

Development Problems in Southern Italy : the Second Conference of the *Cassa per il Mezzogiorno*

The Second Conference, held in November, 1953 in Naples, of the *Cassa per il Mezzogiorno*, the body which was set up in 1950 for the purpose of promoting and financing development schemes in Southern Italy, provided the occasion not only for an appraisal of the work of the *Cassa* during the first three of the twelve years of life so far accorded to it (1), but also for a review of some of the prevailing ideas concerning the economics of a problem which has come to occupy a dominant position in Italian economic policy, and is drawing increasing attention also at the official international level (2).

The proceedings at the Naples Conference were centred round two reports, one entitled «The Necessity and Prospects of Industrial Development in the Southern Areas in Relation to the Activities of the *Cassa per il Mezzogiorno*», presented by Professor Saraceno (3), and the other on the subject of «Occupational Training in the South» by Professor Caglioti (4). The Conference was preceded by a meeting of a group of economists, organised by the *Svimez* (5), and devoted primarily to a discussion of the first of these reports.

(1) The existing legislation provides for its continuation up to 1962.

(2) The O.E.E.C. Council of Ministers, at its May meeting (1954), made special mention in its final report of the urgency of the problem of economic development in Southern Italy.

(3) This report has been published in slightly modified form, under the title *Lo sviluppo industriale delle regioni meridionali e l'attività della Cassa per il Mezzogiorno*, in «L'industria», 1953, No. 4, pp. 651-679.

(4) The main points made in this report are summarised elsewhere in this Review. See G. RUFFOLO, *The Italian Parliamentary Enquiry into Poverty*, p. 52 ff.

(5) *Associazione per lo sviluppo dell'industria nel Mezzogiorno*.

The present article does not pretend to provide an exhaustive account of all the points of fact and view that were raised at this Conference. Its scope is confined to commenting on a few of the more general considerations contained in the first of the two papers and the related discussion.

I

Dimensions of the Problem

A few figures were quoted (6) in illustration of the «lack of balance» which exists between the South and the North in terms of the ratio of population to income and capital investment. Whereas the proportion of the total Italian population in the area referred to as the *Mezzogiorno* is at present 35.5 per cent (7), the proportion of the total national income going to that area has, according to a very rough estimate, recently amounted to only from 20 to 23 per cent (varying slightly with the harvest results), and the proportion of total private (gross) fixed capital investments to only some 12 per cent (8). The threat to Italy's political stability which this situation represents had been given increased emphasis by the results of the legislative elections of June, 1953, the geographical analysis of which showed that the very substantial losses suffered since the 1948 elections by the centre parties in favour

(6) In Prof. Saraceno's paper.

(7) Owing to the more rapid rate of growth in that area, it was expected that, even making allowance for the «normal» migration from South to North, the proportion might well approach 40 per cent in ten years' time.

(8) Estimate for 1952.

of the communists and the parties to the extreme right were attributable for the most part — and so far as concerns the communist gains almost entirely — to the Mezzogiorno (9).

It seemed to be accepted as a basic postulate of the discussion at the Conference that it was no longer possible to remove the disproportionality between population and resources in the South by emigration. This conclusion had been reached not only because the opportunities for emigration are more restricted than they were in previous periods, but also because its disadvantages are more deeply felt. To-day emigration was considered to be « a sacrifice which cannot be demanded indefinitely of the poorer classes of the population » (10). It was especially noteworthy also that small importance seemed to be attached even to the possibility of increasing the flow of emigrants from the South to the North; it was presumed that this flow would remain at the « normal » level.

