Reply

1. As a preface to what follows I may remark that — contrary to what Messrs. Ackley and Spaventa imply at one point in their comment — I did not in my previous article argue that the South of Italy " must develop as a self-sufficient economy ". I assumed that some kinds of agricultural produce were, and would continue to be, exchanged for other kinds. And I spoke of the solution to the South's problem as coming from three sides simultaneously: viz. further progress in agriculture; some development of industrial exports; and " emigration ". The question was merely one of more or less, of how much might come from one side and how much would have to come from another.

2. The first matter I want to take up is the evidence in favour of one or the other of the two opposite hypotheses — mine and that of my critics — as to whether the South, in order to have moved towards " approximate income parity " with the North, within the " short period " (in the sense given to this term in my last article) and under the condition of constant population proportions between the areas, would have had to become a net importer of foodstuffs, and net exporter of industrial (non-food) products.

For the purpose of my admittedly very rough estimates and guesses about quantities, I assumed that in 1950, the beginning of my first ten-year period, the South was, as regards food, " not a *net* exporter (nor a *net* importer) on any considerable scale ". I had no figure to offer concerning the export surplus of foodstuffs that may have existed there in the recent past (1). But I presumed that

(1) It is easy enough to conceive of circumstances in which a poor economy, and one with on the whole only a modest endowment of agricultural resources per head of the population, might yet be a net exporter of foodstuffs. On the one hand, it might possess, on a limited part of its territory, a comparatively rare agricultural resource (such as that required for producing Southern fruits). On the other hand, there might be some industrial goods of which the amount it could afford to consume, along with what it might export, was so

whatever the figure might be, it was too small to make an appreciable difference to my calculation. In order to close the gap to which I referred between the increment in domestic agricultural output, estimated at 25-30 per cent per head, and the " hypothetical " increment, of 47 per cent, in domestic food consumption per head, over the ten years, the initial export surplus, available for switching to domestic consumption during that period, would have had to represent as much as 12-15 per cent of the initial agricultural output. The smaller, moreover, the initial export surplus was, the more quickly was it likely to be used up.

Messrs. Ackley and Spaventa assure us that there was an export surplus of food, but do not tell us how big it was, in an " average " year, or how it moved during the period. The table of sectoral trade balances which they give us, relating to goods shipped by rail (in carloads), and excluding goods carried by other forms of transport, refer to only a single year (1956).

But even as a picture of what happened in this one year, the table must be interpreted with extreme caution. What it seems most clearly to show is the small importance of transport by rail (in carloads) compared with other forms. This is evident when we set the total of 74 milliard lire for the import surplus of all products carried by this means (in 1956) against the official estimate, nearly twelve times as large (862 milliards) (2), for the South's total import surplus of all goods and services (made possible by loans and investments, gifts, subsidies, and aid of other kinds, from outside the area) in the same year. Even allowing for the roughness of this estimate, and for the fact that it includes services as well as goods, the difference between it and the rail carload figure is enormous. We cannot, without other evidence, assume that the figures in the table are sufficiently representative even of the proportions between the various groups of items; or that the full picture of the South's interregional and international trade looks just like that given by the table, only on a magnified scale. As

low in relation to the optimum scale of production as to render the unit costs of producing those goods at home excessively high. In such circumstances the area might well have a comparative advantage in exporting food products in exchange for imports of manufactured non-food products. Another factor leading to the same situation might be lack of access to cheap capital. As the area's per capita income level rose, and as investment funds, from domestic and foreign sources, became more freely available, its initial food export surplus would tend to decrease, and might finally be turned into an import surplus.

(2) Comitato dei Ministri per il Mezzogiorno, *Relazione al Parlamento*, 1961, p. 353.

regards the food sector, we may suspect that shipments by rail form a larger proportion of total shipments on the export side (where a very big item is fresh fruit and vegetables consigned to distant markets) than on the import side.

