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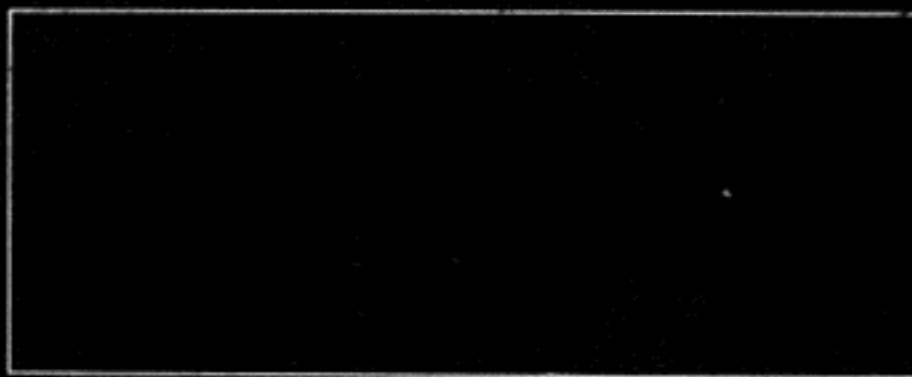
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QUARTERLY REVIEW



R O M E

Table M

THE PERCENTAGE OF LOSSES SUFFERED DURING THE WAR BY THE ZOOTECHNICAL RESOURCE OF ITALY, MAY BE LISTED AS FOLLOWS (reference year 1938)

	Percentage
Oxen and cows	16.8 %
Swines-grown up	28.5 %
Swines-newly born	28.5 %
Sheep }	19.6 %
Goats }	
Horses	14.0 %

Poultry and other farm animals have decreased of 17,504 thousands in number of heads.

Data taken from "Congiuntura Economica".

INDICES OF PRICES OF GOODS AND UTILITIES (1)
1938 = 1

Table N

	January 1946	December 1946
"Vanguard" index of wholesale prices (Florence)	34	44
Cost of living, total (Milan)	27	38
" " " foodstuff (Milan)	33	46
" " " clothing (Milan)	46	58
" " " house rents (Milan)	1.9	1.9
White bread, free market (Rome)	70	84
Ration bread, ceiling price (Rome)	12	13
Tramways rates (Rome)	8	10
Postage rates	4	8
Railway tickets, 2nd class	4	6
Newspapers	10	26
Cost of house building (Florence)	28	36
Average wages in industry (Confindustria)	14	23
Comprehensive cost of labour (Florence)	21	30
Currency circulation	18	22 (1)
Rate of gold standard	30	40
Stock exchange quotations (Milan):		
General average	4	13
Electric	4	12
Engineering	2	7
Mines and Chemicals	6	11
Textile	7	15

(1) October.

Data estimated by the Centro per la Statistica aziendale e Firenze (Concerns' Statistic Center of Florence).

SPECIAL COMMERCE VALUES PRO-CAPITE
(in \$ with the purchasing power of June 1946 - Italian Africa excluded)

Table O

Year	Import pro-capite	Present population	Export pro-capite
1929	40,706	33-33	22,72
1930	41,069	29,85	20,45
1931	41,412	22,63	19,49
1932	41,775	17,10	13,68
1933	42,101	16,77	13,11
1934	42,453	17,50	11,48
1935	42,809	15,95	9,32
1936	43,151	10,78	7, -
1937	43,504	21,24	12,30
1938	43,679	16,10	11,71
1939	44,213	13,82	11,67
1940	44,667	15,11	11,55
1941	45,065	11,87	14,49
1942	45,400	13,03	14,22

Data taken from "Italy's Economy in 1947".

