INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT ON THE
DEVELOPMENT PROGRAM OF SOUTHERN ITALY

May 21, 1951

Economic Department
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The Economy of the South of Italy

1. The South of Italy is an underdeveloped area within a developed country. It has all the characteristic features of an underdeveloped country: an agrarian surplus population, open and disguised unemployment, a low income per head ($150 per annum as against the national average of $212 and the Northern Italian average of $240) and a rate of progress lower than the rest of the country. But it also has assets which other underdeveloped countries lack: availability of administrative, managerial and technical know-how, a potential supply of additional skilled and semi-skilled workers from the North and a local capital supply which, though not sufficient, may be larger than the supply in most other underdeveloped countries. The economic resources of the South consist mainly in good, cheap and adaptable manpower, in land which although on the whole poor, is capable of considerable improvement and development, and, last but not least, in some social overhead capital in railroads, roads, and public utilities, which is considerably better than the situation in other underdeveloped countries. There should be, therefore, better prospects of success for a development program in the South of Italy than almost anywhere else in the world.

2. Southern Italy was not always less developed than Northern Italy. The unification of Italy in 1861, which might have meant an economic integration, had a disintegrating effect on the economy of the South. The abolition of internal and the lowering of the external tariffs ruined industry in the South, which was as developed as that in the North but more dependent on protection. When the free trade policy was subsequently abandoned, the industrialization in the late 1870's and 1880's in Italy benefitted mainly the North but not the South. The difference in economic development and income per head became steadily more accentuated. In point of fact, Southern Italy had already reached between 1860 and 1870 an economic saturation level which it has failed to overcome during the last eighty or ninety years. Out of the total population increase of 9.4 million in the South, between 1861 and 1936, only 0.2 million found productive employment there; 4.1 million swelled the ranks of the unproductive or unemployed people; 1.3 million represented the increase in the number of children; and fully 3.8 million people emigrated either to the North or abroad. In other words, about 5% of the increase in population found productive living in the South, while 95% had either to emigrate or to remain unemployed. It may be noted that more than half of the increase in population remain practically unemployed while less than half succeeded in migrating.
3. The situation threatens to become even worse at present because the possibility of absorbing emigrants from the South is very much diminished in the North of Italy. Administrative measures impede moreover the small degree of internal migration that would otherwise still be possible. Emigration abroad, while vitally important, cannot possibly provide a sufficient outlet for the increase in population in the South.

Italy's Development Problem

4. "The problem of the South" is not just a regional question. It is a national problem for Italy as a whole and has been recognized as such for many decades. Italy's current population is 46 million, of which 20 million are employed. In spite of an annual emigration of 100 - 150 thousand, there are 1 3/4 million fully unemployed workers and about 2 million in disguised unemployment on the land. With 10% fully unemployed and another 10% in disguised unemployment Italy has the highest structural unemployment in Europe and percentually one of the highest in the world. An investment program which could employ as large a part as possible of the presently unemployed and of the expected increase in population is therefore an obvious necessity for Italy. Three different solutions of this problem are conceivable.

The first might be a large-scale industrialization program in the North. Many difficulties, however, stand in the way of this solution. There would be considerable uncertainty regarding markets for the newly produced industrial products. An industrialization program in the North would mainly benefit the North and not the South, apart from some migration outlet to the North. More houses would have to be built in the North for the immigrants from the South while existing housing, however poor, could be used to a large extent in the South and could thus save a high proportion of capital required for development. The development of Southern Italy on the other hand would place many contracts for the industries in the North and would thus benefit the North as well as the South. Finally, an industrialization program for the North has not been worked out while an extensive development program for the South has been the subject of continuous studies for the last four years.

The second way of implementing an investment program might be an industrialization program in the South. Again, however, the same difficulties which obtain in the North would also obtain in the South. There would be uncertainty in finding proper markets for the new industrial products. There would be additional difficulties in transforming the Southern Italian peasants into industrial workers, a task which cannot be successfully achieved within a few years.