ITALY: TRADE IN FOODSTUFFS

(*milliards of lire*)

	1949	1950	1951	1952	1953	1954
1. Food products, raw and processed						
Imports	263.9	188.3	257.5	251.0	280.1	214.8
Exports	144.7	194.2	205.0	196.7	227.4	251.5
Net imports (–) or exports	– 119.2	5.9	– 52.5	– 54.3	– 52.7	36.7
2. Live animals (2)						
Imports	3.7	9.9	22.9	16.2	13.9	17.4
Exports	0.4	0.2	0.6	0.6	0.6	0.1
Net imports (–)	– 3.3	– 9.7	– 22.3	– 15.6	– 13.3	– 17.3
3. 1+2. Net imports (–) or exports	– 122.5	– 3.8	– 74.8	– 69.9	– 66.0	19.4
Four-year averages	– 67.8				– 33.9	

	1955	1956	1957	1958	1959	1960	1961
1. Food products, raw and processed			(1)	(1)	(1)		
Imports	273.5	332.2	345.5	350.6	363.4	491.8	523.9
Exports	261.6	308.5	381.9	324.6	333.5	353.0	391.8
Net imports (–) or exports	–11.9	–23.7	36.4	– 26.0	–29.9	–138.8	–132.1
2. Live animals (2)							
Imports	29.3	24.5	33.6	34.7	40.4	55.0	45.4
Exports	0.2	0.1	0.1	0.1	0.2	2.1	1.0
Net imports (–)	–29.1	–24.4	–33.5	– 34.6	–40.2	– 52.9	– 44.4
3. 1+2. Net imports (–) or exports	–41.0	–48.1	2.9	– 60.6	–70.1	–191.7	–176.5
Four-year averages	– 33.9		– 79.9				

(1) In these years the export figures were rendered abnormally high and the import (export) surplus abnormally low (high) by wheat exports that were due predominantly to special disposal operations. These exports amounted to 27.2 in 1957, 16.3 in 1958 and 26.0 in 1959.

(2) Mostly for slaughter.

3. There are, however, two other sets of statistics which we should look at.

(a) During the 1950's, Italy as a whole had, on the average, an import surplus of foodstuffs and of live animals for slaughter. The figures for individual years are shown in the above table.

The bigger was the South's export surplus of foodstuffs, the bigger must the import surplus of the North have been (3).

(b) The gross saleable output of agriculture, per head of the population, has up till now been appreciably higher on the average in the North than in the South.

The bigger, therefore, we suppose the food import surplus of the North to have been, the more likely does it appear that the South too, were it to have reached by the present time an income level per head close to that in the North (i.e. the 75-85 per cent ratio), would have had to become a net food importer; and the larger does it appear that the South's import surplus would have needed to be. The turning over to domestic consumption of whatever export surplus it originally had would not, that is to say, have been sufficient. Concerning the question of imminence, or of whether or not there was, towards the end of the decade, already a tendency for the South to run, on the average between good and bad years, into a net import position, the figures do not, it is true, give us any clear sign (4).

(3) *Possibly* part of the import surplus of foodstuffs was due to the importing of more "value added", or more "processing", than was exported. And if this were in fact the case, Messrs. Ackley and Spaventa, extending an argument used for the South to the whole of Italy, might take the view (which I shall not, however, adopt) that much of the import surplus could be saved by engaging — in North as well as South — in more local processing of both exported and imported foodstuffs.

(4) It is difficult to find any figures which do. If we take the gross saleable output of agriculture for the four years 1957-60 in the North, and assume that the whole of Italy's food import surplus was absorbed by this area, but that the latter had no import surplus from the South, we find that the two items of domestic output and imports together represent 52 per cent of the estimate for Northern consumers' expenditures on food, drink and tobacco. During the same period the gross saleable output of the South represented 62 per cent of the estimate for Southern consumers' expenditures on the same items. Presumably, however, the expenditure estimates have allowed for an appreciably higher proportion of domestic processing and marketing costs, etc. in the average Northern food "basket" than in the simpler, Southern "basket". And this factor might well account for most, or all, of the difference between the two percentages. (Similar calculations for the four years 1951-54 give 58 per cent for the North and 70 per cent for the South).

