</i>
Campania	4,795	353
Abruzzi and Molise	1,685	111
Apulia	3,478	180
Basilicata	666	67
Calabria	2,167	144
Sicily	4,833	188
Sardinia	1,438	60
<i>Total South</i>	<i>19,062</i>	<i>155</i>

(1) The figures for the various countries are for dates in 1959 or 1960. For Italy they are the estimates for the *de jure* or "resident" population at the end of 1959, made before the results of the 1961 Census were available.

(2) Valle d'Aosta, Trentino Alto-Adige, Friuli Venezia Giulia, the Marches and Umbria.

Source: Central Institute of Statistics, *Annuario statistico*, 1960.

congestion prevailing in Northern Italy, or parts of it, and various Western European countries.

The three Regions of the "industrial triangle" (Piedmont, Liguria and Lombardy) taken as a whole have an average population density per square kilometre (about 230) which is well below the average for the whole of England and Wales (about 300). The five Regions of the "industrial triangle" plus the Veneto and Emilia-Romagna have an average density equivalent to that for the whole of the United Kingdom, or for the Federal Republic of Germany, and one which is not much more than two-thirds of that of England and Wales. The seven Regions consisting of the previous five plus Tuscany and Latium have a still lower average.

Always assuming that a policy of avoiding further "congestion" in the North of Italy means, first, some sacrifice of potential national income, and, secondly, the subsidisation of Southern industry by the North, it seems highly questionable whether the time is yet ripe for such a policy. The problem of excessive concentration round particular urban centres is not to be confused with that of the overall congestion of wide areas. The "decentralised" expansion of industry is possible for a long time yet even within Northern Italy.

12. The Alternatives

In the preceding sections I have deliberately concentrated attention on only one of the several possible ways of solving the Southern problem. The analysis given there helps us, however, to clarify the implications of other solutions. We may sum up the main possibilities as follows.

There are, first of all, two alternative ways of achieving the "major aim" in the "short period".

(1) The first way — and the one which I have chiefly analysed in this article — is via the "natural" growth of the market for industrial produce, due to the joint effect of three factors, namely, further agricultural improvements, some development of industrial exports, and "emigration". This solution presupposes, of course, that employment opportunities in industry and ancillary activities in Northern Italy continue to open up in sufficient numbers. They must in fact be sufficient to accommodate the workers who are

seeking to leave poorly remunerated jobs in agriculture and artisan-type activities in the North, as well as the emigrants from the South.

This is the solution of the Southern problem which is compatible with bringing national income close to the maximum possible level, and with building up in the South a substantial amount of industry which, whether it is public or private, can stand on its own feet. Essentially this solution corresponds to what has been called the "Northernist" view. I leave it to the reader to judge whether it is inimical to the interests of the South.

(2) The second way, and the one favoured by the "Southernist" view, is that of "forcing" the growth of Southern industry beyond the pace allowed by the natural market growth factor. This may be accomplished either through subsidies (larger than those given so far) to private industry in the South or by the establishment of State enterprise, also presumably dependent on subsidisation, in combination perhaps with the subsidisation of Southern agriculture. All these forms of subsidisation must, of course, be paid for by the North.

(3) A third possibility is to try to achieve only the "minor" aim in the "short period", and to wait for the "major" aim to be reached in the "long period", as the result here again of a "natural" process. The latter would in this case be due to the first two of the three factors mentioned under (1) above, without the aid of the third, and would hence be slower in its effect.

It has been suggested in private circles that the necessity of subsidising Southern industry on a larger scale than hitherto ought to be openly recognized and accepted as a means of reaching a speedy solution while at the same time avoiding what is called "mass emigration". This line has not so far been explicitly taken officially, although we cannot, of course, know how far it is implied in the statement that public enterprise (in the form of the *aziende a partecipazione statale*) can play a special role in the South by virtue of the freedom which it enjoys to make a "different valuation of economic advantages" than has to be made by private enterprise (18).

The amount of subsidisation required might in fact be very substantial for a long time ahead, say the next twenty or thirty years. It would, that is to say, continue high until the "long-

(18) Cf. the speech of Signor Giulio Pastore before the Senate, May 10, 1961.

period natural solution" eventually came into play. (I am here abstracting, however, from the tendency of subsidies, once granted, to stick). To the outlays on subsidies to industry (and agriculture) would have to be added — as further social costs to be borne by the collectivity — a number of items which must in all circumstances be met, no matter which solution of the Southern problem is chosen. And it is a perplexing question whether the Italian economy — with a national income per head that is still low by Western standards — can afford all of these "transfers" of income. It is the more perplexing if we consider that the solution of "forcing" industrial development in the South will make the total Italian national income lower than would the alternative solution of the "natural" industrial development, in both parts of the country, which would be associated with the migration of part of the Southern labour force to the North.

An important part of Southern policy is common ground between the various groups. Both "Southernists" and "Northernists" agree as to the primary importance of one big item of public policy: namely, the school programme. A similar coincidence of views can probably be reached concerning the necessity of a second big item. It is that of filling the most serious gaps still existing in the so-called "infrastructure" of industry (as, for example, in the transport and communications sectors) without, however, engaging in premature construction work for which the need and the appropriate location will manifest itself not in advance of, but only contemporaneously with, industrialization and the re-shaping of agriculture. About the necessity of a third item of public intervention there is probably also a fair measure of agreement: various forms of social assistance may be required to facilitate the necessary labour shifts, and to attenuate some of their social effects.

These three items may be regarded as constituting a minimum programme of government intervention in the South. Even this minimum programme is, however, a substantial one. Even the "Northernist" view, in other words, allows for a wide measure of public aid to the South.

13. Summary

In this article I have discussed one element, namely the lack in the South of Italy of a large enough market for industrial

produce, which has up to now, I believe, been a missing link in the chain of aids and incentives to the process of industrialization and income growth in that area. Government intervention can supply this link only at the cost of subsidising Southern industry (and/or agriculture) on an increased scale. I have pointed, on the other hand, to the role which heavier emigration of labour from the South to the North of Italy can play in helping to supply it without the subsidisation of Southern industry. Certain "social" costs are involved: but these are not all peculiar to this solution of the Southern problem as opposed to others. This "natural" solution can also be a quick one, provided conditions are favourable to the rapid expansion of industry in the North, with the better opportunities which that area enjoys compared with the South for exploiting export markets.

As thus seen the Southern problem merges with Italy's general economic problem at the national level. A quick approach to full employment of her labour force — implying the creation of new jobs for the millions of *under-employed* workers and not merely for the much smaller numbers of the *unemployed* — depends on Italy's maintaining, over the next ten years or so, an exceptionally high rate of expansion of industrial output and exports. In the early post-war years it was legitimate to regard the shortage of capital as setting the limit to the pace of this expansion. During the last few years, however, capital has clearly ceased to be the immediate limiting factor. The pace is at present high in absolute terms. It is, nevertheless, below what would be allowed by the now more elastic capital supply, foreign and domestic. The many other factors which affect it are, however, a subject which falls outside the scope of this article.

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VERA LUTZ

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