Some Aspects of Italian Economy and the Theory of Full Employment

by

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1. — The full employment theory, which has developed with unprecedented vigour in the last few years, is one which reflects more especially the experience of the last pre-war decade in the leading English-speaking countries, and therefore the principles of economic and financial policy it postulates would seem applicable to them only. Therefore, when we cross the frontiers of the Anglo-American countries and of those living under similar conditions, the theory must be qualified to an extent which makes it difficult to say what remains of its original features.

The purpose of this article is to examine those aspects of the full employment theory which may be of interest to Italy, and it will therefore call attention to some special features of the Italian economy which differentiate it from that of the Anglo-Americans, studying their mutual relations as affecting full employment. The enquiry will be of value should it succeed in clearing the ground of such erroneous notions as those held by persons who accept all the principles of the said theory without drawing the necessary distinctions, or else reject them all without first ascertaining what their general value may be.

The many and diverse plans devised for rehabilitating and developing Italian economy, while apparently inspired by divergent political trends and differing in the means they propose to use, have undoubtedly been influenced by the Anglo-American theories of full employment, on which in many cases they have drawn largely.

In 1946 the Sub-Committee on the economic problems of labour, in its Report to the Ministry for the Constituent Assembly, wrote on the theory of full employment: "Although one can obviously not think of transferring to our country solutions devised to meet very different economic and social conditions in countries with totally different possibilities from ours, and although we must endeavour to find our own solutions for the problems of our labour market, to be carried out by means in keeping with our economic structure, we must, nevertheless recognise the existence of international trends which may guide us in our work of reconstruction and revival" (1).

The international aspects of the full employment theory would seem to make a comparative study of the possibilities of its application more than ever desirable. The success of such a policy depends indeed not only on the stabilisation of the economy in a given country, but also on the extent to which it is possible to stabilise the economies of the other countries to which it is bound by commercial interests.

These international aspects of the problem of full employment, already debated at the International Labour Conferences held at Philadelphia in 1944 and at Paris in 1945, and which have been brought more than ever to the fore by the efforts America is now making to assure European reconstruction, call for a prompt and thorough study of the relative economic and structural conditions of the several countries. The brief considerations here set forth have been written with this in view.

2. — In studying the theory of full employment in its relation to the Italian economy, we should first identify the fundamental characteristics of that economy, and then see in what respects they differ from those of the Anglo-American countries.

(1) Ministero per la Costituente: *Atti della Commissione per lo Studio dei Problemi del Lavoro*, vol. I, pag. 58.

Let us begin by ascertaining the size of the Italian unemployment problem and its nature.

The following figures, taken from the prewar (1929-38) statistical returns for unemployment, are compared with those for the gainfully employed population (for 1931 and 1946 the figures are those of the population censuses, and for the other years they are obtained by interpolation). The ratio of the unemployed to the working population as a whole is thus shown (Table I).

Table I

Unemployed and Working Population in Italy

Year.	Unemployed (thousands)	Gainfully employed (thousands)	Percentage of working population unemployed
1929	301	16,830	1.8
1930	426	17,046	2.5
1931	734	17,262	4.3
1932	1,006	17,478	5.8
1933	1,019	17,694	5.8
1934	964	17,910	5.4
1935	755	18,126	4.2
1936	706	18,345	3.9
1937	874	18,558	4.7
1938	810	18,774	4.3

Although the ratio of the unemployed to the working population in the last pre-war decade was not negligible (especially from 1931 onwards), yet it was small when compared to that in other countries such as Great Britain and the United States, in which from 1930 to 1938 the percentage of unemployment never fell below 10 % (except in Great Britain in 1937 when it stood at 9.9 %).

It should, however, be remembered that the unemployment statistics compiled in Italy before the war only referred to workers entitled to unemployment benefits and did not include some groups of agricultural workers (small land-owning farmers, métayers and tenant farmers) who are not subject to compulsory unemployment insurance. These groups accounted for a large part of the Italian rural population.