4. A next point to consider are the other inferences drawn by the two authors from "the present situation of interregional and international trade" of the South. These do not, it seems to me, follow from any mere statistical picture, however accurate, of that situation. "The table shows", Messrs. Ackley and Spaventa comment, "that the South is an exporter of raw and semi-processed foodstuffs and an importer of manufactured food products. The possibilities for expansion of manufacturing industries tied to agricultural raw materials seem obvious". But is it really so obvious that many possibilities of the kind envisaged, possibilities which are not being exploited, exist? The food processing industry made rapid strides in the South during the 1950's. And, given the big improvements made in the borrowing facilities for "small and medium" industry, it seems probable that a very large proportion of the opportunities that were profitable to exploit in the food processing sector were, at least in the latter half of the decade, being exploited. Some of the limitations here are imposed by the nature of demand, foreign and domestic. Southern fruits and vegetables now constitute, in their fresh form, a big part of the area's food exports. But this fact that the South is an exporter of mostly unprocessed food products is not by itself evidence that the area could, with profit, add to local processing activities by, for instance, exporting canned orange juice instead of fresh oranges. Nor ought we to conclude from the fact that the South is an importer of processed foodstuffs, that it should produce all or almost all of, say, its cheese locally, and import little or none from the North of Italy and abroad. The increase in the variety of processed and other foodstuffs available to the consumer is part of real income growth, and a part which he can be induced to forego only if restrictions are imposed on his freedom of choice.

These observations concerning some obvious limitations to the development of local food processing do not mean that this industry will not go on expanding in the South over the future as it has done in the recent past. But perhaps we should expect this expansion to be more a function of the future growth in agricultural output in the area than of a backlog, so to speak, of opportunities missed in the past. Not all of the future new opportunities for developing this industry in Italy will, however, be tied to Southern agriculture. Some will benefit the agriculture of the North. And we do not know whether the rate of increase in agricultural output is going, in the near future, to be smaller — and much smaller — there than in the South. This is a reminder of the ever-present necessity, assuming that the population proportions between the two areas remained close to the past figures, that a solution to the South's problem of reaching " approximate income parity " with the North would require finding sources of real-income creating power which were together capable of a development rate that was higher — and higher by a sufficient amount — in the South than in the North.

Another source of income-creating power that is tied to local raw materials, i.e. the exploitation and processing of minerals, has also already been playing a part in the development of the South, and will continue to do so. But once again the table of sectoral balances gives us no clue to the extent of the profitable processing opportunities that are at present being lost. (Some commentators even hold that in this sector a number of distinctly unprofitable " opportunities " are being exploited).

5. A point which Messrs. Ackley and Spaventa seem willing to concede is that limitations on the South's possibilities of doing the processing (of imported materials when local ones are lacking) at home do exist in the case of some non-food products belonging to those manufacturing industries — the " heavy " industries let us call them — where production is bound on efficiency grounds to be concentrated in very large units, usually dependent on markets abroad as well as in Italy, and where transport costs are not of small account (5). The question is then whether it is possible to compensate for the " natural " tendency towards a high degree of concentrating of Italy's heavy industries in the North of the country, by concentrating a large part of her future expansion in the " light " industries, in many of which the optimum scale is comparatively small, and in which transport costs may count less, in the other area. The two authors assure us that: " Most of the further expansion of industry contemplated in the South concerns light rather than heavy industry, for the materials and products of which transportation costs are of minor importance ". But again it is the dimensions of the problem that need stressing. In order to reach

(5) In terms of the sector trade balances, this might mean that the South would still need to have an import surplus of these " heavy " products, financed by an export surplus of " light " non-food products and/or of foodstuffs.

the goal of approximate income parity, with its old share of Italy's total population, the South would presumably have to have a disproportionately large share of these light industries, in order to make up for its disproportionately small share of other sources of income-creating power, e.g. agricultural resources, and heavy industries.

