The Italian Economy: Growth Factors and Bottlenecks (*)

by

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I. - Introduction.

1. — The purpose of this paper is not to offer a description of Italian economic history, but to point to factors which make the Italian experience relevant in terms of the problem of economic growth in its general aspects. Consequently, it involves an attempt toward the identification of that middle ground in which the peculiar features and behavior of one national economy can contribute to a comprehensive theory of growth. Any such theory must involve, necessarily, the construction of a number of « models », each related to a typical combination of facts and conditions — in terms of natural and human resources, technological and historical development, and the like.

The process of growth, in our times, has clear-cut features only in reference to two extreme cases, *i.e.* the growth of the most advanced and promising segments of the world economy, such as the United States and Canada, and that of the so-called underdeveloped areas. It is much more complex in the in-between cases, particularly with respect to Western countries which have shared to a large extent in the growth trend of the past century, but which have been unable to exploit fully their potentialities, and which at the present time are being almost by-passed, at least temporarily, by the main stream of contemporary economic growth. This seems to be the case of Italy, among other countries.

It seems also increasingly apparent that the basic factors which underlie actual rates of growth, while bearing some rough relation to such things as the amount of available natural resources, trends in population and technology, and subjective preference toward investing, spending, and the like, are in reality extremely complex. Except in a few striking cases, growth is to be viewed as the net effect of conflicting facts and tendencies, some favorable to development, some adverse, and some cutting both ways. In this respect, Italy offers a significant illustration of checkered growth, accomplished despite a very small balance between favorable and unfavorable factors, and actually against definitely adverse odds. For the progress of the Italian economy cannot be traced to any single dramatic factor, neither in terms of the environment nor of the decisions and propensities of entrepreneurs, investors or consumers. It was not comparable to the outburst of the Industrial Revolution in Britain, to the opening up of the North American continent, or to the massive growth in technology and industrialization of Imperial Germany. It cannot be traced to major changes in fundamental propensities, such as those listed by Professor W. W. Rostow (1) in his recent book, for while they all played a part, their casual role was hopelessly interwoven, and overshadowed by other factors, in particular, by a steady, while undramatic quest for small openings here and there, and for opportunities to be snatched out of a cloudy and constricted environment. The gains which were made were significant chiefly in relation to the difficulties which were overcome.

2. — The broad outlines of the Italian story can be summarized very briefly.

Over a period of 50 years, from 1901 to 1951, the national income of Italy doubled, and its population increased by 43%. This meant a gross average rate of growth in income of 2% a year, and of a little over 1% per person. There was a very considerable growth in industrial production, and — despite great fluctuations associated with the effects of wars and of the Depression of the 30's — a large expansion in foreign trade.

The growth was rapid only during brief spells, characterized by favorable development of an « exogenous » nature. This was the case in the years before World War I, when world trade reached very high levels, again in 1922-26, which was a period of international recovery and vast American exports of capital to Europe (of which Italy got a limited but significant share), and after World War II, under the impulse of Marshall Plan aid. Growth was retarded by the adverse impact of two wars, the second of which spelled invasion and disaster, and of the Great Depression, on which the Fascist dictatorship superimposed a policy of rearmament and self-sufficiency.

Modern growth originates in a few focal points of the world economy, where the truly pioneer advances occur, thanks to an exceptionally favorable combination of circumstances. It spreads around, in varying degrees, to the extent to which other areas can adopt and adapt the technological and other advances already developed elsewhere, and takes advantage of the propagation throughout the international economy of the waves of growth originating from the « focal points » described. Whenever there is a large innovation, or a phase of rapid growth, at some point of the world economy, there develop potential « economies » (in the sense of factors which entail development or a better use of available resources) for most other areas. The extent to which those « external economies », due to outside development, can be captured, and made « internal » to the structure of other areas, has a vital bearing on the growth of the latter.

Inasmuch as Italy lacked spectacular and truly « strategic » factors of development, we may focus attention upon one borrowing in Italian economic development. It is the key to understanding much of the industrial and related development which occurred in the Italian economy in the period under review. It involved a very high degree of alertness, and readiness to accept and to adapt tools for advance (technological knowledge, industrial know-how, methods of business organization and operation, etc.) which had been already developed or refined in more highly developed economies. It was not a mechanical but a very creative process, since it required not only adaptation to a difficult environment but also the search for additional and original advances which were essential for survival in an internationally competitive climate.

An enormous amount of initiative and ingenuity was also displayed in looking for foreign trade outlets, taking advantage of whatever opportunity for development was to be found in the area of foreign trade, and creating new opportunities. Indeed, a closer look at the Italian picture of the past 50 and more years suggests conclusively that foreign trade, in its broadest sense, was a very strategic factor of growth. Foreign trade is of paramount importance, in a country such as Italy, in inducing a high rate of investment and an appropriate allocation of resources.

While no statistics are available concerning the annual rate of capital investment in Italy, prior to very recent years, there is no doubt that investment expanded at a fast rate in the periods when the international economy was comparatively « open » and expanding, and when there was a possibility to expand the rate of imports without upsetting the balance of paymets. It is also quite apparent from the facts which are available that there was a considerable misdirection of resources whenever investment was pushed forward outside of a framework of expanding foreign trade. The capital resources of Italy being small and inadequate to bring about a high flow of investment, there was little scope for development except through a growing level of imports.

Outright imports of capital by Italy never reached impressive proportions, except during the exceptional Marshall Plan period. Domestic growth was brought about to a large extent through increased imports, and increased outlets for exports of goods and services. There was, however, in certain periods a substantial inflow of capital, in the form of

(*) This is an abridged version of a paper prepared for the Committee on Economic Growth of the Social Science Research Council of New York.

(1) W. W. Rostow, *The Process of Economic Growth*, 1952.

laborers' or emigrants' remittances, which helped very materially to maintain balance of payments equilibrium at high levels of imports.

Since an increase in investment entails in the first instance an increase in imports of industrial materials and of subsistence or wagegoods, the first limiting factor is set by the foreign balance (see *Table I*). Except under very favorable circumstances, this curtails the volume of investment in the short period, and it also limits the types of investment which are not conducive to greater exports or smaller imports in the long run. In short, the rate of investment is limited by its balance of payments effect, in terms both of the short period and of the long pull. By the same token, however, the attention which must be given to the balance af payments effect helps to route new investment along internationally competitive channels.

ITALY'S IMPORTS AND EXPORTS — TABLE I

Year	Imports		Exports	
	Millions of lire (a)	Index Numbers 1901 = 100	Millions of lire (a)	Index Numbers 1901 = 100
1901	1,717	100	1,373	100
1911	3,008	175	1,914	139
1921	3,549	264	1,663	121
1931	2,668	155	2,261	165
1941	1,596	93	1,946	142
1951	5,130	298	3,914	285

(a) Of 1901 purchasing power.

Furthermore, in a densely populated country, investment cannot proceed without some relation to its employment effect. Since basic wage-rates are low, and materials and machinery expensive, there is a natural tendency for investment to develop along lines which involve a comparatively low rate of capital intensity. Such natural tendency becomes intensified in periods of unemployment, because of the pressures brought to bear on industry by Government quarters, and because under those conditions public investment — partly of an outright « make-work » nature — plays an increasingly important role, while private investment declines.

The employment effect of investment may be held to reflect in any country the industrial structure, in terms of capital intensity, which is appropriate to local conditions. However, in densely populated, or overpopulated countries, it affects productivity unfavorably. An optimum level of investment should obviously satisfy conditions of maximum productivity, full employment, and least strain on the balance of payments position. In the case of Italy, and of similar areas, it should entail a great rise in imports, and an intensive development in industries having a high rate of output per unit of input, which have in most cases a limited employment effect. Only under such conditions the rate of growth can spurt rapidly upwards. This would require, however, the appropriate offsets, at the foreign trade level, and it is not easy to see how these may be forthcoming under existing conditions.

3. — Looking back at the century of Italian economic history which is behind us, we can see the following:

1. There was a considerable amount of economic growth, absolutely and comparatively with other countries of Western Europe. It was, however, inadequate, subject to an inordinate degree of instability, and to some extent self-frustrating, since it generated more economic and social pressures than could be satisfied under the existing pattern of investment output.

2. In its essence, it was in the nature of a « holding-out » operation, which snatched from an adverse evironment the essentials for a minimum rate of growth compatible with survival, within the context of the greater demands made by the times and stimulated by the general growth of the world economy.

What about the future? There is nothing in sight that might justify the hope, and even less the expectation, that the next five or ten years may witness spectacular gains for the Italian economy, such as would be required to set in motion an optimum rate of growth.

However, the longer view — barring of course a renewed spell of emergencies and disasters — may hold better promise, due to a number of factors, of which some are already beginning to unfold, while others can be seen only dimly. These are:

(a) The trend toward a stationary population.

(b) More and cheaper fuel, through the exploitation of domestic resources (natural gas, and possibly oil), more electric power, and cheaper steel.

(c) The cumulative benefits of a long period of steady, if undramatic development in the international and domestic economy, and of appropriate changes in the Italian industrial, business and social structure.

(d) The trend toward the inevitable unification of Europe, with consequent establishment of a single European market.

(e) The natural effects of the increasing interdependence in the world economy.

The role and significance of these factors in Italy's economic framework will be discussed in Sections II and III of this paper.

II. - Problems and Bottlenecks.

4. — Many bottlenecks stand in the way of an adequate rate of growth. Among others, lack of elbow room, a low income structure, inadequacy of natural resources, population pressure, and a number of factors in the general environment.