Another important fact to be borne in mind is that in Italy the percentage of gainfully employed to total population is very low. It rose from 41 % in 1929 to 42 % in 1938 as compared to 46.7 % in Great Britain (1931), 51.4 % in France (1931) and 49.2 % in Germany (1933). Now, while it is true that this ratio is so low in Italy partly owing to the special social structure of the country, it is also true that it is partly due to the lack of opportunities for employment. This peculiar forced inactivity closely resembles unemployment in the real meaning of the word; it may be described as "virtual unemployment" and must be remembered as a cause of the low ratio between working and total population, now further accentuated by the destruction of the war. To show what this means, we would point out that if the ratio between working and total population in 1938 had been the same in Italy as in Great Britain (46 %), the Italian unemployment percentage would have been 13 % instead of 4.3 %.

If the problem of Italian unemployment be considered dynamically in relation to one of its chief causes, the growth of population, then the situation becomes yet more serious. Each year the population of working age increases by 300-350,000 persons for whom there seems to be little chance of employment unless the country is intensively industrialised (2).

Bearing the above considerations in mind, it will be readily understood that the figures given above are only very approximate and are far from showing the real importance of the problem of unemployment in Italy in the ten years preceding the war.

The number of unemployed is now estimated at over 2 million, *i. e.* at 10 % of the working population, with due allowance for possible errors in the official returns (3).

During the pre-war decade unemployment in Italy seemed to be chiefly cyclical in character. Now, while no one would dream of claiming that the economic depression then

(2) See Pasquale Saraceno (Director of the Technical-Economic Centre for Research and Planning): *Elementi per un piano quadriennale di sviluppo dell'economia italiana* - Report to the National Economic Council, Rome, 1947 (published by the said Centre). Alessandro Molinari: *Future Responsibility of Italian Industry*, in this Review, April 1947; *Anatomia in cifre in Italia*, in the Review "*Ulisse*".

(3) See P. Saraceno, *op. cit.*, p. 5.

affecting world economy did not react on Italy to a marked degree, and therefore on her level of employment, yet it seems to us that Italian unemployment, then as now, is above all of a structural character, due partly to demographic disequilibrium.

Ever since she attained her unity, Italy's productive activities have been shaping themselves along lines similar to those prevailing in the leading Western countries, both as regards her productive system and the formation of her real income. Now, it must be admitted that this trend has led to a maladjustment between the productive structure of the country and the economic structure of its market, characterised by the abundance of manpower on the one hand and the scarcity of fixed and circulating capital on the other. It is clear that the actual and virtual unemployment existing in Italy is due to this lack of balance between capital and labour, a disparity now increased by the destruction caused by the war.

3. — Far be it from us to attempt in this short article a thorough study of such complex economic problems as are involved in the facts set out above. We may, however, state in a general way that the only solution for the employment problem in Italy lies in the elimination, or at least in the reduction, of the maladjustment referred to. Now this can be secured by one of two means:

(1) by adapting the productive structure to the economic structure of the market; or

(2) by adapting the economic structure of the market to the productive structure.

The first alternative would entail the direction of our productive system along lines less closely modelled on the capitalistic pattern, *i. e.* requiring less capital and more manpower. This would provide larger opportunities of employment for the working masses. It would seem, however, that this solution must be set aside, first, because it is more than probable that a full or partial renunciation of the productive systems of the Western countries would reduce real income per capita, and would therefore reduce the already low living standards of the Italian people. Full employment thus secured would be void of meaning. Secondly, it seems far from certain that such a structural change would really assure a higher level of employment. It is indeed clear that we could only specialise on a large scale in productive activities requiring comparatively little capital, above all fixed capital (such as certain branches of agriculture, handicrafts, and textile industries), if we could count on foreign markets to absorb their output on a similar scale. But would such markets really be available? While it is true that the output of the mass-production industries is subject to fierce competition on international markets, it is also true that competition is no less keen for farm products and the goods produced by small and medium-sized industries.

This being so, it would seem that the only practical way to obtain positive results would be to adjust the economic structure of the market to the existing productive system. The fact that in more than 80 years of national life Italy has only been able to make this adjustment on a relatively small scale, shows how complex the task is. It seems, however, indisputable that the solution of our employment problem can only be found by lessening the disequilibrium between capital resources and labour supply to such an extent as will adjust the economic structure of the market to its productive structure. And as the disequilibrium consists in a relative abundance of manpower compared to a relative scarcity of capital (both fixed and circulating), its elimination or modification can only be secured by reducing the supply of labour or increasing available capital, or by pursuing both these ends.