Thus it was generally agreed that an effort must be made — with government aid — to raise employment in the South itself. The very substantial effort which is in fact now being made is evident from the figures which public investment expenditures in the South have reached since the establishment of the *Cassa*. They were estimated to have risen from Lire 80 milliards in 1950, the year preceding the beginnings of the operations of the *Cassa*, to Lire 245 milliards in 1952 and Lire 290 milliards in 1953 (11). This would mean that in 1952 public investments in the South already amounted by themselves to about 12 per cent of the total gross investment (public and private) in Italy as a whole. Together with the private investments in the South, which they exceeded in

(9) A detailed analysis of the election results is given by FRANCESCO COMPAGNA and VITTORIO DE CAPRARIIS in *Contributo alla geografia delle elezioni italiane*, « Il Mulino », Jan. 1954, pp. 3-27.

(10) The words are those of Prof. Francesco Giordani.

(11) The increase is imputable largely to the expenditures of the *Cassa* but also partly to other public investment programmes carried out by the Ministry of Public Works, the Ministry of Agriculture, INA-Casa, etc.

absolute terms, they brought the total investment in the South to 20 per cent of that for Italy as a whole (see Table 1).

TABLE 1
GROSS INVESTMENT IN 1952
(Milliards of Lire)

	Public	Private	Total
Area:			
North	405	1,290	1,695
South	245	180	425
Italy	650	1,470	2,120
Distribution by Area (Per cent)			
North	62.3	87.7	79.9
South	37.7	12.3	20.1
Italy	100.0	100.0	100.0
Distribution by Category (Per cent)			
North	23.9	76.1	100.0
South	57.6	42.4	100.0
Italy	30.7	69.3	100.0

One of Professor Saraceno's main themes was the question, which has been the subject of a good deal of discussion ever since the *Cassa* was established, of the direction in which the government's efforts to develop the South should, now and in the future, be pushed. He emphasized that improvements in the agricultural sector, although they were rightly being promoted by the *Cassa* as part of its task, could not by themselves be a sufficient solution, and that there must be industrialisation. Nor was the development of small industries of the artisan type judged sufficient: it was necessary to create large-scale industry along typically modern lines. But since the technical character of modern industry is itself a factor making it much more difficult for unaided private initiative to establish plants in areas that are industrially backward than in those that are already industrially advanced, it was necessary for the government to help towards the

creation of those first improvements in the « industrial climate » of the area which will attract private enterprise and capital sufficient to set going a cumulative process of industrial development which will itself gradually improve that « climate » further. This implied that the government should not only undertake public works projects (such as the building of a more adequate transport system) — the direction in which the activities of the *Cassa* had largely been concentrated so far — but should also « take action, of which the nature and scope are still open to discussion, with the object of creating incentives capable of inducing private initiative to assume its traditional role ».

II.

Some Controversial Interpretations of Multiplier Analysis

In the discussion on the general economic aspects of a development programme for the South, and on the direction which the programme should take, much of the argument was explicitly or implicitly based on a set of figures, resulting from researches into family budget expenditures, and into the types and sources of the materials used in the construction of the public works. The figures were reproduced in a section of Professor Saraceno's paper called « effects of additional public spending for investments in the Mezzogiorno in 1953 with respect to 1950 », effects which were described in terms of « multiplier analysis ». These figures, or slight variations of them, have been widely quoted in Italy, and considerable weight has been given to them in the publications both of the *Svimez* and of the *Cassa*. They have also recently been given notice in at least one official international publication (12).

The figures (Table 2) purport to show that, in response to the estimated additional investment expenditures of Lire 110 milliards by the public authorities in the South in 1953, compared with 1950, the total additional in-

(12) Cf. ECONOMIC COMMISSION FOR EUROPE, *Economic Survey for Europe in 1953* (Geneva, 1954), p. 140.

come created in the whole of Italy (over a period of undefined length) would be Lire 183 milliards, implying a multiplier of 1.66 (13). And assuming that the same dose of primary expenditure had been repeated over several years (*i.e.* that there was a constant (14) flow of such expenditures) we could go on to say that (provided the propensities to consume and to import remained unchanged from period to period) the total extra money income created would be not far off Lire 183 milliards *per annum*. Of the increase of Lire 183 milliards, 74 per cent was estimated to be localised in the South and 26 per cent in the Central-North.

