

Italy's Five-Year Plan *ex Post*

1. Foreword

The five-year period covered by Italy's first national economic Plan came to an end in December last year, so now it is possible to make a limited statistical assessment *ex post* of its results. We will confine our comments to a few of the quantitative forecasts made, without analysing the cause of the divergence between forecasts and actual performance (*).

2. Employment

According to the 1966-70 Plan, the working population was to have increased from 20.38 millions in 1965 to 20.98 millions in 1970, a rise of 0.60 million over the five years.

In point of fact (taking into account the successive rectifications made by the Central Institute of Statistics), the working population decreased during the five years from 19.92 to 19.57 millions, a decline of 0.35 million.

The actual trend was therefore below the Plan's forecast: $-0.35 - 0.60 = -0.95$ million.

Overall employment was estimated by the Plan at 19.58 millions in 1965 and at 20.38 millions in 1970, an increase of 0.80 million. On the contrary, statistics indicate 19.37 and 19.11 millions, respectively, a decline of 0.26 million. The forecasting error therefore comes out at $-0.26 - 0.80 = -1.06$ millions, and is of the same order of magnitude as the preceding one.

The Plan made separate forecasts for employment as between agriculture and the other sectors: in the first, a decrease of 0.60

(*) The text that follows is a condensed version of the original article in Italian, published in *Moneta e Credito* of June 1971; this article can be referred to for more complete details and the sources of statistical data quoted.

million, in the second an increase of 1.40 millions, resulting altogether in the aforementioned increase of 0.80 million. The actual pattern of employment by sector was the following (in millions):

Years	Agriculture	Industry	Others	Total
October 1962 (max.)	5.95	8.36	6.37	20.68
October 1965	4.96	7.73	6.68	19.37
October 1966	4.62	7.72	6.67	19.02
October 1967	4.54	7.80	6.88	19.22
October 1968	4.22	8.00	6.81	19.03
October 1969	3.92	8.14	6.90	18.96
October 1970	3.71	8.29	7.11	19.11
Changes 1965-1970	-1.25	+0.56	+0.43	-0.26
		+0.99		

In agriculture the actual decline in employment was double that forecast; in the other two sectors the actual increase in employment was 30 per cent below the forecast. Thus, two forecasting errors were combined: -0.65 million in agriculture and -0.41 million in the other two sectors; altogether -1.06 millions as above. This forecasting error, however, was not reflected in unemployment, which remained more or less constant at 3.3 per cent of the working population, as compared with 2.9 per cent given in the Plan.

In conclusion, the Plan underestimated the structural transformation of the Italian population from professional situations to non-professional situations; it greatly underestimated the agricultural exodus; and it overestimated the increase of employment in industry and in the tertiary sector, that is, it underestimated the effect that technological progress and capital deepening were to have in raising the output of goods and services without causing a proportional increase in employment.

3. Inflation

The Plan disregarded the problem of inflation: it assumed as an implicit hypothesis a "substantial stability of prices". Actually, in the 14 previous years (from 1951 to 1965) the index of prices

(GNP deflator) had risen by an average of 3.6 per cent per annum, and it had continued to rise in the five following years, on average, by 3.4 per cent.

In the case of wages, the Plan assumed an increase equal to that registered by average productivity. The actual increase was far greater. No exact statistical reference is available: taking 1966 as a basis, basic wage rates in industry had risen by 40 per cent at the end of 1970.

4. GNP

The Plan forecast an average annual growth of 5 per cent of GNP at constant prices over the five-year period. The actual growth was 6.0 per cent, *i.e.* higher than forecast. The annual rates of growth have been falling in recent years: 6.1 per cent in 1966, 6.5 per cent in 1967, 6.1 per cent in 1968, 5.9 per cent in 1969 and 5.1 per cent in 1970.

The Plan also gave forecasts of the national product at factor cost for the large sectors of industry. In the Table below a comparison has been made between forecasts and the actual trend of the annual rates of growth, *d*, at constant prices:

Sectors	Plan <i>d</i>	Actual course		
		1965	1970	<i>d</i>
		(milliards of 1963 lire)		
Agriculture, etc.	+2.85%	4,115	4,578	+2.0%
Industry	+7.00%	11,297	16,430	+7.8%
Tertiary sector	+4.15%	10,718	14,624	+6.3%
Public Administration	+3.65%	3,537	3,859	+1.8%
Total	+5.00%	29,487	39,491	+5.7%

In the case of the tertiary sector and industry, the actual rates of increase exceeded the forecast; for agriculture and the Public Administration they remained below the forecast.