Now, however optimistic we may be as to the future outlook for emigration, it is difficult to foresee an outflow of labour (individual workers and family groups) equal to the natural growth of population, which is now around 300-350,000 per annum. Emigration, even in its most prosperous days, only attained such figures for very brief periods of time. We are therefore forced to the conclusion that emigration will be barely able to offset a part of the natural rate of increase of the population.

On the other hand, something more substantial might be done in the matter of capital resources. Professor Coppola d'Anna was therefore right when he recently wrote: "The

problem of employment in Italy is first and foremost a problem of capitalisation which embraces the urgent need to reconstitute circulating capital, reconstruct the economic equipment destroyed by war, and develop and improve it" (4). But there again, in the case of circulating capital (raw materials), as in that of emigration, the solution of the Italian problem is largely dependent on conditions in foreign markets and on the state of international trade. Let us then take the level of raw material supplies as only one "datum" of the problem, while insisting however on its importance as the essential condition for reacquiring the desired balance between capital and labour.

In regard to the problem of fixed capital, Italy enjoys a greater degree of liberty, for here much, if not all, depends on ourselves. Let us now go a little more deeply into this aspect of the problem.

4. — The low degree of capitalisation in Italy is well known, though only in a general way, as unfortunately there are no recent statistics that enable us to make international comparisons. The only available data are those of Colin Clark on fixed capital per capita (working population) in certain countries, but the data refer to 1913 (5). We give them in Table II for what they are worth, accompanied by those for real income per capita (working population) for the same year. Clark's figures, as is known, are expressed in international units, defined by him as the volume of goods and services that could be acquired in the United States with one dollar in the decade 1925-1934 (average).

Data on which we could base an international comparison are not available for the period following the First World War, and it is therefore not possible to show how Italy's position has changed relative to the other countries. We may nevertheless assume that Italian capitalisation increased in the period between the two World Wars to a greater degree than in other countries, though not sufficiently to reduce to any marked extent the distance separating Italy from them. We may therefore presume that the degree of capitalisation of the Italian economy was relatively low, at the outbreak of the last war.

TABLE II

Indexes of Capitalisation and Real Income

(1913)

Countries	Fixed Capital *per capita* (a) (working population)	Real Income *per capita* (working population)
United States	5160	1191
Argentina	4680	800
Canada	4590	1061
Australia	4100	742
Great Britain	3590	966
Germany	3130	704
France	3060	[illegible]
Sweden	2680	474
Belgium	2190	470
Austria	1580	452
Spain	1435	408
Italy	*1430*	*328*
Hungary	1110	220
Japan	460	128

(a) The items of fixed capital mentioned individually by Clark are: buildings, railways, agricultural capital and commercial capital.

TABLE III

Indexes of Industrialisation and Real Income

(1928)

Countries	Index of Industrialisation	Real income *per capita* (working population)
United States	722	1557
Canada	444	1587
Great Britain	403	1090
Switzerland	400	950
Germany	355	675
France	337	729
Sweden	283	660
Belgium	275	(a)
Australia	260	1127
Holland	256	951
Czechoslovakia	229	(a)
Denmark	200	655
Austria	181	(a)
Italy	*153*	*426*
Argentina	118	(a)
Spain	106	(a)
Hungary	83	(a)
Japan	74	293

(a) No figure given by Clark.

(4) COPPOLA D'ANNA: *È possibile una politica di "full employment" in Italia?*, in the Review "*Previdenza Sociale*", July-August, 1946.

(5) C. CLARK: *The Conditions of Economic Progress*, London, 1940, p. 389.

Another aspect, and from many points of view a consequence of this special situation, is the low level of industrialisation of Italian economy. Here again data for international comparisons are lacking. Nevertheless Professor Coppola D'Anna (6) has compiled a reliable index of the degree of industrialisation in some foreign countries and in Italy in 1928, showing the ratio between the percentages of the world's industrial production in the several countries and the percentages of world population represented by each of them. We give in Table III the index for the degree of industrialisation thus obtained, adding to the list of countries given by Coppola those mentioned in the previous table but not in his. The index of industrialisation is accompanied by that of real income per capita (in international units) of the same countries taken from Clark for 1928 (loc. cit. p. 148).