TABLE 2
ADDITIONAL INCOME CREATED
BY ADDITIONAL PUBLIC WORKS EXPENDITURES
(Milliards of Lire)

	South	Central-North	Italy
1. Additional primary expenditure	110	—	110
2. Imports for executing public works:			
(a) from C.N.	— 25	+ 25	—
(b) from abroad	— 7	— 3	— 10
3. Direct addition in income (first round)	78	22	100
4. Total consumption	81	28	109
5. Imports of consumption goods:			
(a) from C.N. (by S.) . .	— 8	+ 8	—
(b) from S. (by C.N.) . .	+ 1	— 1	—
(c) from abroad (by Italy)	— 17	— 9	— 26
6. Additions to income from rounds subsequent to first	57	26	83
7. Total addition to income .	135	48	183

Although the quantities nominally represent money investment and money income it is assumed that they also represent, at least approximately, corresponding increments in

(13) The saving-investment identity takes the form:

New domestic investment (110) = new saving (74) + drawing on foreign balances (36); where the « new saving » includes 46 collected in the form of taxes.

(14) In fact, of course, the rate of primary spending is not constant; since 1950, as we have seen, the gross rate of public spending in the South has been expanding rapidly. The manner in which the net addition to total spending in Italy as a whole (*i.e.* after correction for mere transfers from one form or area of expenditure to another) has moved, however, is not clear.

real terms. It is here explicitly stated that the usual «working hypotheses» are postulated, namely: «(a) perfect elasticity of supply of all goods in response to increases in demand, (b) stability of the level and structure of prices, and (c) stability in the level and structure of other investments».

A good part of the discussion turned round the significance of these figures. In spite of the attention given them by many of those who are most closely concerned with the implementation of the development programme, others were sceptical as to whether the purely mechanical operations of multiplier analysis were an adequate instrument for evaluating the effects of the investment expenditures, and whether the arithmetical precision claimed was not deceptive.

The first question that arose in some people's minds concerned the manner in which the additional public investment expenditures in the South were financed. The existence of a *net* addition to money income for the whole of Italy of the amount assumed implies that these expenditures were not mere transfers, either from the North to the South, or from private to public spending, as would be the case if, for example, they were financed out of tax receipts which would otherwise have been spent or invested by the taxpayers, or out of loans raised on the capital market out of liquid funds that would otherwise have gone into other forms of investment. We were not, however, given any evidence to show that the public investments in the South did in fact lead to net new creation (or activation) of purchasing power in the system as a whole to a corresponding amount, and that therefore the *net* «multiplicand» for Italy as a whole really was Lire 110 milliards.

But if we were reassured on this point we might still wonder whether in view of the substantial magnitude of the multiplicand — the figure of 110 milliards is equivalent to 5 per cent of the estimated gross investment figure for 1953 (15) — even appro-

(15) See *Relazione generale sulla situazione economica del Paese, presentata dal Ministro del Bilancio (Vanoni) e dal Ministro del Tesoro (Gava) alla Presidenza delle Camere il 20 marzo 1954*, p. 2.

ximate validity could be assumed for the «working hypotheses» (16). For if in part the additional public works expenditures were translated either into higher prices or into physical «shortages» (failure of other users to obtain deliveries) (17), instead of into increased output due to the utilization of labour and plant capacity which would otherwise have been idle, they would to that extent lead merely to the bidding away of goods from one use or area to another. In other words, part of the increase, in the *money* investment and income figures would again reflected mere transfers of, and not net additions to, *real* investment and income. In accordance with a convention which is frequently adopted in multiplier analysis, the whole of the «strain» of the assumed increase in money expenditures was, however, represented for purposes of the calculation as being directly absorbed by the balance of payments, the increase in the deficit in the latter (18) being regarded as the «limiting factor» to capital development. Again, it is questionable whether in reality the pressure on the balance of payments and the pressure on the internal price level can be regarded as two such clearly separable and independent elements, or whether the former is not partly a symptom of the latter.