As to reducing the Mezzogiorno (Southern Italy) gap, the Plan's targets, as is known, were not reached.

5. Consumption and Investment

As regards the distribution of total resources between consumption and investment, the Plan did not give annual figures but only estimates for the five-year period as a whole. The comparison between forecasts and actual performance can be made in terms of percentage shares of total resources, as follows:

	Plan	Actual performance				
		1966	1967	1968	1969	1970
Consumption:						
private	60.2	66.5	66.4	66.3	65.9	66.0
public	16.7	13.3	12.7	12.8	12.3	11.9
Total	76.9	79.8	79.1	79.1	78.2	77.9
Investment:						
directly productive	13.4	11.2	12.0	11.4	12.1	13.1
social	9.7	8.9	8.9	9.6	9.8	8.9
Total	23.1	20.1	20.9	21.0	21.9	22.0
Total resources	100	100	100	100	100	100
of which:						
Gross National Product	99.8	103.6	102.5	104.2	103.2	101.0
Net imports	+ 0.2	- 3.6	- 2.5	- 4.2	- 3.2	- 1.0

The Plan therefore substantially underestimated the share of private consumption: this was 66 per cent of the total instead of the 60 per cent forecast. The share of investment was less than that forecast. In the overall formation of resources, there was an unforeseen net surplus of exports (see later).

6. Saving

The Plan forecast that gross saving (net saving plus amortizations) would reach 43,230 milliard lire at 1963 prices over the whole of the five-year period; this total was to be composed of 38,100 milliards of private saving and 5,130 milliards of public saving.

In the absence of statistical data from which a direct comparison can be made, we have ourselves made an elaboration of the statistics, which gives the following amounts (in milliards of lire at 1963 prices).

Years	Net saving			Amortizations
	Private	Public	Total	
1966	4,900	100	5,000	3,100
1967	4,740	760	5,500	3,260
1968	5,530	530	6,060	3,420
1969	6,420	200	6,620	3,610
1970	6,400	320	6,720	3,810
Total	27,990	1,910	29,900	17,200

On this basis, one infers that private saving (plus amortizations) exceeded the forecast by about 20 per cent; public saving was considerably less than forecast, *i.e.* by about 60 per cent; total saving exceeded the forecasts by about 9 per cent.

7. Financing of Investment

The Plan forecast that the 43,230 milliards (of 1963 lire) of overall investment would be financed by means of:

— self-financing:

public sector	4,680
private sector	19,000
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	23,680

— recourse to the monetary and financial market:

public sector	7,900
private sector	11,650
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	19,550
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	43,230

An exhaustive comparison between forecasts and the actual trend would necessitate lengthy elaborations of financial and monetary statistics. To deal with only one aspect of the question, the figures regarding net security issues can be quoted (in milliards of current lire):

Issues	1966	1967	1968	1969	1970	Total
Treasury and for account of the Treasury	1,568	1,011	1,297	1,560	1,297	6,733
Other bonds	1,279	1,419	1,795	1,790	1,512	7,795
Shares	470	396	473	681	1,011	3,031
Total	3,317	2,826	3,565	4,031	3,820	17,559

Recourse by the public sector to borrowing was certainly greater than had been foreseen: in fact, it includes the above mentioned issues of securities for 6,700 milliards, plus an outstanding share of the "other bonds", plus recourse to bank credit and to the monetary market. As to the private sector, self-financing most probably fell below the forecast; resort to the market — shares and bonds — was relatively modest; the bulk of financing requirements was covered by indebtedness with banks and special credit institutes, with which we are not dealing here.

8. Balance of Payments

The Plan gave a concise forecast of the current items of the balance of payments for the whole five-year period, as follows (in milliards of 1963 lire):

Exports f.o.b.	+26,650
Imports f.o.b.	-29,350
Services, surplus	+ 2,250
Balance on goods and services account	- 450
Unilateral transfers	+ 850
Balance of current items	+ 400

It did not take account of capital movements, assuming implicitly that they were in balance.