Italy, within its present frontiers, covers a surface of 111,228 square miles, with a population (census of November 4, 1951) of 46.5 million people. The density of population is therefore 400.9 persons to the square mile. This is lower than the density of Holland (666.7 persons to the square mile), of Great Britain (934.2) and of Western Germany (507). However, almost one-half of Italy's surface is mountainous, and out of its 90 million acres of land only one-third is arable. It takes only a few hours to fly all the way through Italy, from the Alps to the sea of Sicily, and that fleeting experience is adequate to impress the most casual observer with the limits placed by geography to intensive ecomic development.

The Po river and its tributaries are the coordinates of the one vast expanse of fertile and densely populated plains which offer adequate elbow room to the raising of wheat and other basic crops, and to the growth of an integrated industrial economy, served by adequate facilities and communications. There are also the fertile hills of Tuscany, the bleak and yet opulent plains of Apulia, and a few exceptionally fecund strips of land here and there, around Naples, Palermo, Messina and a few other points. Otherwise the landscape of the country is a succession of steep gorges and mountains, and the beauty and grandeur of the scenic effect is no compensation for the comparative barrenness of the land.

The GNP of the Italian economy at current market value was estimated at 10,775 billion lire (a little over 17 billion dollars) for 1953, as compared with 10,105 billion in 1952. The domestic net product at current market prices was estimated at 9,700 billion lire, and at 8,250 billion at factor cost. The figures for 1952 were 9,023 and 7,657 billion respectively (see *Table II*).

NATIONAL INCOME: SUMMARY — TABLE II
(Billions of lire)

	1950	1951	1952
1. Net product at factor cost	6,370	7,380	7,657
of which:			
(a) private sector	(5,903)	(6,934)	(7,191)
(b) public administration	(695)	(756)	(885)
(c) less allowance for duplications between public administration and private sector	(- 228)	(- 310)	(- 419)
2. Central and local government taxes not included in the valuation of goods and services	1,057	1,257	1,366
3. Net product at current market value [(1) plus (2)]	7,427	8,637	9,023
4. Net income from abroad	216	114	166
5. Net national income at current market value [(3) plus (4)]	7,643	8,751	9,189
6. Depreciation and maintenance	680	872	916
7. Gross national income at current market value [(5) plus (6)]	8,323	9,623	10,105

Source: *Relazione generale sulla situazione economica del paese, presentata dal Ministro del Tesoro (Pella) alla Presidenza il 31 marzo 1953 (Atti Parlamentari, Camera dei Deputati, Doc. IX, No. 4).*

Farm production contributed a little over 20% to the net private product, industrial activity almost 27%, and trade and services approximately 14%. The combined contribution of industrial production, constructional activities, communications and utilities was slightly in excess of 50% (see *Table III*).

TABLE III

GROSS PRIVATE DOMESTIC PRODUCT AT FACTOR COST BY BRANCHES OF ACTIVITY
(Billions of lire)

	1950	1951	1952
1. Agriculture and forestry	2,150	2,308	2,304
2. Fishing	17	20	22
3. Mining and quarrying	58	98	110
4. Manufacturing	2,283	3,014	2,929
5. Building	254	299	437
6. Electricity, gas and water	208	241	250
7. Transport and communication	465	515	582
8. Commerce, banking and insurance	978	1,057	1,151
9. Ownership of buildings	63	104	132
10. Services	300	331	370
11. Less allowance for duplications	- 199	- 205	- 206
Total	6,577	7,782	8,081

Source: Italian Central Statistical Institute.

The National Income at current market value (net product at market value, plus net income from abroad) reached in 1953, 9,775 billion lire, equivalent to almost 15 billion dollars, as against 9,189 in 1952. Divided by a population of over 47 million, this gave an average income per head slightly in excess of $ 300.

For purposes of international comparison it can be noted that in 1949 per capita income in Italy was estimated at $ 235, as against $ 1,453 for the United States, $ 773 for Great Britain, $ 502 for the Netherlands, $ 482 for France, $ 320 for Western Germany, $ 146 for Yugoslavia, $ 128 for Greece, and $ 100 for Egypt ad Japan. There are, however, in Italy, great regional differences, within the national average, ranging (for 1951) from some $ 450 in the prosperous and highly industrialized « triangle » encompassing Lombardy, Piedmont, and Liguria, to a low of perhaps $ 175 in Calabria. The average figure can be estimated at $ 375 for Northern Italy, a trifle above $ 300 for Central Italy, and some $ 200 for the Southern regions, including Sicily and Sardinia. Consequently, the regional stratification of income goes all the way from advanced Western European levels to Eastern European standards.

5. — Personal expenditure on consumer goods and services, at market value, was estimated at 7,144 billion lire for 1952. Food consumption absorbed some 60% of total expenditure, and expenditure on clothing, furnishing, etc., another 15%. Expenditure in durable consumer goods constituted only 3,5% of the total, and expenditure on tobacco,, travel and entertainment another 8%.

The average Italian diet is low, in relation to other European countries. Its content in calories, for 1950-51, was 2,450, against 3,300 for Switzerland, 3.080 for the United Kingdom, 2,800 for Western Germany and 2.700 for France. The average Italian diet is very deficient in proteins and in fats. Consequently, there is a high rate of per capita consumption of cereals (157 kilograms in 1950-51, against 101 in the U.K., 117 in France and 120 in Switzerland), and there are low rates of consumption of meat (19 kilograms per person, against 52 in the U.K., 92 in France ad 47 in Switzerland), milk (50 kilograms per person, as against 158 in the U.K., 92 in France and 115 in Germany) sugar (11 kilograms per person, as against 37 in the U.K., 25 in Germany and 23 in France), and fats.

Once more, there are very significant differences in standards of consumption between the various areas of Italy. It was estimated that in 1939 per capita consumption in Southern Italy was considerably below the national average all along the line: it was 41.6% of the national average for meat, 47.5% for electric light, 25.3 for cooking gas, 25% for expenditures on moving pictures, 57.7% for radio ownership, and 42.8% for automobile ownership.

Private and public consumption, for Italy as a whole, totalled 8,000 billion lire in 1952.

Gross Investment was estimated at 2,099 billion, of which 916 billion for depreciation and maintenance. The rate of Gross Investment for GNP was consequently 20.8%, one of the highest in Europe, and yet insufficient to lead to full employment.

Gross capital formation, exclusive of changes in inventories, was estimated for 1952 at 2,120 billion lire, broken down as follows: 270 billion in agriculture, 780 billion in industry, 310 billion in transportation and communications, 640 billion in constructions and public works, 120 in miscellaneous sectors. The ratio of fixed capital formation to Gross National Product was consequently in the order of 21%.

6. — Considering the size of the farm population in different countries, the amount of productive land available per agricultural worker in Italy is 25% smaller than in Germany, half as small as in Holland, nine times smaller than in Great Britain, and almost 15 times smaller than in the United States. It exceeds only (by the ratios of 3 to 1 and 5 to 1, respectively) the amount of land per worker available in such overcongested areas as Egypt and Japan.

The basic crop is wheat. The yeld per acre, already high, has been further raised in recent years, due to advances in methods of cultivation, including greater use of tractors and fertilizers. Under moderately favorable weather conditions, the annual wheat crop averages some 7.5 million tons. This is still insufficient for self-sufficiency, since total requirements are in the order of 9 million tons. The land reform now in progress in Southern Italy and other regions is of vital social importance, and will entail important economic repercussions, direct and indirect. It will not materially increase farm production as a whole (2).

Mineral resources are few, and their contribution to the national economy is modest. Minerals available in excess of domestic requirements are mercury, lead, sulphur and marble. There is self-sufficiency in bauxite, zinc, and manganese. Domestic iron ores are significant, but cover only a fraction of domestic requirements.

The vast and growing utilization of water resources, and hence the growth of hydroelectric power, has held in check, and somewhat reduced, domestic coal requirements. These, however, are still in the order of some 10 million tons per year, and domestic production (consisting entirely of low grades) covers only some 10% of them.

Natural gas has been discovered in large quantities in recent years, and it has become a significant factor in the domestic fuel supply. There are high hopes concerning oil deposits, which are the object of intensive prospecting. There is unquestionably oil in the Po valley, ad oil has been recently struck in Sicily. It is too soon, however, to tell to what extent these hopes will materialize. Meanwhile, Italy is entirely dependent on imported crude liquil fuels, which are a heavy item of its balance of payments.

Industrial activity is based almost entirely on imported materials: iron ores and scrap, phosphates, copper, nickel and other nonferrous metals, cotton, wool, cellulose, woodpulp, timber, hides and skins, and so forth.

7. — The occupational structure of Italy is unsatisfactory, and there is at present a vast pool of chronic unemployment and underemployment. A Parliamentary Committee headed by Mr. Roberto Tremelloni investigated the situation exhaustively, at the end of 1952 (3), and it may be worth while to summarize some of its findings:

(a) The labor force in Italy constitutes 53.5% of total population over 14 years of age, as against 57.3% in the United States and 63.8% in France. The ratio of inactive to total employable population is therefore 46.5%, as against 42.7% and 36.2%, respectively.

(2) For a detailed analysis of this subject, see GIUSEPPE MEDICI, *The E.R.P. and the Problems of Italian Agriculture*, and MARIO BANDINI, *Land Reform in Italy*, in No. 7 (October-December 1948) and No. 20 (January-March 1952) of this Review.

(3) The conclusion of this Committee have been summarized by GIORGIO RUFFOLO in No. 24 (January-March 1953) of this Review (*The Parliamentary Enquiry into Unemployment in Italy*).

(b) The ratio of employment to total population is 42.5% in Northern Italy, as against 39.1% in Central Italy and 32.3% in Southern Italy and the Islands.

