The Development of the Italian Economy

The Italian Central Institute of Statistics has recently undertaken a task which few other government statistical offices have attempted, in any country. The Institute has calculated, and published in the *Annuario Statistico* for 1952, estimates of national income, at factor cost and market price, back to 1901. With these are published index numbers of wholesale and retail prices, which make it possible to express this income approximately in real terms.

Hitherto, the earliest reliable estimate of Italian national product was that made for 1914 by Professor Gini. His methods were good and his result is fairly well confirmed by the new study. There was an earlier estimate, for which sufficient credit has not hitherto been given, made in the 1890's by Nitti (busily occupied though he was with his political career). His estimate, like many contemporary estimates made in the 19th century in other countries, is now found to be distinctly too low. (The methods of defining national income in those days were very obscure, and many investigators tended to omit some or all of the service industries).

In determining the trend of real income, we take as denominator of our fraction a price index of market prices of commodities, including any indirect taxes which have been paid on them, and we must therefore take as our numerator national income measured at market prices, not at factor cost. Of the two index numbers available, the retail price index is more appropriate than the wholesale price index for deflating money income. It would be better still if we had an index which made some allowance, at the appropriate weights, for the prices of capital goods also; but it is only recently that the O.E.E.C. have succeeded in constructing such indices, and we should not expect it to be possible to construct them, to any worth-while degree of accuracy, for historical periods.

Having ascertained real national income for past years, the usual procedure is to divide it simply by a figure of population and to show the trend of real income per head. Such a result may be what we want if we are attempting to measure the trend of welfare, or of puchasing power, particularly if we need a background against which we can gauge the trend of demand for any single commodity. But this is only one of the uses which can be made of the figures, and probably not the most important one. For many purposes of applied economics, we are primarily concerned in studying the trend of productivity. It will be seen that a number of further adjustments have to be made to the figures before we can reasonably gauge this.

In the first place, we must take into account changes in working hours. There was a drastic reduction in working hours immediately after the First World War, and another in the 1930's. These reductions made the trend of real income, when measured on a per annum basis, rise much more slowly than when measured on a per hour basis. In the second place, we must divide real income by the number of persons at work, not by the total population. The ratio between number of persons at work and total population varies in accordance with changes in the age structure of the population, number of retired persons, changes in school leaving age etc. Then further a deduction has to be made for the amount of unemployment at different dates. In defining labour force, there is a considerable ambiguity about the women numbers of farm families, and in order to preserve comparability between different countries and at different times, these are all omitted from labour force, as defined below.

There are some further minor adjustments which should be made to the national income figure if we are setting out to measure accurately the trend of productivity. We must convert figures of *real national income* into *real national product*. In the first place, we must take account of dividends and interest payable abroad, or received from abroad, a comparatively small item. We must then make a somewhat complex adjustment for changes in the terms of trade. It has happened on occasions that, with an unchanged *real product*, *real income* has nevertheless shown a marked fall, simply owing to a change in the terms of trade, to a higher price of imported goods, relative to the price of exports. Figures of real income have to be converted to real product by ascertaining the real values of imports and of exports separately. Finally, some allowance has to be made for what is known as *imputed income*. The imputed income which arises from owner-occupied houses tends to represent a fairly constant proportion of the national income; but we must take into account another form of imputed income, which represented a much bigger proportion of national income in the past than it does now, namely, the difference between the retail and the wholesale value of the farm produce consumed by peasant families. (In national income statistics it is only included at the lower value).

The table gives results for five-year periods since 1901, but the same calculations have been made for individual years, and the results are shown on the diagram. The units in which all real incomes and real products are expressed is the I.U. (international unit), first used in an article in « Weltwirtschaftliches Archiv » in 1938, and in « Conditions of Economic Progress ». It is defined as the quantity of goods and services exchangeable for one dollar in the U.S. over the average of the years 1925-34, or, alternatively, the goods and services exchangeable for 1.649 dollars in the U.S. in 1950, which represents the same purchasing power. The 1950 dollar is used as the new base, for the reason that the O.E.E.C. decided to use this as their base in measuring real product of five European countries in 1950, as compared with that of U.S.A.