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LIABILITIES

Balance Sheet 31st December 1946

ASSETS

(Lire)

Capital	1,100,000,000.—	Cash, Balances with Banks & Money at call	24,424,756,875.18
Ordinary reserve fund	115,529,947.85	Investments	
	<u>1,215,529,947.85</u>	Govt. & semi-Govt. Securities & Treasury bills	5,136,076,365.95
Deposits & Current accounts	56,681,601,858.95	Other securities	2,561,619,556.15
Cheques in circulation	6,224,600,330.45	Contango, Advances on Securities & Loans	24,534,505,469.03
Bills for collection	1,678,649,655.20	Bills receivable & re-discounts	14,133,904,935.95
Guarantees & Acceptances	2,235,367,945.45	Sundry accounts	775,760,831.06
Sundry accounts	2,713,887,586.80	Premises	97,778,958.—
Staff individual retirement accounts	570,561,165.45	Furniture & Fixtures	1.—
Unearned income	254,437,260.05	Customers' liability for guarantees & acceptances	2,235,367,945.15
Profit	36,137,187.57		
	<u>71,607,772,937.47</u>		<u>71,607,772,937.47</u>
Depositors of securities	17,373,882,053.46	Securities deposited by third parties	17,373,882,053.46
Accounts guaranteeing special accounts	11,620,216.30	Special guaranteed accounts	11,620,216.30
Bank's securities guaranteeing staff assistance and retirement fund	542,512,015.50	Staff assistance & retirement fund - Securities deposited by the Bank as guarantee	542,512,015.50
	<u>89,535,787,222.73</u>		<u>89,535,787,222.73</u>

AUTONOMOUS SECTIONS FOR SPECIAL CREDITS

AUTONOMOUS SECTION FOR MORTGAGE CREDIT

Aggregate Capital and Reserves L. 93,630,830.30

AUTONOMOUS SECTION FOR HOTEL AND TOURIST CREDIT

Aggregate Capital and Reserves L. 193,758,147.80

AUTONOMOUS SECTION FOR CINEMA CREDIT

Aggregate Capital and Reserves L. 225,154,214.05

This is the first issue of a Quarterly Review, through whose pages the Banca Nazionale del Lavoro wishes above all to help spread in foreign countries a knowledge of the special aspects of the present structure of Italian economy and of the principal economic problems Italy has to face in order to recover from the serious situation created by the war. The subjects to be dealt with will in general, therefore, have a viewpoint oriented toward the realities in which Italy is living, and shall be directed, using objective data, to emphasize the particular characteristics which this reality present in the framework of international life.

The aim in view has advised to use the language which has now become an international one. It will thus be easier to draw the attention of foreign observers to facts which will be helpful in forming an opinion on the situations and developments of an economy which is seeking the means of recovery through the broadest forms of international collaboration.

SUMMARY

Alessandro Molinari, in "Future Responsibilities of Italian Industry", after calling attention to the fact that during the last 50 years Italian agriculture has been unable to absorb the increase of population, expresses the opinion that industry will have to play the leading part in the economic recovery of Italy. Full employment and that substantial increase of industrial exports which are essential for the equilibrium of Italian balance of payments will depend — in the writer's opinion — on carrying out a plan of industrialisation.

"The Distribution of Share Capital of Italian Banking Companies" is analysed by Emanuele Rienzi on the basis of the results of a statistical enquiry ordered by the Italian Government to ascertain the distribution of the capital of Italian Limited Companies on December 31, 1945. The subject dealt with is therefore part of a broader enquiry in course of publication. This enquiry, new in Italy, throws valuable light on some controversial aspects of present-day capitalistic structure. Among other things, it ascertains in the case of Italy the degree of concentration of national and private capital, their reciprocal combinations, the connections existing between the several Companies, the extent to which foreign capital is interested in them.

In "Considerations on the Dynamics of Inflation in Italy", Giulio Pietranera presents an analysis of the growth of the inflation of the lira during the several phases of the war and during the first post-war period down to the beginning of 1947, rectifying, on the strength of some recent statistical returns, some errors of fact which have been published abroad. The analysis concludes by calling attention (part IV, pag. 44) to the historical significance of the inflationist processes in Italy and to their character, which is that of phenomena connatural to a backward and laborious development of capitalism. Considered from this standpoint, the problem of the inflation of the lira ceases to be an exclusively financial and economic problem, and tends to become also a sociological question of difficult structural transformation. If this problem is to be properly appreciated and understood it would therefore seem to be necessary that the approach be that wider and more realistic one which has had some of its more interesting manifestations in the sociological theories expressed by Italian writers of the standing of Pareto and Gini.