As these figures show, in 1928 Italy occupied a position of only secondary importance in regard to the level of industrialisation. It may be presumed that her relative position improved in the following decade, but the variation cannot have been of much importance.

5. — Although the two Tables given refer to two different periods, the relative positions of the several countries in this regard cannot have changed much in a fairly brief period, so we may note a certain correlation between the degree of capitalisation and the level of industrialisation. High (or low) capitalisation and high (or low) industrialisation are generally found together in a given economy. Argentina and Australia are exceptions to the rule that highly industrialised countries have a high level of capitalisation and vice-versa; for while they rank high for capitalisation they occupy a secondary position as regards industrialisation. This can be explained, in our opinion, by their special economic and geographical structure, which has led, for instance, to very large capital investment in railways.

A study of the two Tables suggests another observation. Not only is the degree of capitalisation related to that of industrialisation, but there is a close correlation between each of these degrees, taken singly, and real income per capita, expressed by the coefficient of 0.943 in the case of capitalisation and 0.733 in that of industrialisation.

The data given in Tables II and III point to the fundamental difference existing between the two leading Anglo-American economies in which the theory of full employment grew up, and the Italian economy. These figures show that Italian economy is markedly under-capitalised, under-industrialised, producing a low level of income, as compared to the Anglo-American countries. In saying so, we only repeat well-known facts which must however be borne in mind for the purposes of this study.

We must now ascertain whether there exist not only correlations but also functional connections between the three terms discussed (capitalisation, industrialisation, and real income), and if so, which are the independent variables and which the dependent. There seems to be no difficulty in doing so, for it is clear that, at least within certain limits, those functional connections exist and that the main independent variable can only be the degree of capitalisation. The level of industrialisation is an independent variable in relation to real income per capita, but is, in its turn, a dependent variable in relation to the degree of capitalisation. Lastly, real income is a dependent variable; in particular it is a function growing with the degree of capitalisation and with the level of industrialisation. The latter connection is, however, in practice, less definite than the former, as is shown by the coefficients of correlation mentioned above. This can be readily explained when we reflect that the level of industrialisation, in that it deals with only a particular sector, though a very important one, of the national economy, is less important for the formation of income than is the degree of capitalisation.

Substantially, the above statement means that the real income of a country is closely dependent, in the first place, on the degree of capitalisation attained by its economy, and, in the second place, on the level of industrialisation in that economy. It follows that the fundamental problem for Italy is that of *capital investments*, inclusive of those of a typically industrial character. But if this be true in normal times, it is all the more so today when

(6) F. Coppola D'Anna: *Economic Progress and Capital Investments*, in the Review of the Economic Conditions in Italy, of the *Banco di Roma*, July, 1947.

national wealth, reduced by war, has to be rebuilt. The most recent calculations place the cost of reconstruction, limited to the replacement of the machinery destroyed or worn out during the war, at 250-275,000 millions of 1938 lire, equivalent to 13-14,000 million pre-war dollars.

6. — After having said this, it can safely be affirmed that the opportunities for profitable employment of manpower in Italy are strictly conditioned by the accumulation of capital, on the supposition of an adequate influx of raw materials.

We know that the rapid accumulation of capital is only possible when the creation of savings is equally rapid, and this can only reach a satisfactory level when real income per capita is high. In Italy, even in normal times, the real income is low, all the more so today as a result of the war. It follows that the quota of income which can be saved is quite insufficient when compared to the need for investment. To increase savings, income must be increased; but income can be increased only when investments increase, which, in their turn, are conditioned by the volume of savings. The difficulties implicit in this delicate point of Keynes's theory, and the discussions to which they have given rise, are well known. The characteristic feature of income, which at first sight is held to be that of a dependent variable, is considerably limited by the initial need for a savings fund to set in motion the consumption-investments-income-savings mechanism. It would therefore seem to be a vicious circle, leaving no possibility of solution.

To break this circle, efforts must evidently be concentrated on *savings*. Nothing must be neglected which can encourage the formation of savings, and any diversion of income towards non-essential investment should be avoided. It cannot be said that these conditions now exist in Italy; a large share of income goes into luxury trades, and in our situation, especially at this time, this must mean a waste of energy and therefore the destruction of wealth (7). But even when an increase in the share of income devoted to savings has been secured, the task is not completed. Savings must be invested in the most productive manner possible. The reconstruction of capital resources destroyed or damaged by the war, and more especially fixed capital in industries, should provide for many years to come an opportunity for the profitable investment of national savings. Foreign loans, of which there has been much talk of late, will only be valuable in so far as the national economy is definitely directed along the line here described.