6. Much of Messrs. Ackley and Spaventa's argument rests on their assumption that the South has at present a substantial export surplus of food, and stands or falls with that assumption. But even supposing that my hypothesis were valid (i.e. that the South's domestic food output has been, and will remain, well below the level of domestic consumption that would be associated with bringing the real income of Southerners up to the desired level), the two authors question whether shifting the problem of filling the food gap onto the North, via the increased emigration of Southerners to that area, makes the problem easier of solution. (I should warn readers that the rest of this section is not essentially different from what I said in the relevant paragraphs of my two previous articles. A partial re-exposition may, however, help to make amends for the lack of explicitness which Messrs. Ackley and Spaventa perceived in those articles).

The food gap might, in certain circumstances, be fully met in the future out of the increased output of Northern agriculture. The circumstances envisaged are: (a) a continued high future rate of growth in productivity in Northern agriculture in face of a relatively low income elasticity of demand for food among the present population of Northerners (who are mostly already at the higher income level); and (b) an only moderately favourable market abroad for Italy's industrial exports. (I shall return to this latter condition below). In other circumstances the requirements might have to be covered, wholly or partly, out of additional (net) food imports by Italy. Neither of these cases seems to me to be such a remote prospect as it seems to Messrs. Ackley and Spaventa.

I shall concentrate for the moment on the first case. It is itself, of course, compatible with two alternative solutions: one (the Southern solution let us call it) where the employment of the additional Southern workers in industry takes place locally in the South; and the other (the Northern solution) where the employment takes place in the North, and entails "emigration" to that area. The Southern solution implies that the North's food surplus must reach the new industrial workers in the form of exports to the South, and that the latter must pay for these with exports of part of the industrial output of the workers concerned (unless it can finance them with aid from abroad) (6). The Northern solution allows the food surplus of Northern farmers to be used locally in the North to cover the needs of immigrant workers who produce, *also locally*, the industrial produce which is exchanged for it.

When the Northern solution is adopted, it is, of course, the extra expenditure on local industrial produce by the Northern farmers (7) out of their now higher incomes which, in large part at least (8), provides the offset for the "expenditure leakage" due to the fact that the additional Southern workers employed in the whole group of simultaneously expanding Northern industries use part of their income to buy foodstuffs instead of their "own" products. What is different about the Southern solution is that there is — under my hypothesis about the inadequacy of farm incomes in the area — no similar offset from the side of *local* farmers. Under this solution there is thus a leakage "abroad" which does not occur under the Northern solution (9). The regional "food problem" is still there, even if there is no national problem. This is quite apart from the question of whether the North has better opportunities than the South for offsetting (by exports) the leakage abroad, on other than food accounts, which is common to both solutions.

We may look at the same problem from another side: that of the market growth factors which are the spur to the industrial

(6) The argument is similar if we suppose that the North exports part of its surplus to foreign countries while the South covers part of its deficit by imports from such countries.

(7) The farmers may, of course, get the extra income as well by selling the extra output abroad as by selling it at home. Cf. footnote 6, above.

(8) We must suppose that the farmers will spend some part of their extra (gross) income on imported industrial goods (both producers' and consumers').

(9) There are, of course, leakages abroad, under both solutions, on account of non-food expenditures. One relates to entrepreneurs' expenditures on imported producers' goods. (These imports may initially be paid for by imported capital, instead of out of the current sales proceeds of the group. But it is replacement expenditures that must be considered over the long run). Another leakage relates to workers' expenditures on "foreign" non-food products.

It may be noticed that so long as the South is receiving, and using, "foreign" aid, the leakage on all accounts is reduced. For aid enables the area to spend more than its income, and hence to demand more of its own domestic produce, as well as more foreign produce, than it could otherwise.

expansion that provides the additional employment. In the circumstances which I am assuming the expansion must partly depend on:

(a) the growth in demand for Italy's industrial produce among her own Northern farmers; and

(b) the growth in demand abroad.

