

ECONOMIC DEVELOPMENT IN SOUTHERN ITALY
SINCE THE ESTABLISHMENT
OF LA CASSA PER IL MEZZOGIORNO

by
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ABSTRACT

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Anthony Louis De Bone, Master of Arts, 1965

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The study begins with a survey of the social and economic structure of the area. Attention is then focused on the nature of economic dualism in Italy by pointing out that the Northern economy yields to those employed in it a reasonably high income per capita, while the Southern economy provides for those working in it a low income per capita.

In 1950 the Italian Government undertook to increase the level of public investments under a ten-year development plan for the South. It entrusted the execution of this plan to a new agency, La Cassa per il Mezzogiorno. Its life was soon extended to 1965 and more recently to 1980. The ultimate goal of the program was to reduce the differences in the consumption and income levels between the North and the South and to integrate the South into the national economy.

Southern developments since 1950 and their effects on the economy are discussed, with emphasis on the Cassa programs and investments. It is discovered that many serious obstacles must be overcome in order to change the economic structure of a region such as Southern Italy. Despite the large transfer of resources to this area, the economic

structure has changed little since 1950. However, whatever judgment may be passed on the Cassa at a later date, it is apparent that until now production has been concentrated in those sectors that offer relatively little possibility of rapid growth.

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INTRODUCTION

The main purpose of this study is to present a detailed description and analysis of the problems of economic development and the recent changes and developments in Southern Italy, known as the Mezzogiorno, and literally meaning "midday" in Italian. Until the 1950's this area, which covers the lower two-fifths of the Italian peninsula plus the islands of Sicily and Sardinia was Italy's depressed South, marked by low living standards, chronic unemployment, widespread poverty, and apathetic people. Industrial developments in the North bypassed the backward South. However, today it is known as Italy's developing South, and its character is changing rapidly. In the course of a little more than a decade, it has undergone a transformation which normally would have taken many years to accomplish, and there are more changes yet to come. Much of what has happened can easily be seen if one travels through the South. Vast tracts of land have been converted into huge orchards. Numerous truck gardens are now being cultivated where formerly there existed only olive groves or vineyards of low and uncertain yield. Even more remarkable is the fact that great factory smokestacks, storage sheds, water tanks, cranes, chemical towers, and other signs of modern industry can be seen rising over previously barren landscapes. The Mezzogiorno, where until ten years ago few businessmen bothered to go, is now

attracting industrial investment, both Italian and foreign, at the rate of over one billion dollars a year.¹

Some of the prosperity of the North has spilled over into the poverty-stricken South, and to everyone's surprise, the South is beginning to earn its own way in the world. This remarkable change was not fortuitous, but was a result of a detailed and carefully devised plan of development adopted by the Government. This program involved a large investment of public funds and the creation of incentives designed to attract the investment of both foreign and national private funds. The primary instrument of change was La Cassa per il Mezzogiorno, "The Fund for the South." It was established in 1950, charged with administering the Government's Southern development program, and provided with the funds needed to carry out this task. The Cassa is discussed in greater detail in a later chapter, and most of the analytical portion of this study covers the period from the time of the establishment of the Cassa to the present.

For centuries the South has been plagued by problems, and many of them remain today in one form or another. In essence, the Southern problem has been a compound of many elements which include backward agriculture, permanent unemployment and underemployment, a high rate of illiteracy, high cost of transportation, poor communications, and an inferior distribution and commercial system. Together these made

¹Robert Neville, "The Mezzogiorno," Fortune, LXVII (May, 1963), p. 53.

economic development a difficult task. The background of Southern Italy is discussed in greater detail in Chapter I, which includes a discussion and general survey of the geographical conditions and the social and economic life of the people, and a descriptive analysis of the present economic structure of the South.

Chapter II deals specifically with the economic split between the North and the South, with a discussion of the explanation of the split, and the nature of economic dualism in Italy. The more analytical part of the paper begins in Chapter III with a detailed account of La Cassa per il Mezzogiorno and an analysis of agriculture, public investment, direct incentives to private industry, industrial credit, and capital grants as related to economic development in Southern Italy. In Chapter IV the developments in the South during the past decade or more are discussed, using statistical analysis to show the effects of this development on the South's economy and the achievements resulting from this development, with an evaluation of the changes resulting from the progress of the Cassa. Chapter V is a presentation of conclusions and policy recommendations.

CHAPTER I

THE SOUTH: POPULATION, CULTURE, GEOGRAPHY, AND SOCIAL AND ECONOMIC STRUCTURE

Southern Italy covers a total area of 49,625 square miles, or 41 percent of the 116,301 square miles of the entire country. It includes 18,575,000 people, according to the 1961 census or about 36.6 percent of the 50,624,000 Italian population. Its serious economic position was aggravated not only by a less generous endowment of natural resources, but also by a higher annual rate of population increase of 9 per 1000 compared to the rest of the country.² In the economy of the South the pressure of population on resources is more keenly felt than in all the rest of the country, thus arousing the vicious circle of poverty. As a result, the Italian South has most of the characteristics of underdeveloped countries with excess population.