A third way has been chosen: a large-scale development of agrarian resources, the details of which are described under Point 8. This is a cautious and safe way to proceed. People are employed where they prefer to live and are employed in the form of work which they prefer to all others. The increase in output secured by such development policies will find established markets at home and will also find established markets abroad for exports in which the comparative advantage is clearly in favor of Italy.
The Priority of the South in the Italian Development Policy

5. Four economic cases and one social one for the priority of the South in the Italian economic development policy may thus be enumerated:

i) There is plenty of undeveloped land and of unused manpower in the South. It would take a great deal of effort, time and capital to retrain the Southern Italian peasants into industrial workers. Employing these workers for land reclamation would increase income without drawing on scarce resources by using manpower which could not otherwise be used. In the process the manpower will get some training while doing work they like.

ii) The development program in the South will not only provide work on the spot but will also give many contracts to industry in the North which will benefit thereby. An industrialization program in the North, however, would hardly use any of the Southern Italian resources and would thus only aggravate the existing disparity between the two areas.

iii) No preliminary work on investment and projects has been done for the North. It exists for the South. While there are single projects for the North of Italy which might be directly more profitable, they are too few to provide a minimum investment program capable of generating enough momentum to create a new economic structure in Italy.

iv) The lower wages in the South are not a sufficient incentive for investment. Without a changed economic framework, the long-run flow of investments in Italy would become smaller and the bulk of them would continue to go to the North. If present conditions continue, we might see in the 1960's, 40 million people concentrated in the North and only 10 million in the South. Expensive new housing and other not directly productive capital investment would have to be provided in the North where in the long-run the over-concentrated population might produce economic congestion, i.e. diminishing returns. It would then be too late to reverse the process since capital assets in the South, far from being increased, would not even have been maintained at the present level. The end result would be an economic loss to the whole of Italy.

v) Social case: Without a development program in the South, a social explosion is bound to occur which would upset not only the South but also the stability of the whole Italian economy.

The primary task of the development program in the South is to employ unused resources and to create an economic structure which would attract a flow of private capital sufficient to secure a higher standard of living in
the South and a more balanced economy for the whole of Italy. The achievement of such a program will require a certain minimum investment over a period of several years. The result would be fuller utilization of existing unused capacity, modernization of present industrial facilities and the creation of additional ones. Both the direct and indirect profits accruing from the investment must be taken into account as well as the new investment opportunities created, although the latter may only emerge after the first phase of the program has been successfully achieved in four to six years time. In a way, therefore, the entire investment of the first phase may be considered as foregoing somewhat higher profits in the short-run for the sake of securing more profits in the longer-run.

The Agrarian Problem

6. Since the bulk of the plan concerns the development of agriculture in the South, a brief survey of the agrarian problem in Italy might help to appreciate its design.

In Italy, half the population live on the land. In 1936, 8.6 million people (over ten years old) were engaged in agriculture. The density of the population is very high; there is not much of this land and a high proportion of it, especially in the South, is poor. "The difficulties are compounded by the fact that the land and the people living on it are very old. They both suffer, therefore, from an age-old exploitation and from the accumulation of ingrained habits and traditions which, whether good or bad, are not easily altered." (M. Einaudi, "The Italian Land," Social Research, March, 1950.) The agrarian problem is thus very complicated. No one single measure of "agrarian reform" can easily or speedily solve it.

Distribution of Agrarian Population. The population engaged in agriculture can be divided into three groups:

(in thousands)

(i) Owners, crop-sharers (mezzadri) and tenants  
5,400

(ii) Mixed group, combining two or three of the above functions  
840

(iii) Laborers on daily, annual and combined wage- and crop-sharing basis  
2,320

Most of the first and half of the second category are well employed and more or less satisfied. Most of the third and half of the second category (2.7 million) are very poor, underemployed and form the landless rural proletariat longing for ownership or the greater security of better and more regular work. Their longing can unfortunately be satisfied only very slowly and to a limited extent.
Distribution of the Land. Of Italy's 70 million acres of cultivable land, 54 million acres (77.5%) are individually owned and around 16 million acres (22.5%) are publicly owned. Two-thirds of public land is owned by municipalities, most of it poor land of which 74% is in mountainous regions.