The figures of Italy's balance of payments during the five-year period 1966-70, in millions of dollars, are shown and analysed in *Italian Trends* of the Banca Nazionale del Lavoro, April 1971. Exports, f.o.b. amounted over that period to 32,500 milliard lire and imports, f.o.b. to 31,000 milliards. Allowing for a price increase of, roughly, 8 per cent for exports and 5 per cent for imports, it can be concluded that the Plan's forecasts were exceeded by about 10 per cent for exports, while those for imports were confirmed.

The Plan instead underestimated the surplus balances for services and unilateral transfers; and above all, it disregarded Italian capital exports, which on the other hand, grew to a very large size: balance-of-payments data indicate a net deficit balance for capital movements (including errors and omissions) of 5,500 milliards of current lire over the five-year period.

Altogether, the balance of payments closed almost in equilibrium over this period (a surplus of 380 milliards of current lire). The Plan's forecast was thus fulfilled owing to the fortuitous offsetting effect of two big opposite errors in its two sections.

Italy's National Accounts provide, in the national economic balance sheet, global figures, in milliards of 1963 lire, that are comparable with the above mentioned forecasts:

	1966	1967	1968	1969	1970	Total
Exports of goods and services	7,211	7,657	8,879	10,105	10,714	44,566
Imports of goods and services	5,982	6,736	7,276	8,776	10,289	39,059
Net exports	1,229	921	1,603	1,329	425	5,507

The Plan's forecast of a small surplus on net imports of goods and services of 450 milliard lire, which were to have been added to the gross national product, was completely upset by the real trend: in the five-year period there was a big surplus in exports of resources (of 5,500 milliard 1963 lire) corresponding to 2.7 per cent of GNP.

9. Conclusions

Some of the Plan's forecasts were confirmed or even exceeded by the actual performance: growth rate of GNP, expansion of the industrial and tertiary sectors, private saving, foreign trade, overall surplus of the balance of payments. Others, on the contrary, failed more or less seriously to materialize: employment, price stability, the gap in the Mezzogiorno, propensity to consume, public saving, financing of investments, exports of capital. All this goes to confirm the difficulty of formulating a national economic programme, given the complexity of a great modern country, even when high human and technical skills are available.

Several interesting lessons can be drawn from the foregoing analysis; extenuating circumstances connected with inexperience in relation to the 1966 Plan could not again be conceded for successive Plans.

The complexities mentioned counsel what might be termed a humble-minded approach when it comes to laying down quantitative forecasts: the 1966 Plan displayed excessive pretensions compared with analytical abilities.

Even with the best will in the world of the public planner, there is always the risk of overlooking the compatibility between targets and means: the pressure of sectional requests tends to push the targets beyond what is reasonable and afterwards they remain on paper.

Moreover, the model or mechanism of the quantitative inter-relationships must be clearly explained, in the interest of the public planner himself as well as of those not actually concerned with the job: the basic assumptions, functional relationships, demonstration of the parameters and coefficients adopted, annual data coherent with the National Accounts and not quinquennial aggregates that cannot be verified. The public planner must consequently run a risk of making forecasts that are not fulfilled, without taking refuge behind a verbose and intricate form of speech or writing. The 1966 Plan fell seriously short in this respect, and "Project 80" (*i.e.*, an introduction to the second Plan) shows only a modest advance.

Then room should be left in the programme for revising, during the five-year period, figures and parameters in the light of experience. With the 1966 Plan, various of its figures had already been

repudiated at the very time when it was published; and it offered no possibility of modifying them during the three following years.

Finally, a banal observation. By definition, the programme concerns the future and not the past: on the contrary the 1966-70 Plan was published in August 1967, when a third of the five years had already elapsed. And today there is again talk of a 1971-75 programme that has hardly been begun; in other words, we are repeating the old mistake. The difficulties, whether technical or not, connected with the preparation and approval of the programme are known, but they must not make us forget the calendar: if the second programme is to be published this year, it should relate to the five-year period 1972-76; if in 1972, to the five-year period 1973-77, and so on. One or more years would thus be deprived of a programme; and when all is said and done, this would not be a disaster.

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