These considerations suggested that we ought to regard the figure given in the Table 2 for the total increase induced in the real output of Italy as representing at best a *theoretical maximum* which might be very far above the actual figure.

(16) It should be noted that actually observed stability of prices would not itself be sufficient proof that the increases in real investment and income, calculated as proportions of the real investment and real income of the base year, were accurately represented by the increases in the money figures, since the additional expenditures might have prevented price falls due to increased productivity.

(17) One example of a serious «bottleneck» which had to be overcome was that which occurred in cement in the second half of 1952, leading, in spite of partial price control for that commodity, to a sharp rise in its price to Southern consumers, and to «shortages». The «cement crisis» was met first by blocking exports, and eventually by building new cement plants. The particulars were described at the Conference by Prof. Mario De Meis.

(18) Represented in Table 2, above, by additional imports from abroad totalling 36 (milliards).

Professor Saraceno's own cautious remark that he thought it might be taken as fairly generally agreed that «the economic development of the Mezzogiorno does not lead to a *corresponding* reduction» (italics ours: note that he does not say «*any* reduction») «in the volume of capital that would otherwise be directed towards investments in other regions of Italy» seems also to lend support to this more conservative view.

The discussion revealed a significant difference of opinion, however, concerning just this point of the effects of the development programme in the South on the North. One group (19), again making an appeal to the results of the multiplier calculation, tended to deplore the fact, exhibited by that calculation, that so large a part of the «benefit» from the public works expenditures, undertaken with the specific intention of helping the South, in fact «goes to the North». In this way, it was said, «the South may act as the multiplier for the Italian economy»; and it was regretted that, while it was possible to localise in the South the initial effect of the public works expenditures in that area on *capacity* (say in the form of a new aqueduct), it was not equally possible to localise the effect on *income*, so that a substantial part of this latter effect went to the benefit of the North. Hence in certain situations the total effect might, it was argued, be to *increase* the disequality between North and South rather than the opposite; and the problem therefore was to select types of public spending in the South which could be relied upon to create a movement in the right direction.

To others it seemed that there was a confusion here, and that we ought rather to say that if the North produces «part» of an aqueduct which it transfers to the South, the North has indeed *produced* the corresponding income, but the South finally *disposes over it*. In terms of the categories used in certain national income statistics (20), this situation

(19) The clearest exposition of the tendency in question was that given by Professor Mirabella in the course of the discussion organised by the *Svimez*.

(20) Including those of Italy from 1953 on. See *Relazione generale sulla situazione economica del Paese, presentata dal*

may be described by saying that the total of the «resources available» to the South exceeds its «gross product» to the extent of the deficit in its balance of payments with the North, and *vice versa* for the North (we are here neglecting the deficit or surplus towards foreign countries). It seemed paradoxical to call this a situation which «favours» the North rather than the South (21). The fact that the gross product of the North is itself increased by the capital «export» to the South, because the North is able to produce part (or all) of the goods «exported» by using previously idle capacity and labour, means that the reduction in resources available for «internal» use which the North has to undergo in order to help make a given addition to the equipment of the South is that much smaller (or nil). Or in the still more favourable case assumed in the multiplier table it may be negative. *But the South is in any case richer to the extent of the new equipment* (the aqueduct) (22).

Undoubtedly what those who used the type of argument to which we have been referring were trying to emphasize is a very proper doubt as to whether aqueducts (or roads or bridges) are the right kind of investment. They are concerned with the importance of choosing the types of public investment carefully. And, more specifically, they are questioning the advisability of concentrating mostly on public works expenditures, of which the effect on employment in the South is largely exhausted once they are finished, instead of proceeding more swiftly to the stage of creating more direct incentives to the establishment of industrial plants, which will provide a continuous demand for local labour and a *continuous addition to the*

Ministro del Bilancio (Vanoni) e dal Ministro del Tesoro (Gava) alla Presidenza delle Camere il 20 marzo 1954.