The individually owned land is distributed as follows:

(Per cent of the Total Acreage)

| (i) holdings under 25 acres (in this group 5 million units have under 1.25 acres each, and one-half of the whole acreage is divided into units of under 5 acres) | 42 |
| (ii) 25 - 250 acres | 32 |
| (iii) 250 - 1,250 acres | 17 |
| (iv) Above 1,250 acres | 9 |

Practically nowhere in Northern Italy is there an economically excessive concentration of land ownership. Where there are large estates in the Po Valley, they are most intensively cultivated with heavy capital investment. In Tuscany, large estates are divided into smaller farms so that legally the units are large but in actual use they are small.

The worst agrarian problem exists in the South. Only one-tenth of the area, the part along the coast, is intensively cultivated, largely in small holdings. This region supports half the peasant population and is more than seven times as productive as the rest of the land. The irrigated area, only 12% of the total irrigated area of Italy, amounts to only 5.5% of the acreage in the South (compared with 26.5% in the North) and can be increased by 60% to 8.8%. Almost nine-tenths of the total cultivable areas in the South are extensively cultivated areas, of which (a) 5 million acres are in latifundia (large estates) and (b) several more million acres are in very small holdings owned by several hundreds of thousands of peasants. Peasants frequently own several widely separated patches of land and in addition rent a few from large estate owners. The latifundia are therefore frequently atomised into thousands of unrelated pieces of land, without a common plan of production. Both large and small holdings constitute a problem in the South. The integration of small units is as important as and even more difficult than a redistribution of the large ones.

The Agrarian Reform, in the narrower sense of redistribution of land, cannot solve the agrarian problem by itself. There is not enough land to distribute and most of it is poor. Intensive studies of new rotation plans, training of peasants and preliminary investments in cottage building and land reclamation are necessary if the achievement of socially most desirable ends is not to be had at the expense of agricultural production. The legislative action on agrarian reform has resulted so far in two laws.
(a) Legge Sila (passed 1950), which created a Sila authority to administer the agrarian reforms in the province of Sila. The territory of Sila covers 1,250,000 acres. Estates of more than 750 acres may be redistributed with the exception of those which are either well cultivated or not cultivable at all. The redistribution is to be accomplished within three years. The land-owners are to be compensated one-fifth in cash and four-fifths in bonds. From the detailed studies which preceded the passing of the law by almost a year, it is estimated at present that 200,000 acres of the 1,250,000 will be redistributed.

(b) Legge Stralcio (passed October 1950) foresees the establishment of similar agrarian reform authorities in other Italian provinces, notably, Basilicata, Puglie, Maremma Toscana, Campagna Romana, Fucino, Bassa Valle Padana and Sardinia. Discussion of similar measures for Sicily is still going on among regional Sicilian authorities -- a total of 1.75 million acres is to be redistributed.

The Government program of redistributing 2 - 4 million acres must remain a distant goal. At best, 80,000 to 100,000 acres can be distributed per annum, settling 4,000 to 5,000 families and providing work for about 8,000 to 10,000 workers. Since little preparatory planning has been done as to what the new settlers should produce and with what means, it would be physically impossible to organize the work at any quicker rate. The agrarian reform can achieve its purpose only in coordination with land reclamation programs such as are foreseen in the present development program of the South. Effective land redistribution of 2 - 4 million acres must take about twenty to thirty years if a conflict between its economic and social effects is to be avoided. The fear of agrarian reform in some quarters has had two good effects: it has accelerated private sales to small proprietors which proceeded during the last two years at a rate four to five times higher than the normal one, and it has encouraged the estate owners to proceed with land reclamation schemes.

Land reclamation and irrigation works can increase agricultural employment and production more quickly than "agrarian reform" in the narrower sense of land redistribution, which could provide work for about 80,000 people in ten years. Land reclamation and irrigation programs could put to work about 200,000 people in that period.