ACTIVE POPULATION — Table IV

Year	Agriculture	Industry Transportations Communications	Commerce Banking & Insurance	Public Administration	Total	Inactive Population
A) *Millions of Persons.*						
1901	9.510	4.190	777	822	15.904	16.571
1911	9.171	4.945	862	753	16.357	18.314
1921	10.158	5.164	1.091	755	18.067	19.907
1931	9.356	5.730	1.408	843	18.341	22.836
1936	9.066	5.981	1.640	1.017	18.802	24.117
1951	8.060	7.038	2.020	1.090	19.490	27.248
B) *Percentages.*						
1901	59.8	26.3	4.9	5.2	49.0	51.0
1911	56.1	30.2	5.3	4.6	47.2	52.8
1921	56.2	28.6	6.0	4.2	47.6	52.4
1931	51.0	31.2	7.7	4.6	44.5	55.5
1936	48.2	31.8	8.7	5.4	43.8	56.2
1951	41.3	36.1	10.4	5.6	41.7	58.3

(c) The ratio of agricultural to other types of employment is still unduly high: 42.4%, as against 31.8% in France and 11.7% in the U.S.A. Industrial employment (including constructional activities) absorbs still only 31.6% of total employment. « Tertiary » employment in commerce, banking and insurance covers 10.6% of the total.

(d) The number of unemployed stood at 1,286,000 persons, *i.e.* at 6.6% of the labor force. It was made up of two nearly equal groups: workers formerly employed and new entrants shopping for their first job. Almost 40% of the members of the first group had been unemployed for less than 15 hours a week, and hence virtually unemployed, and 2,878,000 who worked less than the normal 40 hours week, and were hence « underemployed ». Altogether, some 4.4 million persons, out of a labor force of 17.8 million, were either unemployed or underemployed.

(e) With respect to the unemployed in the strict sense, 44.4% of their total belonged to industrial occupations, 21.4% to agriculture, and 19.7 to nondescript employment, which included new entrants in the labor market. 42.77% of the unemployed were located in Northern Italy, 15.34% in Central Italy, 31.27% in Southern Italy, and 10.62% in the Islands. Young people under the age of 21 accounted for 24.18% of the total.

(f) Unemployment in Italy is largely of a structural kind. It extends with varying intensity over the whole labor market, and is a feature of the whole Italian economic structure. The excess of population, arising at present chiefly from the inadequate rate of growth in production, brings about stagnation over wide areas and « erodes » the whole employment structure, leading to widespread underemployment, poor employment and low rates of pay in many segments.

(g) There is a great « stickiness » in the employment structure, resulting in a very low rate of turnover, and aging working population and exceptional difficulties for the new entrants. This may be partly due to political pressures which tend to « freeze » existing employment, and which by the same token discourage the hiring of additional manpower unless under extreme circumstances.

8. — The natural net increase of the Italian population at the present time is in the order of some 350,000 per year. However:

1) Birth rates have been falling rapidly: from 32.5 per thousand in 1901, to 24.9 in 1931, and to 18.4 in 1951. It is worth noting that in 1951 the rate was 15.9 in the U.K., 16.1 in Belgium, 19.4 in France, 22.9 in Finland and in Australia, and 24.3 in the United States. Contrary to widespread misconceptions, the present Italian birth rate is well in line with, and in many cases below, those of most Western nations (4).

2) The fall in birth rates is continuing steadily, and it can be projected with a fair degree of confidence into the future.

(4) See Nora Federici, *Some Aspects of the Italian Demografic Situation: The First Results of the 1951 Census*, in No. 25 (April-June 1953) of this Review.

3) Birth rates have already fallen as low as 13 and even 10 to the thousand in some economically advanced areas of Italy, while they continue to be high in the underdeveloped regions. If, as it is hoped, a definite improvement can be brought about in the economic conditions of Southern Italy over the next few decades, birth rates in that area should fall drastically, thereby speeding up the current downward trend.

4) Since the end of the Second World War, emigration and temporary migrations of man-power have once more become significant factors, though on a much smaller scale than was the case prior to 1915, or of the desired optimum.

Population pressure has become intensified since the war for a number of reasons, such as the complete stoppage of emigration during the previous ten or fifteen years, the repatriation of colonists from Africa, and a large influx of refugees from Istria. Moreover, the current number of new entrants in the labor market still reflects the higher birth rates prevailing some twenty years ago.

The future trend is, however, definitely downward. In fact, the population is already beginning to be older. Population projections are notoriously treacherous, but there are indications that Italy is approaching fairly rapidly a stationary population, the only question being the actual length of the transition period. There is general agreement, however, that, on the assumption of a moderately stepped-up flow of emigration, this should not take longer than 25 years.

9. — Unquestionably the growth of the Italian economy, thus far, has drawn impulse chiefly from its Northern « industrial triangle ». This state of affairs is bound to continue still for some decades at least, until the great effort which is now underway for the rehabilitation and development of the Southern regions bring their full fruit. The economic and social environment of Southern Italy has advanced very considerably, since 1860, in an absolute sense. Relatively to the rest of the nation, however, the gap has increased, with serious and in some respects crippling effects on the growth of Italy as a whole.

This situation adds up to the burden of the national economy as a whole, through the combined effect of increasing imports of food and other essentials, an impoverished domestic market, and the pressures on public finance for social security payments, relief and « make-work » projects. Through its indirect effects, it stunts development in the North, no less than in the areas more directly affected. For these reasons, the « problem of the South » has been at long last recognized as a national, rather than purely regional question, and it has been assigned first priority in public investment programs (5).

Modern industrialism took roots in Italy toward the closing years of the past century, and rapidly reached impressive proportions. It brought into existence a vast number of different industries — metallurgy, mechanical and electro-mechanical products, machinery and railroad and other equipment, chemicals, rubber goods, and steel. Since there were no major domestic materials or other conditions which favored the growth of specific industries, the development was spread all around the compass. The only common factor underlying their rapid growth was the development of hydro-electric power, which has ben pushed forward since the beginning of this century.

It was a remarkable flowering of innovations and enterprise, which owed much to the efforts of a small number of pioneer entrepreneurs. In some cases, it was the product of wholly independent manufacturers, who expanded to a large extent through self-financing ad the plowing back of profits. More often, growth was directly stimulated and financed by leading commercial banks, which in turn acquired great power and resources within the span of one or two decades. Thus, for instance, the electric power industry, the chemical industries and the steel

(5) For an extensive discussion on the many aspects of this problem, cfr. Alessandro Molinari, *Southern Italy* (No. 8, January-March 1949 of this Review) and *Unemployment Statistics in Italy, With Special Reference to Southern Italy* (No. 21, April-June 1952). See also Friedrich Vöchting, *Industrialization or Pre-Industrialization of Southern Italy?* (*ibidem*).

industry were overwhelmingly offsprings of the commercial banks.

The character of the environment, however, constricted the scope for initiative, and led to a measure of misallocation of economic factors. Industrialization in a country which has few domestic resources to be developed, and lacks even fuels, is bound to bring about, at least for a long period, a high-cost structure. If a domestic steel industry is developed behind high tariff walls — and virtually no modern country has escaped or is escaping that temptation, because of the military and also the « symbolic » significance of the steel industry — the steel-using industries are placed under a crippling difficulty. High-priced steel starves modern production, and it creates a vicious circle, since its users must in turn seek shelter under tariffs and other special benefits. Only in exceptional cases can steel-using industries operate under an internationally competitive cost and price structure. In so far as they can export at all, they are forced to fall back on a two-price system, at the expense of the domestic consumer. Since the domestic market is small, plant expansion and modernization is likely to lag well behind the requirements of an expanding economy. In fact, it becomes a problem to maintain a satisfactory rate of utilization of the capacity already created. There is not much incentive for newcomers in the field, especially if the initially required investment is large. The temptation to « stabilize » conditions through monopolization of sales and other agreements becomes almost overwhelming. On the other hand, the very abundance of cheap manpower which is available in a densely populated country which is attempting to industrialize cuts both ways, and on balance it blocks the path to higher productivity and to an effective rise in production and income.

Some segments of Italian industry developed through time along natural and steady lines. Others went through long stages of difficulties, but gained strength and competitive capacity through time. Others, which were established in response to war requirements or to some feverish spurt of activity, found themselves almost « stillborn », and unable to use more than a fraction of their capacity, except through Government orders. They became quickly obsolescent — « petrified forests », which are still cluttering certain industrial segments.

Yet, the ways of contemporary industrialization are many, ad their effects all-pervasive. Management is bound to develop a keen talent for adaptation, which leads to appropriate scales of organization and operation, under the most difficult circumstances. Science and modern technology help by developing new industries and techniques, which are less dependent on mineral or other resources or on extremely heavy capital outlays. And there is a host of factors which can help to bring about a transition toward a tolerably well adjusted and competitive structure.

The broad pattern of industry, in terms of competitive and monopolistic elements, is roughly similar in most countries. There is a general configuration of imperfect or monopolistic competition, ranging all the way from full or near-full competition (particularly in light industries) to oligopoly or near monopoly in certain heavy lines, such as steel, electric power, rayon, basic chemicals, and the like. Italy is no exception to the rule. The effects of monopolistic factors are, however, less adverse where economic growth is rapid, since the process of industrial and product substitution is infinitely more effective and brings into play strong competitive factors even when the output of an industry is concentrated into a few firms. A rapidly expanding market leads to competitive prices and levels of output even under oligopoly, since there is competition to capture new buyers. In a market which grows only slowly, the competitive element is stifled, and a high-price low-output configuration develops. Monopolistic factors, in terms of the number and size of firms in certain segments of the industrial economy, are certainly not worse in Italy than in most industrial countries. They operate more oppressively simply because the national economy offers little scope for rapid growth, and because oligopoly, wherever it exists, does not lead to active and intense competition among semi-monopolists, but to cartel agreements, and limitation of output.