These are growth factors which are "external" to the whole group of simultaneously expanding industries, as opposed to the "internal" factor which consists in the demand of the workers and entrepreneurs in the group for their "own" products. These "external" markets will normally take only a minor part of the extra output of those industries. It is nonetheless an indispensable part. Without it the leakages referred to above cannot be offset, and revenues will fail to match costs. In many instances, moreover, it may be these "external" market growth factors that give the initial push to the industrial expansion which allows the "internal" market to develop as well.

Each of the "external" markets just mentioned is, however, a "foreign" market from the point of view of the South. And one way of putting the regional problem is to ask: How much of what we may call the *primary* industrial employment effect (10) associated with the growth of industrial markets outside the South, but creating jobs for Southern workers (11), can — without loss of efficiency and therefore of national income — be located in the South rather than the North?

Even if the primary effect takes place mostly in the North, however, there occurs in the South, a *secondary* industrial employment effect (of the kind mentioned in my last article). It springs (as I said there) from a speeding up of the expansion of the South's domestic market for industrial produce, due to the more rapid exodus of workers from poor farms than would occur in the absence of the primary employment effect, and hence faster rise in the incomes of the farmers who remain behind to levels at which they can spend a large part on industrial produce. (This secondary industrial employment effect on the South is similar to the primary

(10) I am excluding the case where the employment effect is nullified by an excessive rise in unit labour costs.

(11) We may take it that the primary employment effect works largely, or mostly, to the benefit of Southern workers so long as we assume that it is chiefly among these that the unemployed and underemployed are to be found, the problem of these classes in the North having already largely been solved.

effect of increased agricultural productivity, due to investments and other improvements, in the South itself. And there is not much doubt, I think, that, at the present stage of economic development in the South, both of these effects can in very large part be concentrated in that area without difficulty).

7. This brings me to another important question which, implicitly at least, has been raised by Messrs. Ackley and Spaventa in their comment. They observe, as others have done before them, that " a considerable movement of people... out of agriculture need not reduce total agricultural output but may even help to increase it ". And some students of the problem are, I believe, inclined to go a step further, and to argue, on the basis of this same observation, that what I described above as coming about as a secondary effect of a " spontaneous " expansion of Northern industry can be achieved just as well or better — in this case as a primary effect — by a State-guided industrialization policy which deliberately draws workers off Southern farms into Southern industry. Since this movement of labour from one occupation to the other in the South is supposedly capable of accelerating the rate of increase in *total* agricultural output (and not merely in output per head of the farming population), many students regard it as a movement which can be encouraged irrespective of whether Messrs. Ackley and Spaventa's other point holds that " Southern industrialization can find part of its market in producing import substitutes ".

A first question which arises in this connection is how great the possibilities referred to really are. Doubtless there are some areas in the South where an exodus of workers may, by inducing the use of more capital, such as compensates or more than compensates for the smaller use of labour, achieve two aims at once. The labour exodus may, that is to say, raise income per hectare at the same time as it raises income per head of the remaining workers towards the desired level. But there are other areas, surely, where the one aim is incompatible with the other (at least over the " short period "). I am here thinking partly of what Prof. Rossi Doria has called the " bone " of the agricultural South as opposed to the " flesh ". The " bone " is a very large proportion of the whole. But even in the case of the " flesh ", only some areas presumably offer possibilities of the kind mentioned. Could these particular areas be identified

— before the event, so to speak? And if they could, would it be possible to devise an industrialization scheme which would draw workers off these *but not off others?* Would State-controlled farming have to be the answer?