(21) It is worth remarking that the same kind of argument was evidently not regarded as applying to assistance from foreign countries.

(22) A rearrangement of the figures given in the multiplier table (Table 2, above) indicates that the addition to the gross product of the South is Lire 135 milliards, but that the addition to its total available resources reaches the much higher figure of 191 milliards; for the North on the other hand, whereas the addition to its gross product is 48, the addition to resources available for its own «internal» use is only 28.

real output of the South. It would, however, be misleading to suggest that the original addition of productive capacity, enabling this permanent increase in income to start and grow, should, or perhaps even can, take place without capital imports, whether in the form of the equipment itself or in the form of raw materials and consumption goods supporting the Southern workers employed on its construction, and whether from the North or from abroad. A policy based on such a suggestion would surely imply a much slower process of development than its alternative.

The contrast in the way in which the two schools envisaged the repercussions of the development programme for the South on the North was important also as a reflection of a corresponding difference in their evaluation of the magnitude and difficulty of the task. Whereas some speakers referred to the necessity of a sacrifice, *at least temporary*, on the part of the country as a whole, or rather on the part of its more prosperous northern regions, for the benefit of the South, others — much more optimistic — were anxious to demonstrate that this was not the case or even that the reverse was true.

Whichever of the two views prevailed, the central problem, given the social and political urgency of the Southern development programme, remained the same as that posed by Professor Saraceno, the burden of whose argument was the necessity of pressing forward with attempts to determine what kind of industrial plants should, or can, be established in the South, or, more directly of searching for the type of inducements or government assistance that may best be relied upon to overcome the *initial* difficulties of industries that may be expected later on to be able to exist on a basis which does not involve permanent government protection or subsidisation. The difference is that the less optimistic of the two views strikes an additional note of caution: it keeps us reminded of certain other necessities as, for example, that of not unduly neglecting the investment needs of the North, and of avoiding measures which increase the real costs of production

in that area in a manner which may slow down the rate of growth of employment and national income for Italy as a whole — including that of the present inhabitants of the South in so far as their opportunities for migration to the North are thereby diminished. These are aspects of the problem which an unqualified reliance on the results given by the simplest kind of multiplier analysis tends to hide from view.

III.

Some Guesses About Future Rates of Income Growth

An attempt was made by Saraceno — with understandable apologies — to predict the effect of the programme of development in the South (agricultural improvements, public works, and industrialisation) on future income. He suggests that a rate of income growth in the non-agricultural sector of the South of an average of 5 per cent per year over the next ten years is conceivable: he admits that this is high compared with the rates calculated for other countries over fairly long periods in the past, but he is assuming that the potential development rate of an area that is in the early stages of industrialisation may be higher than elsewhere. Combining this figure with the estimate of a possible average annual rate of increase of income in the agricultural sector of 1.5 per cent per year, he arrives at a rate of total income increase for the South of 3.7 per cent, implying that at the end of the ten years the total income of that area would be almost 50 per cent above the present level. He concedes that this is an optimistic estimate, and offers an alternative lower one implying a rate of increase in the non-agricultural sector of 3.5 per cent, and a rate of 2.7 per cent for non-agricultural and agricultural sectors combined. He adds that, given the currently existing relationships between income and investments, the rate of development postulated will require a flow of new investments in

the Mezzogiorno rising from the present level of Lire 425-450 milliards per annum to Lire 750-800 milliards in 1963 for the high estimate and to Lire 550-600 for the low estimate.

How fragile such estimates are bound to be is at once evident from the fact that little is known as yet concerning the types and

scale of the industries that are likely to develop in the South during the next decade. The figures are perhaps chiefly interesting as a sign of the magnitude of the rate of future investment in the South which some groups are contemplating.

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