The nature of the results stands out most clearly on the diagram. There was naturally a decline in real product per man-hour during the course of the First World War, but it was slight, and by 1919 the figure of productivity was once again « on the line »; and this general rate of upward trend was maintained until 1925. About that year began a period of slower rate of growth.

The effects of the world depression of 1928-34 can be seen. It must be remembered that this diagram shows real product per man-hour worked, not real product in the aggregate, which indeed fell seriously. The fall in real product per man hour was only temporary — as in several other countries. The period 1935-39, when world trading conditions were more normal, shows a real productivity per man hour higher than that of 1929.

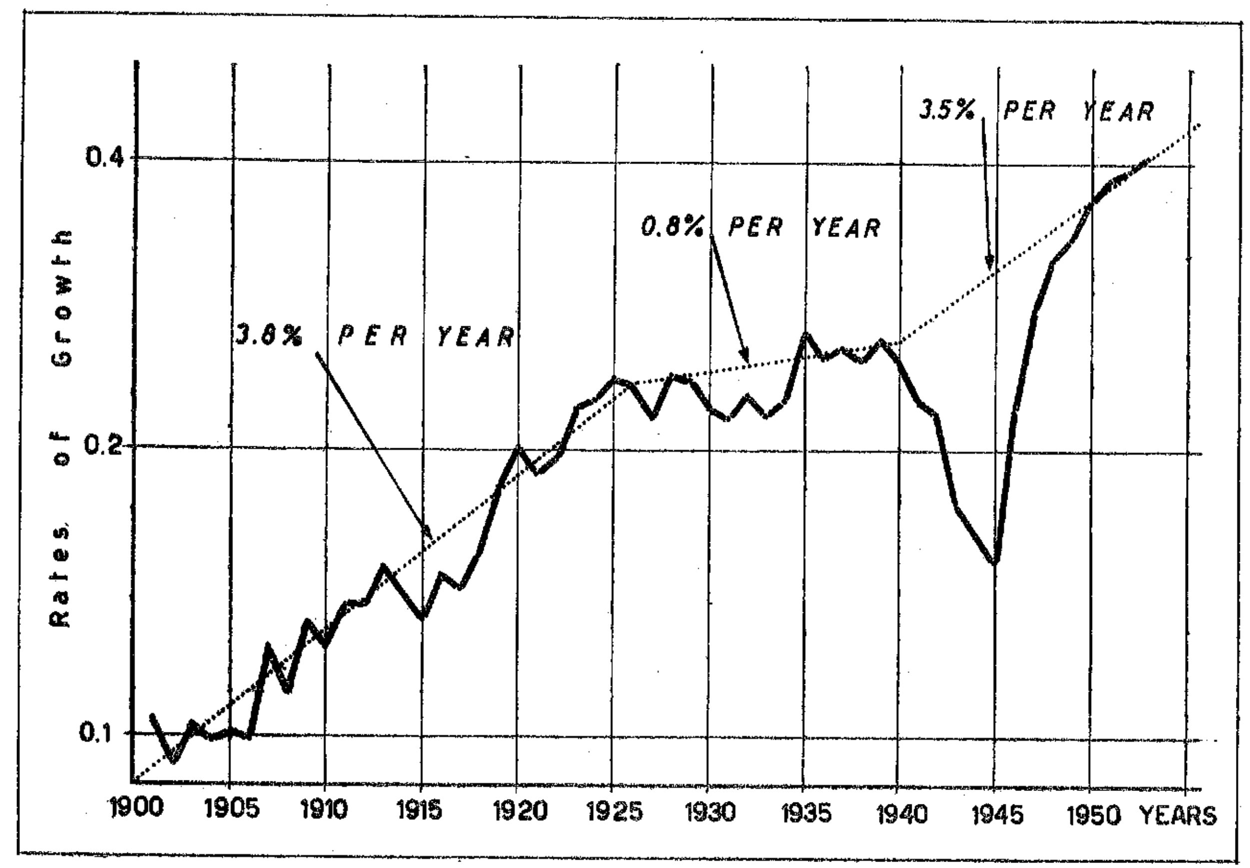
It might perhaps have been expected that the rate of economic progress would have slowed down somewhat during the Fascist regime, but it is interesting to see this expectation so strikingly confirmed in the diagram. In retrospect, one can see that there was far too much un-necessary economic regulation by the so-called Corporate State, which was in fact « excessively bureaucratic and political in character ». But this excessive regulation may have been a secondary factor, compared with the more serious matter, that under the Fascist regime, Italy was over-taxed.