8. Let me now consider another eventuality regarding Italy's future economic development which seems to Messrs. Ackley and Spaventa, for a reason to which I shall refer in Section 11, much more improbable than it does to me. Suppose that in the future the stimulus to Italy's industrial expansion from the export side became strong enough to cause Italian industry to draw workers off the farms — by the offer of increased rates of pay — to an extent such that the increment actually achieved in domestic agricultural output in Italy as a whole fell well below the increment in domestic consumption, so that she moved into a larger net import position for foodstuffs than before. (I am here assuming that it is not true that total agricultural output will always be raised and not lowered when people leave the land, irrespective of how many leave). Such a development would have important consequences at the regional level. It would mean that, if income per head in the South were to move closer to, and not further away from, that in the North, more people would have to be drawn out of Southern agriculture (as well as Northern) than would be the case if no such development occurred. This would make it more than ever probable that the South's domestic food output would fall short of the domestic consumption associated with the desired level of per capita income for Southerners (always assuming constant population proportions), and that the gap would have to be closed by food imports. This is merely a way of saying that, if attaining the maximum possible rate of future real income growth in Italy as a whole does in fact mean moving in the direction indicated, those at present living and working in the South must be made to share in the industrial export expansion, either through the " emigration " of a sufficient number of them to export industries in the North, or through the development of a sufficient amount of industrial export activity in the South itself. Rejecting the first alternative — the movement of labour — might, however, create a serious regional problem though no national problem in any real sense existed.

The question is always the same: Does location matter? If we accept it as a fact that the "heavy" industries must be concentrated in a few locations, mostly in the North, can we, as Messrs. Ackley and Spaventa and others suggest, fall back on the "light" industries solution for the South? Is it true that for these industries, when they are not tied to local agricultural or mineral resources, the choice between two locations — perhaps far apart — will in most cases be indifferent, or nearly so. Transport costs, as I said before, are not the only factor likely to effect the answer to this question. But the only people who can give us the answer are probably the industrialists themselves.

9. I had better again add, quite explicitly, that suspecting that location does after all matter, even for the "light" industries, is not equivalent to predicting that the South will, in the absence of "special incentives" or of the intervention of the State entrepreneur, have no opportunities whatsoever for expanding its exchanges, with the North of Italy and foreign countries, of exports of manufactured goods (both "heavy" and "light") against imports of foodstuffs or other products. I have never denied — quite the contrary — that there are some markets across the "border" and abroad which the South may very conveniently serve.

10. The next point I want to examine concerns, again, the evidence which Messrs. Ackley and Spaventa cite in support of one of their arguments. Having concluded that "if there is to be a food problem it will be a national problem rather than a regional one", they go on to say that in fact, however, there is no imminent pressure on Italy's domestic food supplies such as might act as a brake on real income growth unless relieved by increased food imports. For this last part of their conclusion they give two reasons: first, that "Italy now has a surplus problem in at least some agricultural products, as indicated by the existence of price supports", and, secondly, that "there have been no signs of tension in farm prices in the past, in spite of the high rate of income increase".

Is the significance of these price supports what the two authors take it to be? And, in talking of "surpluses", should we not distinguish between those that come from what is, by international

standards, high-cost production and those that come from low-cost production?

The foreign trade statistics for recent years (12) show some sign that Italy might already be in process of becoming a net food importer on a larger scale than formerly. But the extent of the domestic harvest variations probably make it unwise for us to rely on the figures for a few years as a sure indication of a trend that is bound to continue into the future. On the other hand, it is a fact that part of the tendency towards a growth in certain food imports has recently been suppressed by the imposition on these of quantitative restrictions intended to support the domestic price of home-grown produce in face of competition from lower-priced foreign produce and of the appearance of the "surplus problem" to which Messrs. Ackley and Spaventa refer. Beef is a case in point. It is among the commodities for which the income elasticity of demand is at present high; and imports of it increased rapidly in the 'fifties.

Allowing imports to come onto the home market at the international price level is one way of ensuring that there will be no "tension in farm prices ... in spite of the high rate of income increase". The same holds true, of course, for the South taken as a separate region. Tension on the regional market for foodstuffs will be avoided if imports at the national, or international price level are available (imports that may perhaps be financed with part of the aid which the nation is giving to the region). But price supports, paid for by consumers (13), also prevent "tension", though in another way. They prevent people from increasing their consumption of the food products concerned by as much as they would have done in the absence of such supports. Raising individual real incomes in Italy depends in part on keeping food prices low in relation to the wages that industry can afford to pay. The holding of consumer prices for foodstuffs above the international level makes the cost of living, and (via the sliding scale of wages) industrial costs, higher than they would otherwise be. It slows up industrialization, and gets rid of the "food problem" connected with raising real incomes by getting rid of part of the rise in those incomes.