An additional note deals with the contents of the Report made by the Governor of the Bank of Italy, Prof. Einaudi, to the general meeting of the Bank on March 31, 1947. That Report supplies a full and critical survey of the vicissitudes of the Italian economy in 1946, and with the help of the latest particulars throws light on the play of the leading factors of the dynamic inflationist tendencies of the more recent period. The developments of the Italian monetary situation will be regularly examined in the forthcoming issues of this Review.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

All communications regarding the Review should be addressed to Banca Nazionale del Lavoro, Ufficio Studi, Rome, Via Vittorio Veneto 119.

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Stabilimento A. Staderini - Roma, Via Crescenzo 2

Future responsibilities of the Italian industry

by

ALESSANDRO MOLINARI

1. — It is chiefly to her industry that Italy must look for social and economic revival. During the last fifty years agriculture was unable to absorb even a small fraction of the high yearly population surplus, expected to remain for some years at the high pre-war level of about 350/400,000 persons. The present agricultural situation is characterized by a severe overcrowding of farm-land and cannot be improved in the short run by the projected constitutional reform of the system of land tenure.

An increase in productivity can in the long run only result from the adoption of modern methods of farming in Italy, where land ownership is divided up among a large number of medium, small and very small land-holdings (and the new reforms will result in an increased dispersion of land ownership).

Far-reaching projects of land reclamation or reform in the system of land tenure and cultivation rest on large capital investments. Their beneficial effects will be felt only in the distant future. These projects will however provide no solution to Italy's present problems, characterized by the pressing importance of the time factor. Where irrigation could give favorable returns, in suitable areas and in time (such as in the Po Valley), the minimum capital investment required would amount to 300 dollars per acre (equal to 375 million dollars for 1.25 million acres).

All this does not warrant the conclusion that agriculture should be neglected or should come second in the priority scale; indeed there is an urgent need to increase the productivity of the land, in order to raise the nutritional standards of the Italian people. This is particularly true if seen in the light of conditions likely to prevail in the coming years, when consumption will remain below normal, food

imports will be subjected to severe restrictions and the pressure of increase in population will still be high. The long and costly process involved in agricultural rehabilitation can however only give a very limited relief to unemployment. The excessive load of labor units per acre in Italy should be relieved by finding an outlet for a number of these laborers in industry.

The increase in agricultural income is also, to some extent, dependent upon industrial development, as is shown by the need of farmers for agricultural raw materials (e.g. fertilizers, etc.) and machinery. Similarly, agricultural industries (particularly dairies) and chemical-agricultural industries add value to agricultural development and are therefore, to a large extent, interwoven phenomena.

Viewed from the angle of its importance in Italy's export trade notwithstanding any possible increase in production or any improvement in the technical and commercial organization of foreign trade, agriculture cannot increase to any considerable degree its pre-war share, estimated (together with mining production) at 40-45% of total Italian exports, i.e. at 240-260 million dollars (in 1945 purchasing power of the dollar). To realize this better, it should be remembered that total domestic food consumption, as a result of the population growth (contrasting with a stationary agricultural production), has increased from pre-war while demand for Italian agricultural exports (mostly of a luxury or non-essential nature) has dropped in the war-im-poverished European markets.

2. — Social and economic rehabilitation is in Italy dependent upon the solution of two pressing problems of basic importance. First

of all it is necessary to give employment to the large number (about 2 million) of persons now out of work (their economic burden weighs directly or indirectly on the cost of consumers' or producers' goods) as well as to the yearly population growth. Emigration can provide a safety valve for Italy's population surplus only within certain limits, while it is Italy's responsibility to give security of employment and a decent standard of living to her people. World attention centers today on the problem of "full employment" and even nations, such as the United States, traditionally adhering to rugged individualism in the social and economical field, have recently proved and illustrated the social and economic advisability of this policy to which Great Britain has given so much attention. No civilized country can shrug aside this "must" of present-day civilization. For the reason mentioned above, it is industry that will have to shoulder the brunt of this new responsibility. Even assuming that, within two years, Italy's pre-war industrial capacity and industrial production are restored and that work is found for the larger part of the unemployed population, there will still be the problem of providing employment for a number of the population surplus, i.e. for at least 150,000 persons per year. The balance between total population growth (300/400,000) and the latter figure should find an outlet in emigration and in other activities, mostly commercial, which will develop "pari passu" with industrial expansion. Italy should in this way treble the yearly average influx of labor into industry, which averages 50,000 units.