It would be grossly exaggerated to conceive the Italian industrial structure as an unmitigated « world of monopolies ». There is a very large segment, actually the largest in terms of value of output, which is ruled by competition, or near-competition. Natural monopolies (electric power and other utilities) are regulated industries. There is unquestionably an important segment in which there is an excessive concentration of output, or near-monopoly, and there are definite areas of restraints to trade. However, there are at present some countervailing factors, such as a more intensified growth trend, which leads to larger outputs and lower prices even under monopoly or oligopoly, and a more enlightened policy concerning the imports of industrial products, which helps many producers to reduce costs and to fall more in line with international competitive conditions.

There are also signs that many industries, which in the past owed their existence to protection, could at present stand on their own feet, if there were certain changes in industrial environment to increase allround productivity.

10. — Institutional factors and the role of Government affected economic growth both favorably and unfavorably.

There was little direct Government intervention in industrial and business affairs, outside of the sphere of labor relations, up to the First World War. The management of the national finances was, with a brief exception in the early 80's, austere and effective. There were periods of currency weakness, but also of complete stability, notably between 1900 and 1914.

The emergency of World War I required far-reaching measures of Government intervention, chiefly with respect to the allocation of imports. After a short reversal to Laissez-Fair there followed under Fascism a renewed period of active Government intervention in the economy. The tendency acquired momentum in the early thirties, under the impact of the Great Depression, and also because of the Fascist attempt to bring about a measure of economic self-sufficiency. When, after 1930, the commercial banks and many segments of heavy industry found themselves in acute difficulties, the Government stepped in, and took over their ownership, through an instrumentality known as IRI (*Istituto per la Ricostruzione Industriale*) (6).

Once that step had been taken, it became extremely difficult to undo it, even when, after the end of World War II and the fall of Fascism, there was a turn toward greater freedom of private enterprise. The IRI constellation has remained to this day a peculiar feature of the Italian industrial set-up. It entails Government ownership of some 40% of the nation's steel production, 80% of the shipyard's capacity, 30% of the nation's electric power facilities, and so on. In addition, various mineral productions, including the exploitation of natural gas, have become largely controlled by Government agencies.

The Italian capital market is so thin, and the problems connected with the liquidation of the vast amount of assets held by IRI are such, that it would be unrealistic for the time being to expect a reversion to private ownership. Efforts are being made to reorganize the IRI structure, and to hand over to private enterprise some of its assets. On the other hand, one should not exaggerate the implications of the IRI phenomenon, since it involves to a vast extent « eminent domain » and financial assistance rather than direct Government participation in day-to-day industrial policies and management. The influence of management in IRI-controlled industries and banks is often just as large as in ordinary private industry.

The Italian capital market is still distressingly « thin », and as such it is not conducive to a vast or rapid rate of investment. Industrial investment was, up to the early thirties, by and large a matter of « forced saving », through the channels of the commercial banks. Direct investment of public funds, in one form or another, has become of increasing importance ever since.

(6) See GIANDOMENICO COSMO, *State Partecipation in Business Concerns in Italy*, in No. 19 (October-December 1951) of this Review.

The tax sistem is unsatisfactory, and it constitutes one of the major hindrances to the development of a healthy industrialization and of fully responsible practices on the part of management. The situation may have somewhat improved as a result of recent (1951-1952) reforms, but it will take at the best years before its effects really materialize.

11. — It is very difficult to assess the role of labor and social pressures on the economic and industrial development of Italy.

The labor movement developed on a great scale, and scored considerable gains, between 1900 and 1922. This led to a definite improvement in wage scales and labor conditions, both in agriculture and industries, at least in Northern and Central Italy.

The scandalous conditions of the earlier times by and large disappeared, and were replaced by a Western, if low, wage structure. The Government attitude was on the whole enlightened, and favorable to those changes, in welcome contrast with the policies of forcible repression which had been attempted, and which had failed, in the last decade of the XIX century. Some important beginnings were also made with respect to social security. Management attempted to hold back the gains of labor, but was mollified by the atmosphere of comparative prosperity of the period.

There was, of course, no freedom of trade unionism during the twenty years of Fascist dictatorship. With the fall of Fascism, the pressures of organized labor became powerfully intensified. Thev led to increases in industrial real wages, with respect to prewar, and to additional fringe benefits. To that extent, they were a factor leading to high productivity. They operated, however, against productivity in other ways since (a) they led to an excessive degree of equalization in take-home pays of unskilled and skilled labor, and (b) they « froze » the existing employment structure in their attempt to maintain employment, to an extent detrimental to productivity and hence ultimately to employment of younger people.

It is particularly difficult to assess the effect of the social pressures which accompanied the economic and industrial development of Italy after its unification, and especially after 1900. They brought about strong incentives for betterment, and as such they led to more rapid growth than would otherwise have been the case. They involved, however, a great amount of friction and unrest, because of the iron-clad marriage of the labor movement with politics. This marriage might have led to a peaceful evolution, as was the case in England, if the leadership of the Socialist Party and of the labor movement had not been confronted first (around 1912) by the extremist challenge of Mussolini, and by the demands (after 1919) of the Party's « maximalist » wing, and had not been finally repressed and disbanded by Fascism itself. It is idle, however, to dwell on « might have beens ». The fact is that the pressures — open or repressed — which developed within the Italian social structure of the past 50 years outran by far the mitigating impact of economic growth. To put it differently, economic growth was inadequate to meet the aspirations and social demands of the masses.

The moderate improvement in living standards which occurred among industrial workers in Northern Italy, and which found expression after the war in the rapid shift from bicycle to motor-scooter transportation, was insufficient to meet the demands of the classes affected — and the more so since the specter of chronic unemployment added to the insecurity of those who were employed.

Surprisingly enough, the pattern of distribution of income, while unsatisfactory, does not suggest a concentration in income much greater than the one which obtains in other Western countries, including the United States. The features which make it burdensome and oppressive are chiefly the following:

(a) The level of income for the great number of people is extremely low, and involves definite hardships with respect to the satisfaction of basic needs.

(b) Income differentials are pyschologically extremely painful when the average income is low, since their visible effects are more blatant and offensive.

(c) Since labor is cheap, and materials and durable goods are very expensive, an excessive amount of domestic help is in evidence, even among the less well-to-do. On the other hand, the great number of people have virtually no access to the consumption of durables, which would have such a stabilizing effect on the economic and social structure.

(d) While the progress of industrial workers, though unspectacular, has been steady through time, the lower middle classes have suffered through inflation, and through the lack of openings for their young people in business or in the professions. At the same time, the economic upheavals associated with wars and inflation have created new layers of « nouveaux riches », and the emergence of a crust of luxury and lavishness which spreads resentment and bitterness.

(e) Labor management, and industrial relations at large, are still unsatisfactory. There have been improvements, but the general atmosphere has still heavy overtones of mutual suspicion and hatred.

These and other social pressures should of course become much less intractable if the rate of industrial and economic growth were considerably speeded up. It would be absurd, however, to expect that they would disappear overnight, even under the best possible assumptions, and to overlook the fact that some increases in income and living conditions may bring about a temporary intensification of social friction, rather than the other way around.

III. - Patterns and Paths of Advance.

12. — It has been already indicated that the Italian national income, deflated for price changes, was in 1951 twice as high as in 1901, as against a population increase of about 43%. The broad pattern underlying that modest and yet definite measure of growth is evident.

The size of the wheat crop increased, over the period, by approximately 45%, thereby keeping pace with the population increase. This kept the import requirements of wheat within tolerable limits. It made though very little room for increased consumption of the basic, subsistence food, and it diverted land from other uses. Livestock and dairy products remained almost stagnant throughout the period, thereby barring a muchneeded improvement in diets with respect to meat, fats, and dairy products.

TABLE V

ITALY'S NATIONAL INCOME
(Millions of lire) (a)

Year	At production costs	At market prices
1901	13,913	15,011
1911	17,140	18,601
1921	17,430	19,300
1931	20,240	23,644
1941	22,290	25,928
1951	28,196	32,870

(a) Of 1901 purchasing power.

Foreign trade and industrialization were the twin dynamic factors in growth, aiding and supporting each other. Industrial production rose over the period by approximately three and half times, and the level of foreign trade, deflated for price changes, almost trebled. There were large foreign trade fluctuations, in relation to the two wars and to the great depression, but the long-term trend was of definite growth both in imports and exports. Each additional stage of industrialization was associated with a growth of imports, absolutely and relatively to exports. After a while, exports expanded in turn restoring their normal ratio to imports, which was in the order of 75%. Imports stimulated investment and exports.

No comprehensive statistics of investment is available for the whole period prior to the recent post-war years . There are no reasons for suspecting that the *rate* of capital accumulation was unduly low, in relation to income. However, the actual flow of capital accumulation was limited by the low level of income, and by the lack of investment opportunities which alone might have justified a vast expansion in foreign borrowing and investment.

Looking at the major trends of the period as a whole, we can discern the broad outlines of the picture quite clearly. There was a general configuration of growth as exhibited by the behavior of industrial production, national income and occupational structure. There was not, however, at least after 1914 and even more so after 1929, a pull strong enough to swing the major segments of the economy into an effective balance. An unduly large fraction of the active population continued to be engaged in agriculture. In addition, there developed a situation of structural maladjustment, associated with chronic unemployment, both open and disguised.

13. — The recent postwar period marked a definite turning point not only because it brought Italy into close association with the Western family of nations, and with the United States in particular, but also because it led, for the first time, to an up-to-date and coordinated consideration of the economic problems of the nation. And while Italy attempted to effect an almost complete return to the free-market system, immediately after the war, the attainment of a high rate of domestic investment became a settled national policy.