Professor Saraceno (op. cit. Chap. III) has recently estimated the total need of capital investments in Italy for the four years 1948-52 at 7,200 millions of dollars, distributed as follows: 2,500 millions for public utilities; 1,500 millions for buildings; 1,700 millions for land reclamation and public works; 1,500 millions for the manufacturing and mining industries.

This mass of investment would call for an increase of capital within the country which could only be provided by an influx of imports (financed by foreign loans) to a value estimated by Saraceno at 2,500 millions of dollars.

Evidently the recourse to national savings would still be a pretty heavy one for an income increasing as slowly as does that of Italy. How heavy it would be is shown by the ratios — postulated by Saraceno — between investments, available goods, and income produced (Tab. IV):

While treating these estimates with all due caution, the percentage of investments mentioned may be accepted as indicative of the growth of savings that would be necessary to carry out the "plan". One can see how great would be the restriction of consumption that the Italian people would be called on to face.

But if the full employment problem is to be solved in Italy, a vast and general programme of capital investments would have to be accompanied by action in another special field: it would be necessary to intensify the process of capitalisation and industrialisation in Southern Italy. One cannot over-emphasise the fact that the elimination, or at least the lessening of the economic disequilibrium between Northern and Southern Italy would greatly facilitate the solution of our most thorny problems. In his "Four Year Development Plan" Saraceno lays special emphasis on the problem of Southern Italy and advocates a regional distribution

(7) See C. Gini: *On National Income*, in this Review, July, 1947, p. 63.

TABLE IV

Years	Income produced (thousand million dollars)	Available goods (thousand million dollars) (a)	Investments (thousand million dollars)	Ratio of investments to income %	Ratio of investments to available goods %
1938 (b)	9.3	9.3	1.6	17,20 (10,75)	17.20
1946	6.1	6.5	0.6	9.83	9.23
1948 – 49	8.3	9.4	1.4	16.86	14.89
1949 – 50	9	9.9	1.7	18.88	17.17
1950 – 51	9.9	10.5	2	20,20	19.04
1951 – 52	11	11.4	2.4	21.81	21,05

(a) Available goods correspond to the total of goods produced and imported, after deducting the value of goods exported and consumed by foreigners in Italy.

(b) It has been calculated that in 1938 there was an investment of 1.0 thousand million dollars and an expenditure of an exceptional kind, *i.e.* in excess of the normal, on defence works, amounting roughly to 0.6 thousand millions, a total amount of 1.6 thousand million dollars. The first percentage given for 1938 (17.2 %) refers to this global amount. The second (10.75 %) to the normal share only.

of the programme outlined above in such a way that a large share of the expenditure on investments be made in Southern Italy and the Islands (8).

We may therefore conclude that the problem of employment in Italy is not only a problem of the accumulation of capital and therefore of national savings, but is also a problem of regional distribution of capital investments and therefore of their control.

7. — The arguments set forth above make it unnecessary to discuss at length the possibility of applying to Italy the full employment policy now advocated by modern Anglo-American theories. The most common and most widely accepted analysis of the Italian problem is that the dangers threatening our economy are not those which threaten an economy of the American or British type, where the volume of savings is in excess of the opportunity for investing them, and where there is therefore an inadequate demand for capital. Our danger is rather that of the deficiency of savings which accentuates the disparity between capital and labour. The main problem — as stated by the theorists of full employment — is that of demand and not of production. In Italy this statement should be reversed. The economic policy our country needs is first and foremost a policy of encouraging production, and attention should be devoted to securing the highest possible quota of savings directed to productive investment rather than to assuring an outlet of some kind for our production.

The best known writers on full employment — for instance, Kalecki — recognise this principle as a necessary supplement to their doctrine:

"It is thus evident that a prerequisite of full employment is a proper relation between existing equipment and available labour. The volume of equipment must be adequate to employ the available labour and still allow for reserve capacities. If the maximum capacity of equipment is inadequate to absorb the available labour, as will be the case in backward countries, the immediate achievement of full employment is clearly hopeless...