The second urgent problem now facing Italy relates to the revival of her export trade. Industrialization in Italy implies a substantial increase in imports (mainly of raw materials and machinery) and a deficit in the balance of payments, at least for a period of several years when the "invisible items" (emigrants' remittances, proceeds from tourists, shipping earnings, etc.) are not likely to increase. The position will also worsen, owing to an increase in dues for interest charges, loans' sinking fund charges and war reparations. The difficult task of straightening out the Italian ba-

lance of payments falls mainly on export trade. To avoid the duration of the present maladjusted and destitute condition of the Italian economy, it is essential that Italy's export trade should develop by all available means, even by lowering domestic consumption and by adopting an austerity policy for all citizens as is done in Great Britain, France and even Switzerland.

As already stated, agricultural exports can be increased over pre-war only up to certain limits (at most they can be brought up to 300 million dollars per year — 1945 commodity value of the dollar) and, on the strength of this assumption, it is estimated that industrial exports should increase to 700/750 million dollars (from 300/350 million before the war). (1)

From the aforesaid it can be seen that all problems now facing Italian industry — political and social, technical, economic and financial — arise out of the two fundamental considerations set out above, i.e. the need for industrializing, in the shortest possible time, to a point where all existing unemployment plus an additional 150,000 persons per year can be absorbed by industry, and the need for increasing by 100% Italian industrial exports.

3. — With respect to industrialization it may be added that any possible achievement in the economic and technical field is subject to the solution of the social and political aspects of the same problem. Time-worn conceptions on relationships between State and industry are due for revision now that industry has acquired the importance of a predominant and essential factor in the economic revival and is confronted with the national

(1) The absolutely necessary minimum amount of yearly imports for the next years has been concurrently estimated by various sources (Italian Government, UNRRA, private exports) at 1,200-1,300 million dollars per year. To offset these liabilities in the balance of payments there are: a) exports of agricultural products, foodstuffs, mineral products, for about 300 million dollars (250 million before the war), as mentioned above; b) the invisible items (emigrants' remittances, income from tourist trade, freights, insurance premiums, etc.) that, very optimistically, may be estimated at 200-250 million (230 million dollars per year in the 1928-1933 period). Therefore, in order to straighten out Italy's balance of payments in the next few years, it would be necessary to rely on: c) industrial exports for about 700-750 million dollars.

task of easing the pressure of the population growth.

When free and independent industrial units become indispensable instruments of social progress and welfare with an importance that goes far beyond the limited interests of individuals and groups of individuals, it is essential that they should submit themselves to regulations and ties imposed by the constitutional powers representing the general interest of the community. This conclusion holds true, however the problem is viewed, either as the historical evolution of industrial civilization or as a temporary phase in the Italian economic situation.

Businessmen and industrialists must be fully aware of present conditions, which are international, and must work closely in conjunction with the State—which tends more and more to become a social State—with a view to finding ground for agreement and setting up agencies and organizations capable of carrying the plans to a successful completion. It is essential that industrialists should become zealous and helpful cooperators with the State in drawing up plans of reconstruction and development as already done by all other European countries (e.g. the Argentina Peron Plan) and of the Asiatic countries (China, India, Japan). In a world which plans, a poor and war-ravaged country such as Italy is forced to plan. It must be borne in mind however that plans can only be successful when the State and the exponents of the groups concerned reach full agreement and lend to each other intelligent cooperation. Although not of an exclusively economic nature, this is the first problem to be solved, upon which hangs the solution of all other problems.

4. — From the technical viewpoint the principal and most pressing problem awaiting solution is that of industrial reconversion and of modernization of plants and equipment. Obsolescence of equipment, in some branches of Italian industry, was already common before the war (2). The autarchic pol-

icy—which, inter alia, resulted in a substantial decline in the yearly investments for renewals of equipment and plants—, the exceptional wear and tear, the neglect of upkeep before and during the war, the often makeshift restorations of war-damaged plants and machinery, the long period of isolation from technical and scientific developments abroad, have all combined to lower the technical standards and productive efficiency of the Italian industry.