The Marshall Plan, and other aid programs, gave a very great impulse to investment. Their methods of implementation have been criticized on different grounds by different people. There may be justice in some of that criticism. For instance, it may be true that aid was not channeled in such a way as to bring about much needed changes in the country's industrial and social structure. On the other hand, most critics forget the difficulties inherent in the lack of precedents, and to the haste with which those programs had to be implemented. They also overlooked the fact that American aid, though large, contributed only a comparatively small fraction (10% on the average) to total investment, and consequently could not accomplish miracles. And it is completely unreasonable to say, as some people do, that American aid went down the drain, without having any marked or durable effect. Obviously it would have been impossible without that aid rapidly to restore production to the pre-war level, and to expand it by over 50%. Also without it pre-war levels of consumption could not have been restored or the lot of large segments of the population, including that of industrial workers been improved. Nor can one disregard the notable ECA-financed expansion and modernization of plants and equipment which took place.

There has been much discussion as to whether the Italian central authorities took full advantage of the opportunities created by the Marshall Plan in order to expand vigorously investment and absorb more unemployed into production. The controversy was precipitated by the publication of the famous ECA « country study » of 1949, which took to task the Italian government for allegedly restrictive monetary and credit policies carried out at the expense of investment and employment. It should be remembered. on the other hand, that runaway inflation had been stopped in Italy only less than two years before, thanks primarily to vigorous policies of credit control. While it is conceivable that, during the Marshall Plan period, investment could have been pushed in Italy somewhat further than was actually the case, without generating inflationary pressures, there is no guaranty that such policy would have been successful, both in the short term and over the long pull. Consequently, even those who, like the present writer, felt at that time a little impatient with the cautious pace maintained by the Italian Treasury and the Bank of Italy, they must acknowledge that the balance between the two opposing viewpoints was a very close one, and that the problem involved a question of degree rather than of principle. Be this as it may, the maintenance of monetary stability was unquestionably of great significance, and it helped the country at a later date to cushion the inflationary impact of the Korean developments. On the other side of the ledger, the fact that Marshall Plan and other aid was not associated with a bolder attack on the unemployment problem had adverse effects, substantively and psychologically.

It is fair to add that, partly as a result of the 1949 controversy, the Italian authorities developed a more positive attitude toward the investment problem, and adopted a number

of noteworthy programs involving considerable amounts of public financing (7). These included a low-cost housing plan, which was pushed forward with vigor, with the construction of over 100.000 housing units, aid for the construction of new passenger and merchant ships, a long-term plan in aid of agriculture, and a twelveyear plan for the development of the depressed areas of Southern Italy, including Sicily and Sardinia. Land reform also entails a considerable amount of complementary public investment.

The development program for Southern Italy entails an annual expenditure in excess of 100 billion lire (equivalent to over 150 billion dollars). It is operated by a special agency, known as « Cassa per il Mezzogiorno », and it deals with basic works which are essential in order to create general conditions favorable to rapid development, including industrialization. By the end of 1953 the actual investment under the program had been in the order of 300 billion lire (over 450 million dollars) distributed as follows: 46.6% for irrigation and land reclamation work, 36.9% for aqueducts, 7.2% for hydro-electric power facilities, and 9.3% for industrial and related financing. The International Bank for Reconstruction and Development has loaned thus far 20 million dollars to the Cassa per il Mezzogiorno, and is expected to finance approximately 10% of the total program. It is worth noting that the program is making an important contribution not only to the long-range development of the South but also to the economy of the industrialized North, which is an important source of material, supplies and services. Thus, it has been estimated that, out of each « slice » of investment of 150 billion lire in Southern Italy, 95.4 billion lire are spent directly in the area, 52.4 billion lire are spent in the North and some 2 billion lire are spent in imports. On the assumption of an investment multiplier of 2.53 this would lead to an increase in total resources of 384 billion lire. According to one set of estimates, prepared by SVIMEZ (a research organization which has made a leading contribution to the programming of development in Southern Italy), 48% of such additional resources would be contributed from the North, and 20% from imports. According to another set of estimates, prepared by the MSA Mission in Rome, the ratios would be 50%, 42%, and 8% respectively.

14. — The latest industrial census was taken in Italy at the end of 1951. Its findings give a comprehensive view of the Italian industrial structure (8). For that year the largest contributions to the national net industrial product were made by the mechanical industries (18.2%), the textiles and garments industries (18.2% in the aggregate), 17.7% by the food industries, and 10.5% by the chemical industries. The construction industries contributed 8.3%, and the steel and metal industries 7.1%. The contribution of electric power, gas and other utilities was 6%.

All together, the present structure of the Italian industry can be said to exhibit a small nucleus of basic (steel and metal) production, a few large segments (food, textiles, construction, and some parts of the mechanical industries) which have developed steadily through time and are responsible for a large share of total industrial output and employment, and a number of « growth » industries which are advancing very rapidly. In addition, there is a very definite and substantial growth in power and fuel production, which in itself is of the greatest significance in terms of the general industrial environment (9).

(7) See Bruno Foa, *The Italian Investment Problem Revisited*, in No. 16 (January-March 1951) of this Review.

(8) Cfr. Benedetto Barberi, *The 1951 Census of Industry and Trade in Italy: Some Preliminary Results*, p. 207 of this Review.

(9) The textile industries are in many respects a pillar of the Italian economy, particularly in terms of employment and exports. While they constitute the oldest segment of the Italian industry, their output has expanded considerably since the war, to reach levels far in excess of past peaks. However, it cannot be considered as a « growth industry », except for its synthetic fibers segment.

The output of the Italian steel industry was of approximately 2 million tons per year before the war. A considerable loss of capacity was suffered through air-bombings, and it took about 4 years to restore output at the prewar level. At the same time, a modernization program, involving a rearrangement of many industrial units and the introduction of a vast amount of up-to-date equipment, was put into effect, partly with ECA financing. This led to an increase in capacity which, while

TABLE VI

GROWTH OF DIFFERENT INDUSTRIES

Index Numbers

(Base: 1938 = 100)

	1951
Natural Gas	1,297
Motorcycles and Motor Scooters	1,187
Calculating Machines	1,144
Plastics	657
Oil Refining	458
Cash Registers	432
Tractors	379
Oil and Coal Derivatives	356
Typewriters	254
Roller Bearings	212
Automobiles	203
Aluminium	193
Rubber Tires	189
Electric Power Production	188
Electric Motors (large)	161
Soda, Potash, Cellulose	153
Synthetic Ammonia and Sulphuric Acid	145
Steel Plates	143
Cement	139
Steel Ingots	132
Cotton Yarn	124
Wool Yarn	115
General Index	138

The progress of the growth industries is the fact of greatest significance, with respect to future prospects. Their aggregate contribution to the nation's industrial product, though, is still limited. Furthermore, by their very nature, they are characterized by a fairly high degree of capital intensity, and hence absorb comparatively small amounts of manpower per new unit of investment.

The data so far published of the 1951 Industrial Census, give a rough indication of the capital intensity of a number of major branches of industry. The garment industry absorbed in 1951 approximately 9.7% of

small in terms of the scales of output of the countries which have large steel industries, was very significant for the Italian economy. The output increased from 2 million tons in 1949 to 3.5 million tons in 1952, when the Korea emergency created exceptionally favorable conditions for the industry. Production slipped early in 1953, but it picked up vigorously later, so that the 1953 output was only 1.5% below the 1952 level.

An extremely significant parallel development was the rapid rise in domestic steel consumption, from 3 million tons in 1950 to 3.5 million in 1951 and 4.1 million in 1952. This reflected not only a rapid rate of expansion in certain branches of the mechanical industries, but also a greater use of steel for constructional or other purposes.

On January 1, 1953, the European Coal and Steel Community, of which Italy is a member, went into effect. Under the terms of the Pact, this involves a progressive reduction, over 5 years, in the Italian steel-tariff. This might amount to a revolution, which could step-up considerably further industrialization (see A. V. R., *Features of the present Italian Customs Tariff*, in No. 26, 1953 of this Review).

Aluminium production, which uses domestic bauxite, has expanded very considerably, and taken its place among the « growth » industries.

The mechanical segment includes both old and new (or « growth ») industries. It is in part the « problem child » of Italian industry, but it includes also a number of industries which have expanded very rapidly since the war. Its crucial significance for the Italian economy is bound to increase over the long period, since this is the one segment in which rapid growth, and increased productivity, can go hand in hand with adequate increases in employment.

Many of the « problem children » of the mechanical industries (including several large shipyards) belong to Finmeccanica, an industrial holding which in turn is controlled by the *Istituto per la Ricostruzione Industriale*. Persistent efforts are at present under way to streamline and reorganize their structure, to cut out the dead wood, and to place the various component units on a sound footing.

The « growth » features of the healthy branches of the Italian mechanical industry are very striking.

The post-war expansion of a number of products within the family of the mechanical industries has been phenomenal, as can be seen from the following indexes for 1951 (base: 1938): Motorcycles and Motorscooters 1,187, Calculating Machines 1.144, Cash Register 432, Tractors 379, Typewriters 256, Roller Bearings 212, Automobiles 203. Those rates of increase with respect to pre-war compared with an average increase in industrial production of 38%.

The automobile industry has reached large dimensions, but the advent of the automobile era for the masses is held back by the insufficient level of income and, above all, by excessively high gasoline taxes. Some 20% of the domestic production is exported. Calculating machines, cash registers and roller bearings are gaining increasing acceptance in foreign markets, together with sewing machines and other light mechanical products. Italy also produces and exports considerable amounts of heavier industrial goods, including railroad and electric power equipment. Mechanical goods represent now over 25% of total Italian exports, as against 5% in 1929.