The so-called "agrarian pacts" are the third measure which could contribute to the solution of the agrarian problem. These pacts would regulate rents paid for land which are now unduly high owing to the land-hunger and therefore prevent rational cultivation by sharecroppers and small tenants. The opposition of the big estate owners to this measure is not the main obstacle to its realization. Numerous small absentee owners supplement their low income by renting small patches of land. They would bitterly oppose Government intervention in those matters and they represent many thousands of votes. Prospects of progress here are dim.
The Aims of the Development Program for the South

7. The development program for the South is a typical pre-industrialization program intended to create an additional market and a framework within which further industrialization can take place later on. The creation of an additional market will occur largely through development of agriculture, on which three-quarters of the whole investment will be spent, as well as on development of some public utilities and the establishment of agricultural processing industries. The plan is cautious, employing people where they want to work and allowing for time for training of workers and gradual emergence of a more progressive economic climate. The program envisages an investment of 100 billion lire per annum (equal to $160 million) for ten years, for land reclamation, irrigation works, agricultural improvement, secondary roads and aqueducts. The plan will also result in some industrial investments in "connected projects." It is so far one of the largest regional development plans in the world and is to be financed entirely from local resources. External loans amounting to about 10% of the local Italian investment will allow an expansion of the plan into connected industries field. The plan is reasonably conceived, internally consistent and well enough worked out to offer a suitable basis for bank financing.

The Investment Program

8. The plan foresees a ten years public investment of 1,000 billion lire in the following proportions:

<table>
<thead>
<tr>
<th>The Cassa's Ten Years Investment Program</th>
<th>Lire Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Land reclamation and land improvement including irrigation</td>
<td>770</td>
</tr>
<tr>
<td>2. Aqueducts</td>
<td>110</td>
</tr>
<tr>
<td>3. Roads</td>
<td>90</td>
</tr>
<tr>
<td>4. Tourism</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,000</strong></td>
</tr>
</tbody>
</table>

Public investments in land reclamation and land improvement including irrigation amount to 770 billion lire and are to be distributed as follows:
(a) Land reclamation including irrigation of which contributions to

1. private investment (amounting on the average to 38% of total investment) 110

2. private investment (amounting on the average to 87.5% of total investment) 330

(b) Flood and erosion control in mountainous regions 50

(c) Land reclamation, improvement and settlement in connection with agrarian reform 280

Total 770

The contributions under (a) are only given on condition that private investment in land reclamation is undertaken. Since 110 billion lire will represent 38% and 330 billion lire will represent on the average about 90% of such expenditures, total investment in land reclamation in Southern Italy will amount in ten years to 985 billion lire, of which 770 billion forms almost 77%. This plan of the Cassa includes the ECA's four-year "acceleration program" and will examine about 8.2 million acres for possible reclamation, out of which presumably 3 - 4 million acres will be selected for various projects. Irrigation projects for about 500,000 acres are an integral and directly most productive part of the Cassa's program yielding an increase in production per acre of about 250% after six to eight years and an average yield on investment of about 15%.

A detailed description of the development is given in the technical report. Some general remarks may be made here however.

Land Reclamation. The importance of land reclamation and of irrigation projects has been stressed in the description of the agrarian problem in Italy (see paragraph 6). In Italy, often regarded as intensively cultivated, there are hundreds of thousands of acres of underdeveloped land. To bring this vast area into better production, a program dwarfing anything Mussolini tried is presented in the development plan. This part of the plan is an extension and continuation of a land reclamation and irrigation program financed by ERP. In fact, the first two or three years of the program will be devoted in large part to the realization of the so-called "Acceleration Program" agreed upon and to be financed by the ERP. This program will conclude 240 reclamation projects which are expected to raise production by about 30% in the areas concerned. The reclamation works in the "Cassa's" ten years plan will increase production on the average by about one-third and will provide work for 100 -
150,000 people, many of whom are untrained workers who could hardly be employed otherwise. The reclamation work will use chiefly materials which Italy can supply and direct import requirements are negligible. Consequently the investments do not imply the use of many scarce resources or any choice between alternative outlays. Using these resources, which are unemployed at present, is technically possible and will increase national income.