With respect to modernization costs, it may be advisable, before the arrival of foreign loans, to request the allocation of adequate amounts for this purpose in the budget of the industrial companies concerned (especially on the occasion of capital write-ups); these investments should be tax-exempt and should accrue to a National Fund for Modernization and Reactivation of Italian Industry, to be used in the light of the principle that individual experience should be made available to all.

At present, as a result of particularly favourable circumstances, some important export industries are inclined to overvalue their possibilities and do not see the situation in its real perspective. Demand for some products is so pressing in many countries that considerations of quality and price are somewhat disregarded (also as a result of the maladjustments in the international price structure and in the rates of exchange), but this situation is not likely to last long. All industrial countries, old and new, have proceeded far in the solution of their technical, financial and economic problems and may soon be ready to flood all continents with their products. Italy must not lag behind and must work hard to avoid commercial isolation and to avoid meeting with an economic crisis when other countries have overcome their major difficulties and their competitive position has improved and strengthened.

total machine tools operating in 1938 (those that had been in operation for over 15 years accounted for 30 to 60% of the total). The situation, since then, has substantially worsened owing to lack, or scarcity, of renewals. On the contrary, in the United States, in 1945, machine tools in operation for more than ten years accounted for 38% only, as compared with 66% in 1935 (source: The American Machinist).

(2) In Italy's engineering industry, machine tools in operation for more than ten years accounted for 50 to 70% of

In her effort to double the value of pre-war exports of industrial products, Italy will meet with stiff competition from other countries, whose internal recovery is also dependant upon the success of the export drive. Cheapness of manpower, which has been in Italy the main asset, can no longer offset shortcomings due to organizational and technical inefficiency.

It will be necessary for Italy to concentrate her export drive on industries producing "quality" products or goods valuable for their novelty; these are mainly peace-time industries which, even in other countries, have undergone limited technological developments (apart from a few exceptions e.g. it would be pointless to try to compete against American and British mass-production industries, which are far more developed). It is apparent that the all important factor in such industries is quality and productivity of manpower, which can be raised only by adopting a policy of high wages consonant with competitive costs.

Related to these problems, the problem of professional re-education also deserves attention. In Italy a large percentage of all laborers (manual and clerical) have no particular skill or have lost their former skill; for instance, many veterans from World War II, or from the wars in Africa and Spain never had a chance of learning a trade.

The proportion of semi-skilled and skilled workers to total labor has been gradually declining in Italy, whereas the levelling of wages resulting from inflation has drastically lessened any inducement for workers to improve themselves. The best workers are underpaid and seek to emigrate, as do also technical and executive personnel. Moral disruption resulting from fascism and from war has not constituted an atmosphere conducive to study and work for many young men. Professional education in all branches of economic activity, including public works development, must be the goal of a relentless drive. Each workshop, plant or shipyard must make a substantial contribution to vocational training of labor. Higher productivity will more than compensate for the expenditure incurred.

The expression "modernization of industry" must not be taken to mean simply a

perfection of the productive apparatus (and replenishment of depleted stocks), but also a perfection of industrial organization. The fundamental problem with which Italian steel and machine industries are confronted, i.e. the problem of specialization, is also to be included under the same heading. The same applies to the problems of industrial concentration, of standardization of production, of scientific organization of labor to increase output per man-hour, of commercial re-organization, etc. In other words, it can be said that "le souci du rendement doit être présent partout. La modernisation n'est pas un état de choses, c'est un état d'esprit" (3), as is said by the Monnet report on the French plan. A wholehearted drive to modernization and re-organization is most necessary in industry. But modernization can only be carried out by taking industry as a whole, with all connected factors inside and outside of industry, and not by proceeding plant by plant.

Also this shows the necessity of a plan as an instrument for achieving coordination of initiatives in the field of industry (and in all fields connected with industry, transportation, labor, financing, prices, monetary stabilization, etc.).

6. Technical re-organization of industry is a necessary preliminary to the revival of the export trade in Italy, but the re-organization must be made on a national basis.