(12) Cf. the table on p. 207 above.

(13) If they are paid for out of taxation they may have the same effect if the higher taxation required to finance the subsidies to agriculture falls on industry.

11. Whether Italy will in the future become a net food importer on a perceptibly larger scale than previously, will partly depend on how free a trade policy she follows with respect to imports of food products. It seems to me unlikely that a movement in this direction of increasing imports could during the next years ahead be rendered unprofitable, as Messrs. Ackley and Spaventa think it might, by a deterioration in the terms of trade between Italy's manufacturing exports and her food imports, even if some such deterioration occurred. My reason for so thinking is that Italy still has what we may call "a reserve of unused comparative advantages" on which she might draw in the interests of faster industrialization and more rapid real income growth. Some countries — in face of the agricultural protection policies of others — dispose over *low*-cost "surpluses" of various foodstuffs. Italy could draw on these to replace that part of her own production of which the high cost creates the "need" for the price supports of which Messrs. Ackley and Spaventa speak. The existence of such opportunities, not only for Italy but also for other countries, has been a major factor in the difficult negotiations concerning the agricultural policy of the European Common Market, and has been many times illustrated by tables showing the average costs of production for various foodstuffs in different countries. In such a table, two of the high-cost items for Italy are wheat and beef, both of which have at present price supports.

I am not saying that Italy will — as a matter of policy — necessarily decide to move in the direction indicated, but only that the opportunity is there if she wants to take it.

12. In the last analysis, many of our conclusions about the dimensions of the Southern problem must, I think, depend on the answers to two questions:

(a) Do we believe that, for Italy as a whole, the attainment of the maximum possible rate of real income expansion over the next decade or more implies a continuation of the recent rapid expansion of exports of manufactured goods? Or, more generally, do we believe that Italy must move towards a very much larger participation in world trade than that — small by the standards of each of the other three big countries of Western Europe — which she has had so far? An increase in her export surplus in the manufacturing sector is a condition for her being able to import the additional amounts of raw and semi-processed materials required for producing an ever-growing volume of domestically consumed manufactures. That surplus will have to be still bigger if she really does become a net food importer on a larger scale. There is, however, another point: one which the simplifying procedure of arguing in terms of the net trade balances for broad sectors causes us to neglect. It is not sufficient to think of Italy's future foreign trade problem merely in terms of the need to increase the export *surplus* of manufactured goods. The problem has to be seen in the broader terms of the increase that is required in the export *total*, and not merely the surplus. At the present stage of economic development, one aspect of real income growth consists in the offering to consumers of a wider choice of types, designs, qualities, and brands, within one and the same fairly narrow commodity group. This entails — as regards producers' as well as consumers' goods — the increased exchange of exports of certain types of manufactures against imports of closely similar types. It means that both sides of a country's trade balance sheet must lengthen. The encouragement of this process is one of the aims of the European Economic Community and of other plans for freer trade within Western Europe. The more strongly we believe that this is the direction in which Italy's economy must move in the future, the firmer must be our conviction that her export efficiency in all lines must be kept as high as possible. The striving after this aim is not confined to Italy.

(b) Is the choice of "efficient" locations one of the conditions for success in this direction?

13. In this "reply" I have put more questions that I have answered. The *incogniti* of the future development prospects in both parts of Italy remain as great as they ever were. Some of us may underrate the possibilities which others overrate, and *vice versa*. One big and unmistakeable reality, however, dominates the present picture. It is the speed at which Italy's Northern industries are expanding the country's exports and at the same time providing employment for Southern workers. This may soon make mere speculation about vaguer prospects appear quixotic.

Zurich VERA LUTZ