Aqueduct projects are very well worked out. In Southern Italy, 20% of the population is without running water. The aqueduct program will take from three to six years to carry out and will provide on the average employment for 25,000 people. The program will also make possible better maintenance and administration of the aqueduct system.

Roads and tourism with Lire 90 and 30 billion respectively complete the program. The above program will be supplemented by private investments in "connected projects." This will raise substantially the "value added" by processing of agricultural products in the South and will lead to a gradually rising industrial potential in the economy of Southern Italy. The "Cassa" can and will guarantee some loans to private investments of that kind, but it is impossible to foresee in detail how much will be invested in what type of connected projects over the next ten years.

A valuable study made by the "Svinez" (Society for the Development of the South) shows the distribution of expenditure of a projected initial two-year program of 114 billion lire, which would represent all investments other than the ECA's "Acceleration Program" including 17 billion lire for "connected projects" in fruit and vegetable collecting centres, olive oil crushing and refining, hydro-electric plants and a fiberboard plant. This is not necessarily the selection of projects which will actually be made. Since additional investments in the South during the next two years will, however, probably be of the size and composition assumed in this estimate, it is worth while to reproduce it. 114 billion lire will be spent roughly as follows:

<table>
<thead>
<tr>
<th></th>
<th>Billion Lire</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wages</td>
<td>32.2</td>
<td>28.2</td>
</tr>
<tr>
<td>2. Raw materials and machinery:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. from the South of Italy</td>
<td>14.4</td>
<td>12.6</td>
</tr>
<tr>
<td>b. from the North of Italy</td>
<td>30.7</td>
<td>26.8</td>
</tr>
<tr>
<td>c. imported from abroad</td>
<td>8.7</td>
<td>7.6</td>
</tr>
<tr>
<td>3. Transport of the above:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. by rail</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>b. otherwise</td>
<td>7.4</td>
<td>10.3</td>
</tr>
<tr>
<td>4. Taxes</td>
<td>3.2</td>
<td>1.8</td>
</tr>
<tr>
<td>5. Expropriation and land purchases</td>
<td>1.6</td>
<td>1.4</td>
</tr>
</tbody>
</table>
6. Preparation of projects and technical assistance  

<table>
<thead>
<tr>
<th></th>
<th>Billion Lire</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Preparation of projects and technical assistance</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>7. Administration costs</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>8. Other reserve for repairs, maintenance and amortization</td>
<td>6.3</td>
<td>5.5</td>
</tr>
</tbody>
</table>

The development program for the South will increase the total Italian investment by about 10% and will augment Italian national income by at least 2% to 4%. It will not only increase productive employment by 200 - 250,000 but also raise the productivity of those already employed by a better and fuller utilization of existing capacity. Existing industries both in the South and in the North will benefit. The program will give rise to both regional and extra-regional "external economies." After the first success is established or at least clearly anticipated, it will induce a spontaneous inflow of private investment in the South. These catalytic effects of the program should form the final criterion of its success.

The Financing of the Cassa's Development Program

9. A draft bill first presented by the Italian Government on March 17, 1950 and then slightly modified on August 10, 1950 was enacted on September 1, 1950. It establishes for a ten-year period an investment authority for the South in the name of C.O.S.P.I.M. (Cassa per Opere Straordinarie di Publico Interesse nell'Italia Meridionale) more familiarly known as Cassa per il Mezzogiorno. The Cassa will be the main administrative and financing instrument of the plan.

The Committee of Ministers in charge of the Cassa must approve and the Cassa has to prepare, coordinate and finance a program supplementary to the normal public works in the South of Italy. The fields covered will be land reclamation, irrigation, agricultural improvement, secondary roads, aqueducts, establishments for processing of agricultural products as well as investments connected with tourism. (Article 1). The ministers serve on the Committee in their personal capacity, i.e.: the program is not to pass through the civil service of the respective ministries.