Also in the field of handicrafts and small industries, services should be provided for information, advice, technical and commercial assistance (following the example of other countries). These could make a valuable contribution towards increasing, improving and propagandizing typical and traditional Italian exports.

7. — It would take too long to discuss here the ways and means of accomplishing greater industrialization in Italy. It is however useful to mention some key problems

(3) « there must be an ever-present atmosphere of striving for productivity. Modernization is not so much a reflection of actual conditions as an attitude of mind ».

upon the solution of which many others depend. There are two important bottlenecks affecting industrialization in Italy, i.e. the lack of development of the transportation system and an inadequate availability of power. The rehabilitation of transportation is not taking place at a pace adequate to requirements. It is vital to reach, by the end of 1947, the pre-war level quantitatively and technically, and even go beyond it, at least so far as land transportation is concerned. The greatest effort should be made towards increasing the amount of rolling stock (at present at about half pre-war) and harbour installations.

The tonnage of Italy's merchant marine, amounting now at about 40% of pre-war (including the recently purchased Liberty ships), must in the next few years be raised above the pre-war level.

Even more important is the problem relating to the sources of power, i.e. coal and hydro-electric power. Supply difficulties are not anticipated for liquid fuels. It will be necessary however, as has happened in other countries, to develop the petroleum by-products industry parallel with the progress made in the coal by-products industry for which the former will, in part, substitute. As to coal, Italy is dependent on allocations by international agencies. If these agencies intend to perpetuate the present unfortunate situation, in which it is not possible for Italy to rely on a regular and adequate flow of coal and on adequate stocks, the chances that economic disaster will be warded off in Italy, are remote.

Italy does not ask for more coal than is absolutely necessary, taking into account the present world shortage, but she feels it is her right to object to the present unfair treatment. The point can be illustrated by drawing a comparison with France. In 1938 France produced four million tons of coal per month and this level was reached again in 1946. In addition to domestic production France imported 1.7 million tons per month to make up a total monthly coal consumption of 5.7 million tons, 70% of which can now be met with domestic resources alone. But the coal allocated to France in 1946 aggregated 800,000 tons per month (including 500,000 tons from the Unit-

ed States), i.e. enough to bring the quantity of coal available in 1946 to 85% of France's pre-war requirements. Italy, on the other hand, with an internal production equal to slightly over 15% of her consumption, could only meet 40% of pre-war requirements, on the basis of intermittent arrivals from abroad. This irregular supply has not assisted the speedy recovery of the productive and transportation systems.

There is also the problem of electric power supply. The situation is particularly acute in this respect, as there has been a lack of construction of new power stations. Hydro-electric and geo-thermic stations can now supply no more than 21,000 million kWh per year. Domestic resources, if fully exploited, can provide a maximum of 17 millions tons per year or 1.4 millions tons per month (in coal equivalent), including domestic production of electric power, of coal, and of the scarce amount of charcoal, firewood and natural gas. If to this the yearly quantity imported prior to the war (13 million tons of coal and 3 million tons of liquid fuels or, in coal equivalent, 18 million tons of coal) is added, the total pre-capita consumption in Italy would amount to 750 kilograms per year, which is about one-third that of France. A plan has been drawn up for raising per-capita consumption to 1,000 Kg. per year, assuming the pre-war amount of coal and liquid fuels imported into Italy is maintained. The plan contemplates an additional production of electric power amounting to 15,000,000 of kWh in eight years, with an expenditure of 1,000 million dollars, or 125 million dollars per year. The large expenditure involved affords a clear illustration of the seriousness of the power problem which is facing Italy.

8. — It would be too long to enter here into a detailed description of how to draw up the industrialization plans for overcoming or reducing the structural shortfalls of the Italian industrial apparatus or for finding out the best channels for the future Italian productive effort. On this subject there are surveys and proposals set forth by the Economic Committee of the now-defunct Ministry of the

Constituency and by the Committee on Reconstruction of the now-defunct Ministry of Reconstruction. These studies should be evaluated and eventually carried out.

It should also be pointed out that progress in industrialization does not apply merely to the development of large industrial units. Small and medium-sized enterprises have in Italy a great opportunity. As for the "optimum" size of enterprises to secure the best employment of available factors of production in certain branches of industry, past experience has pointed to the most effective and practical solutions.