	1901 1905	1906 1910	1911 1915	1916 1920	1921 1925	1926 1930	1931 1935	1936 1940	1941 1945	1946 1950	1951	1952	1953
Net national income at market prices, billion lire	14.5	17.7	21.6	56.5	115.9	136.1	99.7	137.4	639	5834	8799	9221	9953
Ditto, billion I U	3.70	4.24	4.90	5.30	6.14	6.74	6.33	7.15	5.69	8.73	11.09	11.25	11.84
Ditto, adjusted for imputed income, billion I U	4.10	4.68	5.40	5.84	6.76	7.42	6.93	7.76	6.30	9.36	11.70	11.86	12.45
Net national product adjusted for terms of trade, billion I U	4.06	4.61	5.33	5.87	6.92	7.55	6.94	7.77	6.29	9.77	12.29	12.55	13.08
Labour force, millions	12.90	13.20	13.50	14.40	15.13	15.43	15.91	16.52	16.91	17.30	17.53	17.61	17.69
Numbers in work, millions	12.80	13.10	13.40	14.30	14.86	15.14	15.00	16.13	16.82	16.25	15.99	15.93	15.92
Average hours per year	3160	3000	2840	2500	2200	2168	2012	1915	1997	1994	2015	2015	2032
Real product per man-hour, I U	.100	.118	.140	.167	.213	.229	.231	.252	.188	.303	.382	.391	.405

National and local taxation, in the 1930's, amounted to nearly 30% of the national income at factor cost — at that time the highest ratio in the world. It is an important but widely neglected truth, that excessive taxation, within a few years of its imposition, is likely to slow down the rate of growth of real product. Probably equally serious is the effect of a third factor, namely the extreme economic nationalism of the regime, which attempted to make Italy self-contained in a number of products, and to discourage foreign trade. Except in countries extremely well possessed of abundant natural resources, such a policy nearly always leads to a certain degree of impoverishment.

Regarding the high rate of growth of productivity for the years before 1922, we may conclude that the « Liberal » regime of those years may have had its faults; but that the slowing down of the natural development of economic productivity was not one of them.

ITALY: REAL PRODUCT IN INTERNATIONAL UNITS PER MAN-HOUR
(*Logarithmic scale*)



The decline in productivity in the Second World War was considerably greater than in the First World War, not only because Italy was more deeply engaged, but also because her commerce with the whole non-European world was cut off, thereby further disorganising production. In the years 1943-45 Italy was a battleground, and it is indeed remarkable that productivity was kept as high as it was. Even in the worst year, 1945, real product per man hour was still higher than it had been in any year of peace up to 1913 — an interesting conclusion.

After the minimum of 1945, recovery proceeded very rapidly, but at a decelerating pace, as might indeed have theoretically been predicted. By 1950, the rate of growth of productivity had settled down to a steady rate of advance, and we are justified in saying that this trend is now once again « on the line ».

It now remains to say that rates of growth of real product per man hour of 3.5% or 3.8% per annum (the difference between the two figures shown on the diagram is hardly statistically significant) are about the highest rates found anywhere in the world. In the United States, which is always expected to set a standard, the rate of improvement of real product per man hour has been a fairly steady 2.2% per annum ever since 1870, and in Canada 1.9%. Even for Japan, in her period of most rapid growth, the figure was only 3.2%. For Norway, Sweden and Finland a figure of just under 3% is shown. Soviet Russia, it should be added, has never attained anything like this rate of growth, if her productivity is accurately measured.

Many Italians have on their consciences the amount of poverty and unemployment which still prevails in their country. They may reassure themselves that the improvement of productivity, which is the only real remedy for these ills, is now proceeding at the greatest possible rate, better than that of other countries where the natural and social conditions for economic progress appear, at first sight, to be much more favourable than they are in Italy.

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