The Cassa will have at its disposal 100 billion lire per annum for ten years. If it is technically necessary to spend more, the Cassa may borrow additional sums and thus spend more than 100 billion lire in a year. If in any one year the expenditure does not reach 100 billion lire, the unspent part can be used in the successive year (until now this was impossible according to the normal Italian budget law). The Cassa can also advance all subsidies and contributions which would have to be made by the State in the field of agriculture. It can discount and capitalize such subsidies either out of its own funds or by issuing bonds. (Articles 5 and 6). To give an example, the State has to pay a subsidy of 5% per annum for thirty-five years for the construction of aqueducts. In practice, however, there was only the law but not the
appropriation. Neither the 5% subsidy nor borrowing against the subsidy was, therefore, possible and many aqueducts were not built for that reason. The same applies to many schemes of land reclamation where the law foresees State subsidies for special categories of work but where the lack of an appropriation made the realization of many of these works impossible.

The Cassa may invest in companies in the field of tourism, and may guarantee the financing of connected projects in the field of processing and trading of agricultural products. (Article 7).

The funds of the Cassa will be acquired as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the first financial year of 1950-51 the Cassa will receive</td>
<td></td>
</tr>
<tr>
<td>from the counterpart funds for agricultural work</td>
<td>42.6 billion lire</td>
</tr>
<tr>
<td>from the interim aid counterpart fund</td>
<td>23.8 billion lire</td>
</tr>
<tr>
<td>The State will make up the additional</td>
<td>33.5 billion lire</td>
</tr>
<tr>
<td></td>
<td>100 billion lire</td>
</tr>
</tbody>
</table>

In 1951-52 the Cassa will have from the counterpart fund:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>from interim aid counterpart fund</td>
<td>18 billion lire</td>
</tr>
<tr>
<td>from State contribution</td>
<td>32 billion lire</td>
</tr>
<tr>
<td></td>
<td>100 billion lire</td>
</tr>
</tbody>
</table>

From the third year onwards the Cassa will receive:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>from repayment of loans granted to Italian industry for imports of ERP machinery and from one-half of the funds which will accrue on the ECA counterpart fund after June 30, 1952</td>
<td>about 20 billion lire</td>
</tr>
<tr>
<td>from State contribution</td>
<td>about 80 billion lire</td>
</tr>
<tr>
<td></td>
<td>100 billion lire</td>
</tr>
</tbody>
</table>

If these revenues do not add up to 100 billion lire per annum, the State has to make up the deficiency. If they surpass 100 billion lire, the State may not lower its contribution of 80 billion lire per annum from the third year onwards. In this way the Cassa can have somewhat more than 100 billion lire per annum, but never less. (Articles 10 and 11).

Finally, the Cassa is authorized to contract foreign loans, either directly or indirectly through its subsidiaries, in all its fields of activity. Such loans will have full State guarantee by law. (Article 16). It would not be necessary to have the Parliament's ratification in the case of IDRD loans.
Administration of the Cassa. The administrative council of the Cassa is appointed for four years and is composed of

(a) A President nominated by the President of the Republic and proposed by the Prime Minister after consultation with the Cabinet;

(b) Two Vice-Presidents nominated by the Prime Minister after consultation with the Cabinet, and proposed one by the Minister of Public Works and one by the Minister of Agriculture; and

(c) Ten members "selected from among people who are particularly expert." (Article 20).

A committee of auditors is appointed. (Article 21). The majority of the personnel of the Cassa has to be recruited from among civil servants. (Article 22). The President of the Committee of Ministers is responsible to Parliament about the activity of the Committee as well as of the Cassa. (Article 23).

The Cassa as established does not quite fulfill the ideal of an independent authority (like the TVA). There is reasonable hope, however, that it may be functional and relatively a-political and can prove an adequate instrument for the realization of its aim.

Although the Cassa is created for ten years, it is expected that if it functions well the program may be fulfilled within seven or eight years, since there is the possibility of discounting future payments due to the Cassa. The realization of its program will thus be determined largely by what is technically feasible. The Cassa will presumably start by spending less than the annual rate of 100 billion lire during the first period and will reach after a year or so a higher rate of expenditure, which may then fall off toward the end.