Even very small industrial units have a chance of surviving by specializing and by joining in cooperative efforts. The problem of the industrialization of Southern Italy must be foremost in all plans for productive development. Similar problems were approached in Great Britain on a regional scale (laws on the reactivation of industry in depressed areas).

9. — The financial problem is another "bottleneck" in the solution of the industrialization projects. In this respect, it is above all necessary to realize the extent of the capital investments needed.

On the assumption that the present industrial apparatus in Italy suffices to give employment to industrial laborers now out of work (without calling for substantial additional capital investment), it has been estimated that an additional number of 150,000 laborers per year can be absorbed by industry only if new plants are established with a yearly capital investment of 600 million dollars of about 4,000 dollars for each labor unit absorbed. As pointed out above, a further capital investment of 125 million dollars is necessary in order to increase availability of electric power.

The technical modernization of about 1/5 of all the Italian industry, to be carried out in 5 years, implies an outlay in the neighbourhood of 625 million dollars or a average of 125 million dollars per year (including purchase of patent rights). If to this amount expenditure for upkeep, normal renewal of plants, gradual building up of stocks, repair of war-

damage (estimated at 1,125 million dollars) is added, a global outlay of some 900/1000 million dollars per year is needed (without including rehabilitation of the transportation system). This estimate cannot be brought below 800/900 million dollars per year and then only on the assumption that some plants can work on a 16 or 24 hours per day basis (two or three shifts).

Capital investments of this magnitude raise serious problems, national and international. It should also be remembered that in addition to these, other large capital investments are equally necessary. An irrigation plan covering 1.5 million acres in 5 years implies an estimated outlay of about 90 million dollars per year: for the 10 years rehousing program (in order to restore the 1931 index of occupancy), the estimated cost is more than 300 million dollars per year. If to this amount, expenditure on agricultural rehabilitation, on rehabilitation of the inland and sea transportation system and of communication facilities, etc., is added, the estimated total yearly expenditure runs into well over 1,500 million dollars.

It is apparent however that in view of the present budgetary difficulties in Italy — the State is forced to use a large part of its liquid assets and savings — the problem can be attacked only by relying mostly on foreign loans and on investments of foreign capital (for the latter particularly by United States investors, who could supply along with the capital, technicians, patents and organizational experience).

It is also important that these foreign loans should flow regularly because any interruption or any irregularity in financing would severely hinder the realization of the reconstruction plans. Italy must call mainly on those countries that can supply the needed modern equipment and that can extend loans to cover these purchases and to restore equilibrium in the balance of payments.

It goes without saying that as a result of increased industrial production and efficiency at home, (a policy of "full" employment will be helpful in this) and of increased export trade, economic conditions in Italy will be such as to give to foreign creditors the assur-

ance of Italy's ability to meet her engagements in full.

First of all it will be necessary to allocate as large a portion as possible of the total national income to capital investment. To this end domestic consumption must be kept within well-set limits, because any non-essential consumption would result in a lesser amount of resources being used for capital investments. A control of domestic consumption would also result in a reduction of non-essential imports, in an increase of exports and in more savings.

All this throws more light on the need for planning and governmental controls (4), a policy which does not seem to worry even the most cautious foreign lenders, as is suggested

(4) The French Monnet plan says that the plan, to be successful, requires the following economic controls: a) controlled distribution and allocation of scarce materials, particularly coal and steel; b) a system of governmental licences to industries; c) controls over employment; d) controls over foreign currencies; e) controlled distribution of credits; f) a rationing system; g) price controls.

by the fact that large credits have already been extended to Great Britain, to France and to other countries where nationalization and planning are taking place to a large degree.

The Italian credit system can however, without any radical transformation, make a contribution to planning by appropriately conveying short term and long term investments where needed. The harmful control of banks by industries immediately after World War I cannot take place again.

10. — Whatever the proposed solutions, the problems of Italian industry described here are vital and must be faced. The later they are attacked the more serious they become, thus diminishing the possibility of solving them in the most efficient way. Italy's economic rehabilitation and revival is an essential element in the establishment of peace and prosperity in Europe.