The chemical industries are undergoing a very rapid expansion, especially in new lines, such as oil and coal derivatives, the output of which increased from 1938 to 1951 by 256% (index number for 1951: 356). There has been also, naturally enough, a spectacular expansion in plastics, the output of which increased by almost six times over the same period.

The output of rubber goods is also expanding steadily.

Electric power production increased by over 100% between 1938 and 1953. The construction, with ECA-financing, of a number of large thermic power plants, has corrected the previous complete dependence on hydroelectric power, which resulted in serious power shortages after frequent spells of drought.

The oil-refining capacity of Italy has been subject to very rapid expansion since the war. The production index for 1951 was 657 (base: 1938 = 100). It has been a very valuable addition to the nation's industrial equipment, with a favorable impact on the balance of payments position. There are some indications, however, of over-capacity, with respect to the

TABLE VII

CONTRIBUTION OF DIFFERENT INDUSTRIES TO INDUSTRIAL NET PRODUCT AND TO EMPLOYMENT IN 1951

Industry	% of Industrial Net Product	No. of Employed ('000)	% of Industrial Employment
Mining	2.1	114.4	2.7
Food	16.7	476.2	11.5
Leather and Skins	5	39.2	1.0
Textiles	14.4	642.6	15.5
Garments	3.8	406.8	9.7
Wood Processing	1.6	284.5	6.8
Paper	2.0	61.7	1.5
Printing	3.1	81.7	2.0
Steel and non-ferrous Metals	7.1	146.6	3.5
Mechanical	18.2	859.6	20.5
Chemicals	10.5	200.8	4.9
Rubber Products	1.8	39.1	7
Costructions	8.3	464.5	11.5
Electric, Gas, Water	6.0	91.6	2.2
Processing of non-ferrous Minerals (*)	2.6	200.5	5.0
	100.0 (**)	4,109.9	100.0 (**)

(*) Asbestos, Caolin, Chalk, Graphites, Sulphur, Talcum, Gypsum, etc.

(**) Rounded off.

total industrial employment, while it contributed only 3.8% to the national net product of industry. The « wood » industries (home furnishings, and the like) absorbed 6.8% of total employment, while contributing only 1.6% to the national industrial product. The construction industries absorbed 11.5% of total employment, while their share in the national industrial product was 8.3%. Conversely, the ratios were 3.5% and 7.1%, respectively, for the steel and metal industries; 4.9% and 10.5% for the chemical industries; 7% and 1.8% for the rubber processing industry; 2.2% and 6.0% for electric power and other utilities. The two ratios were roughly even for the textiles, and for the mechanical industries.

15. — Detailed studies made under the auspices of the MSA Mission to Italy (10), with the joint participation of Italian and American experts, and based on the Input-Output approach evolved by Prof Leontief, indicate quite conclusively that even a large expansion in the Italian national product would make only a moderate contribution to the employment problem. They also indicate the extent to which any such expansion would be predicated upon an increase in imports and exports.

The MSA study is based on a revised version of a number of projections, for the 7 year period of 1950-56, originally prepared by the economic planning staff of the Italian Administration in connection with a similar study, on a larger geographical scale, undertaken by the Organization for European Economic Cooperation (OEEC).

The MSA projections envisage a 32% increase in GNP over the 7-year period, *i.e.* an annual rate of increase of approximately 4.5% (see *Table VIII*). « Final Demand » projections for 1956, with respect to the base year 1950, would indicate an increase of 24% in agriculture and food, 97% in minerals and metals, 26% in textiles clothing and leather, 54% in chemicals, 48% in mechanicals, 48% in construction, 66% in fuel and energy, 37% in other commodities and services.

The projected increase in overall production would be 38%. This would entail (given a propensity to consume of 67% against 75% in 1950), an expansion of 41% in total

projected domestic requirements of the near future and to the potentialities of foreign outlets.

The growth in natural gas exploitation is unquestionably the most significant and dramatic development of post-war industrial Italy. Its production has increased by almost 200 times since 1938, and by over 10 times since 1948. While it was a negligible factor in fuel consumption before the war, it was responsible in 1952 for 5.3% of the total, and when the productive capacity already installed will be in full use the proportion will soar to 17%. At the present time, the production of natural gas has reached a rate equivalent to 4.5 million tons of coal per year, with a saving on coal imports of over $ 60 million.

Prospecting for oil is being pushed very actively throughout Italy, partly by a government-owned agency and partly by American and British oil companies. Small quantities of oil have been produced for many years from a small area in the Po valley, and there are favorable expectations concerning future discoveries. Oil was also struck a few months ago in Sicily.

(10) USA, Mutual Security Agency, Special Mission to Italy for Economic Cooperation - *The Structure and Growth of the Italian Economy*, Rome, 1953 (available in mimeographed form). Chief contributors to the studies were Hollis B. Chenery, Paul G. Clark, and Vera Cao Pinna.

investment and government expenditure, of 40% in imports, and 40% in exports. *The required expansion in imports would consequently be more than proportionate to the increase in GNP* — the ratio shifting from about 10% in 1950 to 12.5% in 1956 (see *Table IX*).

TABLE VIII

NATIONAL ACCOUNTS PROJECTIONS

(billion lire at 1950 prices)

	1950	1956	Index
Total Final Demand	9,734	12,917	
Exports	766	1,170	140
Investment & Government . .	2,373	3,345	141
Consumption	6,594	8,502	129
Total Supply	9,734	12,917	
Imports	896	1,254	140
GNP	8,837	11,663	132

Note: Indexes and totals may not check exactly because of rounding.
Source: MSA, Rome.

The industries which are deserving special attention in Italian development programs are natural gas, mechanical products, building materials, non-ferrous metals, electric power, and chemicals. The use of natural gas could increase from 5 to 30% of total fuel requirements, while coal could fall from 60% to 35%. The existing capacity limits in agriculture are, in the opinion of the MSA study, « the principal bottleneck for the economy ». Imports must expand more rapidly than GNP « because of agricultural capacity limits, and because industry with large raw material requirements is likely to expand more than agriculture and services. Thus the trade deficit will probably increase, and the stimulation of exports should be an important policy objective ». (p. 79).

The industrial employment effect anticipated in association with an increase in production of 38% would be only about 6%. There would be in addition, however, an estimated increase of 14% in total man-hours, of which less than half would be provided for by the increase in employment, and

TABLE IX

PROSPECTIVE EXPANSION OF IMPORTS, 1950 to 1956

(billion lire at 1950 prices, and thousand quintals, unless otherwise indicated)

	1950 Value	1956 Value	1950 Quantity	1956 Quantity	Index
Agriculture & Food					
Wheat	60.5	127.4	10,276	21,783	211
Corn	4.1	5.5	944	1,265	134
Other Cereals . . .	4.1	16.3	905	3,529	399
Tobacco	4.6	5.1	43	45	111
Oil & fats	37.1	53.6	2,703	3,999	144
Livestock & Meat .	17.5	67.0	589	1,982	382
Fish	18.9	23.6	1,080	1,339	118
Sugar	3.1	4.0	256	325	127
Coffee	24.1	30.1	477	596	125
Other foodstuffs . .	39.6	48.1	n. a.	n. a.	122
Textiles, Clothing, Leather					
Cotton	101.9	124.2	2,045	2,459	122
Wool	57.3	84.4	770	1,132	147
Hemp, flax, jute .	8.7	10.6	n. a.	n. a.	122
Cellulose for textiles	5.6	6.2	607	673	111
Artificial fibers . .	3.1	3.1	28	28	100
Other textile & clothing products . .	25.8	28.3	n. a.	n. a.	110
Hides & skins . .	10.3	23.1	378	858	225
Leather products . .	2.2	3.3	n. a.	n. a.	149
Chemicals	46.1	56.6	n. a.	n. a.	123
Minerals & Metals . .					
Metallic minerals .	3.0	14.2	3,761	26,244	467
Iron & steel scrap .	8.2	10.9	5,035	7,646	132
Pig iron	5.8	. . .	2,080	7	—
Crude steel . . .	2.4	3.0	631	764	121
Ferro alloys . . .	.8	1.4	81	134	165
Finished steel products	34.4	36.5	5,261	5,392	106
Copper	20.5	31.4	784	1,198	153
Tin	5.0	8.3	43	72	167
Nickel	2.2	4.1	19	35	188
Other non-ferrous .	5.4	6.8	353	430	125
Non-metallic mineral products	14.6	21.6	n. a.	n. a.	148
Mechanical Products .	104.2	122.8	n. a.	n. a.	118
Other Commodities .					
Timber	21.8	41.8	4,779	7,247	192
Lumber & wood products	1.7	2.5	n. a.	n. a.	143
Cellulose for paper .	8.1	11.2	1,439	1,986	138
Pulp	1.0	1.4	368	489	133
Paper	3.8	4.9	327	422	129
Raw Rubber . . .	12.4	16.9	423	567	136
Rubber products . .	.9	1.4	n. a.	n. a.	161
Other manufactured products	2.6	2.8	n. a.	n. a.	109
Fuel & Energy . . .					
Crude petroleum .	58.6	84.5	82	133	144
Petroleum products .	21.3	26.0	11,042	12,317	122
Coal & coke . . .	78.7	74.2	83,427	78,612	94
Coal derivatives . .	1.5	2.4	193	282	156
Electric Power (million KWh) . . .	1.9	2.9	274	429	154
Total . .	896.1	1,254.5			140

Source: MSA, Rome.

the remainder by an extension of average hours a little more than an hour per week. In the absence of such increase in man-hours, the employment effect would be 14% (see *Table X*).