The IBRD Financing of the Development Program

10. In addition to exceptionally high unemployment, Italy also has to solve the problem of providing employment for the increase in its population. The rate of increase of the Italian population is falling and the increase is expected to come to a stop between 1965 and 1970, but for the next fifteen years, over and above the present large number of unemployed, 200,000 additional people will seek employment each year. Where there is so much unemployment, investments by creation of credit might be thought to provide the solution. There is, however, a major obstacle to this solution in Italy. Italy lacks both raw materials and foodstuffs at home. Unemployed workers absorbed into employment would spend a high proportion of their wages on foodstuffs which have to be imported, and industrialists would have to spend a part of their capital on raw materials which also have to be imported. Since there are no adequate resources complementary to unemployed labor, a
deliberate expansion of credit would lead to inflation, in spite of a good deal of continued unemployment. The foreign exchange necessary for such a program made this solution impossible in the past. Italy had to build up foreign exchange reserves and a more favorable balance of payments before she could embark on a large investment program. At present she has good reserves and a more favorable balance of payments position and can proceed to an expansion if one part of the indirect foreign exchange impact, which is represented by the dollar component, were financed by an external loan.

The amount and form of the International Bank's assistance can therefore be most appropriately related to the impact of the development program on the Italian balance of payments.

11. The development program for Southern Italy will lead to additional investments equivalent to about $100 million per annum for the first two years. The remaining investments equivalent to $60 million per annum will be financed by the lire counterpart funds. After the third year, additional investments will rise to $160 million. Since Italy has a good machine industry of its own the program will, to a large extent, make use of Italian domestic resources, both of manpower and materials. The greater part of the expenditure will be for wages and for materials and equipment which would be produced locally. The realization of the investment program will provide productive employment for an additional 200,000 to 250,000 employed workers. These workers consume at present about 400 lire (equal to 6¢) per day and will earn, when employed, around 1,100 lire per day; they will thus consume around 700 lire more a day than hitherto. Since Italy lacks vital foodstuffs (wheat and fats) and raw materials, a proportion of the additional expenditure by the newly employed workers will lead to a demand for additional imports. Similarly, Italian industries which have to deliver equipment goods for the development program and consumers' goods for the newly employed workers will increase their demand for imports of raw materials. Additional workers employed in those industries will in their turn increase the demand for imports. An analysis of the Italian workers' family budgets, both in the South and in the North, and of the raw materials required by Italian manufacturers for the investment program, leads to the conclusion that the equivalent of $100 million investments per annum will lead to an increase in imports of rather less than $40 million equivalent out of which additional dollar imports of about $10 million per annum. The foreign exchange needs other than dollars amount to the equivalent of about $30 million per annum. The realization of the program is not expected to cause a fall in current Italian exports.

The analysis of the indirect foreign exchange impact takes into account the distribution of expenditures in the investment program of the first two years (such as quoted in the previous paragraph on page 15) distinguishing between orders placed in the South and those placed in the North and calculating the income generated by those orders in both regions and its distribution between consumption, taxes and savings. Household budget data of three income groups (workers, employees and higher income groups) in the
South and in the North are used with appropriate weights and the proportions of necessary imports for consumption are derived from these data. It follows from this calculation that an expenditure equivalent to $100 million will generate an income of $180 million. Out of that income 45% will be spent on goods produced in Italy and 20% on imported goods and raw materials; 26% will accrue to internal revenue in the form of taxes and 9% will be saved. In other words: additional investments of $100 million will generate income of $180 million. Out of this income:

- $71 million will be spent on domestic goods ("spending impact")
- $36 million will be spent on imported goods ("indirect foreign exchange impact")
- $46.8 million will be spent on taxation ("fiscal impact")
- $16.2 million will be saved ("saving impact")

This calculation takes into account the effects of investment on income over two years and assumes constant prices and constant exports. The data have been calculated on the basis of prices obtaining in the first quarter of 1950. The changes in prices, notably the worsening of Italy's terms of trade, will probably have increased the indirect foreign exchange impact by now which on the basis of prices in the summer of 1951 may be approaching 40 - 45% of additional investments rather than 36%. It is also possible that the dollar component may be somewhat higher, approaching 30% of the total impact rather than 25%. In spite of good data employed, the study cannot give more than a reasonable order of magnitude.