In an economy where plant is scarce, it is thus necessary to have a period of industrialisation, of reconstruction, during which the existing equipment is expanded at a rather high rate. In this period it may be necessary to have controls not unlike those used in war-time. Only after the process of capital expansion has proceeded sufficiently far is a policy of full employment of the kind described above possible" (9).

It should nevertheless be observed that the measures proposed and adopted by a controlled

(8) The grave and permanent economic depression from which the Southern provinces are suffering—accounting for not less than 1/3 of the total Italian population—depresses the whole national income. It should be remembered that the average per capita income in 1938 (estimated at 2,650 lire 1938) was the result of a calculation based on a per capita income in the Northern provinces of about 3,300 lire, and a per capita income in the Southern provinces not exceeding 1,800 lire. It will therefore be necessary in the case of the South to eliminate, or at least modify, the initial disadvantage by outside intervention, in keeping with the current doctrine on depressed areas.

(9) *The Economics of Full Employment*, prepared by the Oxford University Institute of Statistics - Part II: *Three Ways to Full Employment*, by M. KALECKI, p. 43.

economy in war time, and the programme of economic intervention arising from the theory of full employment, have much in common and react on one another. A great deal has been written about the war-time economy, and it has been formally studied as an economy of full employment (10); consideration has been given to the possibility of supplementing a policy of full employment by measures suited to war-time economy or one of preparation for war, and even of a collectivist economy (11).

On the other hand, the satisfactory Italian recovery as regards production and supply of raw materials and power-producing units, substantially modifies the conditions on which the possibility of applying the theory of full employment depends. This recovery, and the good hopes for its future development, should make one cautious in considering the theory upheld by those who draw from the contrasting positions of "have" and "have-not" nations conclusions which would entirely rule out the possibility of applying a policy of full employment in Italy and in all those other countries — for instance, most of the European countries — in which population is relatively large and capital reserves relatively scarce. The "typical" antitheses that Professor Gini (12) notes between the anti-savings theory in America and the theory of savings in Europe, should be considered in all the complexity and wealth of historical conditions from which they arise, and which give them practical significance. From this standpoint, the high level of capitalisation in Great Britain places that country closer to conditions prevailing in America than to those prevailing in Europe, notwithstanding her relatively large population. Gini does not mention Great Britain, but that country is evidently in the position just referred to. The mere fact that the anti-savings theory, if it did not arise in Great Britain has certainly found there its fullest elaboration in the theories of Keynes and the modern theory of full employment, would be enough to prove it.

We may therefore conclude that when once the several parts of the modern theory of full employment have been related to the different structural features of the several economies, it must be admitted that the guiding principles of that theory can have a general application. We do not wish to enter into a detailed discussion of the different measures advocated by the full employment theory; suffice it to note, for instance, that measures designed to encourage capital investments and to control their distribution may find suitable application in Italy. Moreover, apart from individual economic policies which may be followed, there is a whole series of general principles applicable in all countries. These principles, to which the theory of full employment has given a solid scientific basis, are:

(1) the recognition of Government responsibility for ensuring the full employment, or at least a high level of employment, of the national productive energies;

(2) the coordination of national economic activities with a plan for full employment, or at least with general plans having that end in view;

(3) the administration of the public finances in conformity with the new principles ("functional" finance) which consider the balancing of the State budget not as the principal aim but as subordinate to the aim of balancing the national economic budget;

(4) the making of theoretical and statistical studies on a macroscopic scale which should pivot on the fundamental notions of national income and national expenditure.

We certainly do not mean by this that all countries, Italy included, should accept these general principles merely because they are generally applicable; but to whatever group a country may belong (rich or poor, with a high or low density of population, with a high or low level of capitalisation and industrialisation, etc.), it will benefit from a re-examination of its special problems in the light of the new general principles introduced by the Anglo-American theory of full employment.

(10) See: League of Nations: *The Transition from War to Peace Economy*, 1943, p. 10. - W. H. BEVERIDGE: *Full Employment in a free Society*, p. 36.

(11) W. H. BEVERIDGE, *op. cit.*, p. 36.

(12) C. GINI: *La teoria europea del risparmio e la teoria americana dell'antirisparmio*, in "*Rivista di Politica Economica*", June, 1947.