TABLE X

ESTIMATED RATIOS OF PER CENT INCREASE IN EMPLOYMENT AND MAN-HOURS TO PER CENT INCREASE IN PRODUCTION

	I-O Code	Ratio of per cent Increase Employment to per cent Increase Production	Ratio of per cent Increase Man-Hours to per cent Increase Production
Mining, incl. Fuels	8–11	0.445	0.636
Food	12–21	0.204	0.556
Textiles			
Cotton	22	0.154	0.462
Wool	23	0.039	0.118
Silk, Rayon, Nylon	24	0.092	0.276
Other & Finishing	25–26	0.068	0.318
Clothing, Knitwear, Leather . .	27–30	0.074	0.223
Lumber & Wood Products . .	31,33	0.334	0.667
Pulp & Paper	32	0.308	0.462
Printing & Publishing	34	0.033	0.100
Rubber	35	0.074	0.223
Other Manuf. Industries . . .	36	0.100	0.300
Chemicals	37,39	0.053	0.158
Cellulose & Artificial Fibers . .	38	0.122	0.367
Metallurgy	40–41	0.121	0.273
Mechanical Products			
Machinery & other	42,47	0.133	0.400
Electrical Equipment	43	0.151	0.455
Transport Equipment, Ships, Planes	44–46	0.148	0.333
Non-Metallic Mineral Products .	48	0.244	0.445
POL Refining, Coke & Gas, Electric Power, Water	50–53	0.056	0.056

Source: MSA, Rome.

In the opinion of the authors of the MSA study, the goals envisaged by the OEEC program are feasible. In point of fact, the rate of expansion in the Italian GNP was satisfactory in 1950 and 1951, partly due to the effects of Korea. There was some «slippage» in 1952, but an estimated increase of 10% in GNP during 1953. However, it is perfectly clear that the accomplishment of the broad objectives of the program requires a further and extremely large expansion in exports. Furthermore, under the best possible circumstances, the increased employment in industry will be comparatively moderate. The MSA study estimates that, excluding construction, increased industrial employment will absorb about one third of the prospective increase in the labor force. The increase would be much larger, if average hours were kept unchanged.

TABLE XI

DIRECT DEPENDENCE OF VARIOUS INDUSTRIES ON OTHER INDUSTRIES

	Percentage of total requirements (a) deriving from		
	Other Industries	Domestic Demand	Exports
Fuel Extraction	95	5	0
Ferrous Metals	94	0	6
Non-ferrous Metals	94	0	6
Non-metallic Mineral Products	84	11	5
Trade and Services	82	18	0
Petroleum and Derivatives .	81	14	5
Mining	76	6	18
Cellulose & Artificial Fibers .	71	0	29
Paper	70	27	3
Gas and Coke	67	32	1
Agriculture	58	38	4
Electric Power	57	43	0
Chemicals	50	45	5
Transportation	46	54	0
Rubber Products	32	60	8
Lumber and Wood Products	31	65	4
Textiles	16	62	22
Other Manufacturing . . .	13	81	6
Clothing & Leather	6	94	0
Food	5	92	3
Mechanical	4	84	12
Construction	0	100	0

(a) Total requirements for these calculations is defined to exclude use within the same industry, and also change in stocks.
Source: MSA, Rome.

16. — An adequate flow of emigration and migratory labor is consequently essential, in conjunction with a further stepping-up of the investment and industrial effort which has been in progress since the end of the war.

Prior to 1914, emigration was *the* great safety valve, as it had been for Ireland in the middle of the previous century. The outflow of population, temporary or permanent, was constituted chiefly by young people, thereby relieving the pressure on the labor market, while there was a large repatriation of older people. In addition, the Italian economy benefited from a vast amount of remittances and from the repatriation of savings accumulated in America and elsewhere through long years of hard work and frugality.

The recent movement of emigration of migratory labor reached a total of 246,858 persons in 1950, 253,979 in 1951, 317,818 in 1952, and 61,275 in the first half of 1953. Movements to the Western Hemisphere accounted for 105,098 persons in 1950, 87,940 in 1951, 85,887 in 1952, and 33,991 during the first half of 1953. Canada, Australia, Argentina, Brazil and Venezuela are providing moderate outlets to permanent Italian immigration, while Switzerland and Belgium are significant as outlets for migratory manpower.

The Italian annual immigration quota to United States is in the token amount of 5,000, which cannot even be fully utilized, because of the further stipulations as to classes of immigrants prescribed under the McCarran Act. It is also very doubtful whether the theoretical quota of 60,000 allotted to Italy under the so-called Refugee Relief Act of 1953 can be utilized except for a small fraction, due to the crippling restrictions and complications in procedure stipulated by American Congress.

Considerable efforts have been made since the establishment of the Organization for European Economic Cooperation, and later of the North Atlantic Treaty Organization, to stimulate some action at the international level on manpower problems. These efforts are predicated upon the assumption that manpower requirements of the Allied nations should be considered complementary, and treated as such. There have been, however, no tangible accomplishments to date, beyond the appointment of study groups and the passing of pious resolutions.

Yet, the size of the Italian surplus manpower problem is no longer of frightening proportions — nor is it going to be any longer of a chronic nature. A temporary international effort for its alleviation, partly through increased oversea immigration outlets but chiefly through the elimination of undue restrictions to migrations of manpower, would pay handsome dividends, as it would help more than anything else to bring about conditions conducive to stability and progress in an important area of Western Europe.

17. — To step up investment well beyond the levels which are currently envisaged, larger capital resources would of course be needed. What are the possibilities in that respect?

Capital formation could be intensified through a policy of economic austerity, involving a definite degree of forced saving and the cutting down to a minimum of non-essential imports. A degree of austerity, resulting chiefly through an effective enforcement of personal income tax payments, would be desirable on social grounds, so as to mitigate the more glaring instances of existing inequalities. There is no reason, however, to expect that all-out austerity through the devices of a planned economy could make a great contribution to capital formation, unless it forced intolerable standards of consumption on great numbers of people. An economy of rationing and planned sacrifices worked for a while in Britain, because the original standards of consumption for the masses were comparatively high and because of the strong texture of the British social fabric. Evens so, it did not work indefinitely. Under Italian conditions, it could not work, except under extreme circumstances, even for a short time. Furthermore, even if it were possible, it would lead to an insulation of the Italian economy from broad international trends, which would be artificial and damaging in many vital respects.

Some degree of austerity could be enforced, however, through indirect means, *i.e.* better and more equitable taxation, as already indicated. It might have valuable effects, not necessarily in the sense of restricting unnecessary imports and channeling more funds for public investment programs, but rather of improving the conditions and climate for private domestic investment.

It cannot be doubted, in fact, that, while domestic capital resources are not large, they could be more effectively marshalled, and lead to higher levels of investment, as a result of some changes of economic « climate ». The elimination of defective methods of assessment and collection in personal corporate taxes would cut through the heart of the problem, since it would bring to an end one of the major bottlenecks to industrial investment, which is to be traced to a lack of effective and realistic information on corporate business earnings and opportunities. Despite some recent progress, corporate life in Italy, as in other European countries, is still surrounded by a screen of secrecy, and characterized by a paucity of reliable information, which is a definite deterrent to investment, except for small coteries of « insiders ».

There could also be a more effective use of domestic capital resources through changes in the financial institutional setting. Italy has an excellent banking network, covering the whole range from commercial banks to saving and loan banks and specialized institutions for medium-term and long term mortgage and industrial financing. There are, however, certain weak spots and unsatisfactory features. Most commercial banks are overstaffed and operate at high costs, which in turn are responsible to large extent for an unduly high structure of interest rates. Comparatively high interest rates are paid not only on saving or time deposits but also on checking deposits.

Though insurance companies, pension funds and other institutional investors are playing in Italy, as elsewhere, an increasingly preponderant role in the financial market, the investment of their « free » assets is usually restricted within a somewhat narrow range. There is no such thing in Italy as SEC (Securities and Exchange Commission) in U.S.A., which would be important to regulate effectively corporate financial practices and to surround them with a climate of publicity and safeguards to increase the confidence of investors. Some beginning is being made in the field of mutual funds, though real progress appears to be predicated upon important changes in existing legislation.

The Italian mortgage credit system has performed very valuable functions in the past, but is utterly incapable of coping with modern requirements, and with the key economic and social role of housing and of the construction industries in a climate of development. Sweeping changes would be required to make mortgage credit for new housing more plentiful, cheaper, and less encumbered with legal and other formalities. Serious attention could be given to the adoption of a system based in its essentials on modern U.S. Federal Housing legislation. It would be also important to cut down drastically the traditional sale and transfer taxes on real estate, which, because of their high rates and of great uncertainties concerning their actual assessment, stand in the way of easy circulation of real estate assets.

There is no reason to fear that the stimulation of higher levels of domestic investment through the development of more up-to-date channels and facilities would lead to inflationary pressures. This might have been so in the old days, when the control of the Bank of Italy over the supply of credit was at the best a very loose and indirect one. Under present conditions, the Bank of Italy has adequate and effective weapons of monetary and credit control. It has also given conclusive evidence of its ability to operate them with vigor.

18. — We turn now to the crucial question of the extent to which domestic capital formation needs be supplemented from foreign sources.