12. Increased income from investments will begin to flow in four to six years' time since it takes that long for most land reclamation and irrigation schemes, which form three-quarters of the whole program, to bear fruit. The increase in production of grains, milk and meat, fruit and vegetables, will not only save some imports but will also increase exports to the non-dollar areas. By the end of the program, foreign exchange receipts from increased exports are expected to cover the bulk of the indirect foreign exchange requirements other than dollars. "Local currency loans" thus only advance subsistence funds over a transition period after which the higher level of production can be maintained without a continuation of additional lending. For the same reason, the Italian Government can advance the non-dollar foreign exchange requirements out of its own present reserves without danger to its long-run balance of payments position.

In economic terms therefore:

\[ k = \frac{1}{1-c} = \frac{1}{1-0.45} = 1.8 \]

1/ In economic terms therefore:

- the "marginal propensity to consume local goods" \( (c) = 0.45 \)
- the "marginal propensity to import" \( (i) = 0.2 \)
- the "marginal propensity to tax" \( (t) = 0.26 \)
- the "marginal propensity to save" \( (s) = 0.09 \)

2/ All dollars are used here in the sense of dollar equivalents in lire.
13. After the first two years additional investments resulting from the plan will rise to $160 million per annum. It may then be possible to substitute non-dollar imports for some dollar imports. Italy may also then be able to finance out of its own reserves one part of the indirect dollar requirements of the plan besides providing for all non-dollar foreign exchange requirements. If neither of the two possibilities obtained, the case for raising the dollar financing by the Bank might be considered for future tranches of the loans after 1953 or 1954.

14. The indirect dollar impact of the investment program determines the amount of the Bank's loan. The purpose of the loan is thus two-fold:

(1) to provide for the additional dollar imports resulting from the development plan for the South. The Italian Government will be able to proceed with the plan without the danger of losing dollar or gold reserves on that account; and

(2) to provide an equivalent amount of additional local currency investments for the financing of some projects connected with the program. A proportion of the total lire cost of those projects will be financed by the Bank's loan.

The International Bank's interest lies in the development plan as a whole. Financing of selected projects by the lire counterpart of the Bank's loans is only a means of attaining that end. A possible procedure will be to purchase lire from the Banca d'Italia against dollars. The dollars so acquired by the Banca d'Italia would be available to pay for additional imports, the demand for which will be created by the program as a whole. The lire acquired for dollars will be used as lire loans to companies which will invest a considerable proportion of their own capital. Investments in connected projects will raise the additional investments of the development plan by the amount of the lire cost of connected projects. It may be thus expected that over and above the $100 million of additional investments of the Cassa, another $20 million will be invested in connected projects out of which the Bank will finance about one-half. The total of additional investments may thus amount to between $110 and $120 million, and the indirect foreign exchange impact may be assumed to be $40 million instead of $36 million.

Conclusion

15. Italy to-day has only the same income per head that she had at the beginning of the century. During the last eighty years, she was able to raise her income per head only during three decades. A great effort was required, nonetheless, to maintain the income per head in the face of a steadily increasing population. Like Alice in Wonderland, Italy had to run very fast in order to stand still. Gross investment amounted to 15 - 16% of gross
national product, which is a very high proportion on that low level of income. The rising unemployment eats into the vital savings of the country. The unemployed receive very low unemployment benefits over only a short period. Close family ties in Italy take the place of the Welfare State. The unemployed are supported by close and even distant relatives on the land and without producing anything they consume resources which could otherwise be invested. Open and disguised unemployment in Italy may be estimated at around 4 million people. Over 2.5 of them are in the South. If there were any likelihood of a United States of Europe and freedom not only of trade but also of a large movement of population, there might be some doubt about the appropriateness of a large-scale regional development in the South. As it is, there can be none.