The problem of the Italian economy, in this connection, is peculiar (though by no means unique) because there are very few natural resources which can create investment opportunities of real interest to the American investor, either in terms of profit differential or of the development of resources complementary to those of the domestic American economy. Significant investment opportunities can result either from special situations (such as oil refining) or from a stepping up in all-round economic growth, and related market and other opportunities. Thus, in a sense, private American investment could be conceivably attracted on a large scale only by the development of the very conditions which it is called upon to create. The fact is that the primary problem of the Italian economy, with respect to the investment level required to bring about a satisfactory rate of growth, is *foreign resources,* adequate to sustain an expanding import level, of which foreign private investment is only a facet. Economic growth was rapid so long as there were large proceeds out of the invisible capital invested abroad in the form of active manpower. It was also buttressed by the large post-war flow of American grants. In turn, both factors brought about conditions favorable to moderate amounts of private capital imports — such as those which occurred in the twenties, and the modest recent flow (estimated in the aggregate at some $ 75 million) of private American investment into Italy.

Briefly, American or other foreign investment requires a climate of monetary and foreign exchange stability, and of expanding investment opportunities through the overall growth of the domestic Italian economy. There must be consequently a « cushion » of some sort to insure the availability of that floor of imports (hence, of foreign resources) which is required to encourage both foreign *and* domestic investment. It is not sufficiently realized that the « capital shortage » which holds down the rate of investment stems from the lack or insufficiency of that cushion, just as much as from low domestic accumulation. Domestic capital requirements are not necessarily related to direct expenditure of dollars or other foreign exchange, but the secondary effect of additional investment entails almost invariably an increase in imports, for materials and wage-goods. Consequently, it is the anticipated foreign exchange effect of investment which compels the central Italian authorities to keep a tight rein on credit, and which prevents the full use of the domestic capital resources. Thus, considerations of external stability prevent full employment not only of manpower but also of the available and, to begin with, insufficient, domestic capital.

At the present time, the export of manpower earns to Italy a little over $ 100 million per year in the form of remittances. There is also a sizeable cushion of American assistance, in the form of troop and other military expenditure, and chiefly of offshore procurement orders. These have been running at an annual rate of some $ 150 million in the past two years, but are expected to taper off in the future. The period of large American grants in direct assistance of balnace of payments equilibrium is obviously over. The question is whether some other type of assistance for special purposes may be forthcoming, if needed, once offshore procurement bows out of the scene.

Will special aid be required, or can « trade » in its widest sense do the job?

The indications are that if one must prevent a relapse into lower levels of consumer expenditure, and if an annual expansion of 4-5% in GNP is essential to safeguard a minimum of economic and social stability, a cushion of some kind is required. This would be even more essential if the rate of growth were stepped up enough to take the Italian economy out of its «danger zone». Offshore procurement was an ingenious device, tailored to the requirements of the rearmament period. It is open, though, to certain objections on economic grounds, since it may lead to overexpansion in defense capacity and hence to some defective allocation of resources. Yet, economic stability makes a contribution to defense, and to security in its fundamental sense, which is just as important as armament production. Hence, it be reasonable to offset anticipated decline in offshore orders for a number of years by « defense support payments » in the form of assistance to investment. Such an assistance would not need to entail large or blanket grants. It could be keyed to specific performance in terms of aggregate investment and employment, within the framework of a continued policy of financial stability and gradual trade liberalization. It would amount in fact to the underwriting of the expected foreign exchange impact of a given rate of

investment, if and as the latter occurs. It may be mentioned that this « indirect foreign exchange requirements » approach has already been tried by the World Bank, in connection with financing first the investment program for Southern Italy, and later development in the Belgian Congo.

It would be unrealistic to expect that Italy, any more than any other country, could be cushioned in advance against normal fluctuations in her balance of payments situation. Moreover, these could be ironed out, as far as possible, through the International Monetary Fund or, in the last analysis, « ad hoc » devices. At the same time, it would be of vital importance for Italy to have a contingent reassurance that current investment efforts can be continued and intensified without the fear of increasing the strain on her foreign account. Such a reassurance, other things being equal, would help to cut down the actual amount of dollar requirements from public sources, since it would lead to a more effective utilization of domestic resources — as it has already been indicated — and it would create more favorable conditions for private dollar investment.

The opportunities for such private investment would certainly increase in a general environment of growth, and cover a much broader range than is presently the case. Room would be created to an increasing degree for profitable investment in new, or « growth » industries, and in utilities. Italian public opinion would probably insist on certain safeguards concerning the ownership of basic national assets, but the impact of even limited amounts of American industrial investment would be beneficial in creating an increasingly dynamic and competitive industrial climate.

It would be idle to speculate at this stage on the possible effects and potentialities of an effective European economic integration, or union. It will be sufficient to say that Italy has very much to gain, in the long run, but that the problems of the transition period would be serious, and would require important safeguards.

19. — The grounds which justify a moderate but definite degree of optimism concerning the future of the Italian economy have been already listed, and do not need repetition. It may be appropriate, instead, to outline a few tentative conclusions in relation to the more general problem in which we are interested.

While non-typical in some respects, the Italian case is an important illustration of a situation which is shared in varying degrees by other countries, ranging from England and Holland at one extreme to Japan at the other. It is the problem of growth in comparatively overpopulated countries, advanced enough in terms of skills and of industrial experience, and poor in natural resources.

In pre-World War II days, one would have assumed that there was nothing that could be done at the international level, and that each country had to « sweat it out » as best as it could, cutting down birth rates, putting up indefinitely with depressed standards of personal consumption, and moving slowly and painfully toward some readjustment, through the play of the price mechanism, foreign trade, and — if available — private international investment.

Under the stress of the tensions generated by the war and its aftermath, and by the cold war, a new conception has been gradually taking shape. This is based on a growing recognition of a degree of American responsibility not only as the leading creditor nation but also as the leader of the free world. This entails some responsibility not only for a minimum of international economic stability, but also for the development of a rising structure of income throughout the world. American postwar aid programs were the product of acute emergencies, and were not meant to be other than temporary. However, it soon became clear that, while massive direct aid of the Marshall Plan type could not be perpetuated, a measure of American economic assistance to many foreign countries would be still required for an indefinite period. Economic aid to Western Europe was sharply curtailed, but replaced to some extent with offshore orders. Aid to the underdeveloped areas of South Asia and of the Middle East became a regular annual feature. In addition, a technical assistance program (Point IV) was set up on a permanent basis.

While American aid is meant to make a contribution to the security of the free world, and in many cases is directly related to immediate strategic considerations, the significance of its long international income effect cannot escape anyone. Moreover, American activities, initiatives and responsibilities in world economic affairs at large have become so vast to lead to an unprecedented gravitation of individual national economies, outside of the Iron Curtain, toward the United States. United States have become intimately involved with the economic and other affairs of scores of countries — and their policies and domestic economic developments have become factors which are in varying but invariably large degrees « internal » to the domestic economy of other countries. The income of most countries tends to fluctuate in response to American fluctuations in the level of income and imports. The growth in the income structure of most countries is predicated in no small degree upon the behavior of American economy or the trend of its economic policies.

There has been of course in the latest years a swing in American public opinion and Government policies away from direct aid programs toward the restoration of an international equilibrium, through automatic cost, price, exchanges, and other mechanism. However, the realities of the world situation are pressing hard , and are continuing to entail the discharge of a wide range of responsibilities for international economic stability and development.

There is by now a definite degree of acceptance of some responsibility toward the economically underdeveloped areas — though there are different opinions concerning the extent of that responsibility, and the comparative effectiveness of investment v. aid, and of public v. private investment. It should be appreciated, however, that there are very few countries in the world which can be said to be « advanced » or « underdeveloped » in the strict sense. Most situations are mixed, and are to be dealt with accordingly, as far as this is feasible.

In the case of Italy, or other countries in a similar position, we are faced with borderline situations, *i.e.* with areas of significant importance which are capable of normal and healthy development if certain structural factors of disequilibrium are corrected. They have a temporary but acute problem, stemming from surplus population and an investment problem, also of a temporary nature, which, if faced realistically, can be dealt with reasonably and without unduly large outside contributions. Beyond that point, they call for nothing else besides an international climate of steady growth, in which national barriers place no excessive restrictions to the movement of materials, manpower and capital.

I would readily recognize that the requirement of the vast underdevelopment and overpopulated areas of other regions, such as Asia, have at present a prior claim upon American and international assistance. On the other hand, the play of multiplier effects is bound to be higher in more advanced areas. Hence a limited measure of continued support directed to correct structural maladjustments in countries which have already developed, but in a repressed and « stunted » way, would pay handsome benefits, in terms of international stability and of the required rate of growth of the world economy.

I have advocated in recent years (11) that the United States should allocate a rockbottom minimum equivalent to at least 2% of their national income for purposes of world economic stabilization and development. I have also held that steadiness, and continuity of purpose, are even more important than the actual amount of resources allocated for that purpose. If I had my way, I would allot a majority of those resources to areas outside Europe, but I would certainly earmark a sizeable, if moderate, amount to sustain investment and growth in certain European countries, and to facilitate European economic integration. Moreover, the industrial economy of Western Europe would gain great, indirect benefits out of aid programs to underdeveloped countries.

(11) See Bruno Foa, *America Picks Up the Check*, in Harper's, July 1949.

The spectacular recovery of Germany, and the higher dollar earnings of the sterling area in the wake of the Korea emergency and related devolpments, should not blind us to the fact that the economy of Western Europe requires an accelerated rate of growth, and the elimination of factors which lead to stagnation or instability. A greater degree of economic integration, and the consequent development of a large unified market. is essential for Europe because the area is too dependent on foreign trade and export markets, and because the foreign resources which can be earned by many of its individual units through export development are insufficient to underwrite the necessary rate of domestic growth. Moreover, the all-out quest for foreign markets is conducive, beyond certain limits, to international instability.

In these fundamental respects, the differences between Italy and some of her stronger and more privileged neighbors are a matter of degree rather than of substance.