Southern Italy includes not only the five mainland regions of the Abruzzi-Molise, Campania, Apulia, Basilicata, and Calabria, but also the two islands of Sicily and Sardinia. Geography, geology, and climate have played an important part in the history of the South, and are in some degree responsible for some of its present day difficulties. All

²Giuseppe Di Nardi, "The Policy of Regional Development, A Case Study: Southern Italy," Banca Nazionale del Lavoro Quarterly Review, No. 54 (September, 1960), p. 4.

of Southern Italy is mountainous, as is most of Italy except for the Po Valley. The existence of high, barren hills and the lack of large plains are some of the reasons why Southern Italy is so poor. Wide areas of this region are only suited to pasture or forest, and this suitability accounts for the pastoral tradition of vast interior regions of the South, a tradition unaltered for centuries. This suitability also explains the fact that pasture constituted the backbone of the social and economic life of so many people interested in the maintenance of the great streams of the migration of sheep, the link between the coastal plains and the mountains.³ Much of the barren wastes could be turned into excellent pasture, but the steady growth of the Southern population makes the adoption of any such agricultural policy impossible in the immediate future. It is believed by some that the poverty of the Southern peasant can only be overcome by a revolution in the social structure of the South.

The marked difference in the climate of all the Southern regions is a result of the ubiquitous presence of mountains. The old idea of a warm South applies only to a few favored areas. Parts of the coast have mild winters and summers, when the heat is made tolerable by the sea, but there are many areas that suffer from extremes of temperature. The torrid heat of Apulia, the Ionian coast of

³Margaret Carlyle, The Awakening of Southern Italy (London: Oxford University Press, 1962), p. 14.

Calabria, and the interior of Sicily is unbearable to most Northerners, while in these southernmost regions the cold winters of the Apulian plateau and the high hill towns are extremely bitter. In Abruzzi or the Sila area of Calabria the main roads are often impassable because of snow, even in late March or early April. Many of the larger towns are much higher up than is generally supposed. Enna, for example, which is in the center of Sicily, is 3,000 feet high. The climate is also greatly affected by rainfall, even though the season is confined to a few months in the winter all over Southern Italy. The rainfall is often greater than is usually expected, but the fact that it falls in such a short time is the cause of many difficulties. It pours off the deforested hills in torrential mountain streams which have caused serious soil erosion over the years. And, then, at the other extreme, for the greater part of the year there is no water for man or beast unless the rivers are dammed and reservoirs built at immense cost. But it has been pointed out by some authorities who are interested in the development of the South that in some cases small dams could be built at moderate cost and with favorable results, if only local initiative and financial support by the local authorities were not lacking.

The difficulty of successful farming in the Southern regions is due partly to the long, hot, and dry summers which cause growth to come to an end from about June to October. Some Italian geographers and agricultural experts

have raised the question whether the dry summers in the areas where the winters are mild are a greater drawback to production than the long cold winters of the North. Even early in this century, when there was no thought of the Southern development plans undertaken since 1945, an Italian writer, Carlo Maranelli, wrote that the mild winters, with the prospect of a continuous cycle of growth, gave the South a great advantage over the North, and in many areas the heat of the summers was relieved by the nearness of the sea.⁴ Nevertheless, farming in the South is still a great problem, although the agriculturalists believe that if water can be made available in reasonable quantities the combination of sun and water, especially where irrigation is possible, would have a remarkable effect on production.

There is a main railroad line from Rome to Sicily, and this is the way by which most visitors gain their first impression of the South; unfortunately it is a somewhat misleading one. The line runs through most of the areas of level land on the west side of Italy, all of which are now cultivated. Both north and south of Naples the line passes through the fertile areas where every inch of ground has been intensely worked for a long time. It is only when the traveler leaves the main line to go inland, either at Battipaglia for Eboli and Potenza, or at one of the small west coast junctions like Paola for Cosenza, that he realizes the incredibly mountainous nature of the country. Besides

⁴Carlyle, p. 5.

the mountains of the Sila, which rise to over 6,300 feet and the Aspromonte to over 6,400 feet, both located in Calabria, or Monte Pollino rising to over 7,400 feet and situated on the borders of Calabria and Basilicata, the whole interior of both regions is mountainous.

Insufficient raw materials is one of the difficulties of the whole Italian economy; it is not a factor exclusively confined to the South, and it is partly responsible for Italy's late start as a modern industrialized country. It was not until the North's supply of hydro-electric power was harnessed to industry at the beginning of this century that industry in the North moved ahead, and Italian craftsmanship in working metals was used in the development of mechanical engineering. The South is undoubtedly far behind the North in the field of hydro-electric power, and it has no reserves of power comparable with those of the Italian Alps or the Dolomites. The great importance of electric power was recognized from the beginning by those planning a new future for the South. Great dams creating artificial lakes have already been built, and others are in the design or construction stage in most of the Southern regions. Agriculture will benefit by means of irrigation, and water will also be used for industrial purposes. Sufficient water is as yet unavailable, but an important start has been made, and reforestation and control of the mountain torrents are a step to this end. Another possible source of power resulted from the discovery of oil in Sicily, but so far there is nothing to suggest that

the quantity of oil available is likely to be so great as to revolutionize even the Sicilian economy. More recently there was the discovery of natural gas at Ferrandina in Basilicata in 1959. This aroused great enthusiasm in the South, since gas has proven to be valuable in the North, where there are large deposits in the Po Valley. Plans for the establishment of important industrial areas in the provinces of Taranto and Brindisi will also exploit the Ferrandina gas.⁵

Two of Italy's few raw materials, coal and sulphur, are found in Sicily and Sardinia. However, the present conditions of the mines in both industries (the difficulty of working the sulphur and the low-grade coal) all suggest that little can be expected from either industry in the near future. In Southern Italy, as is also true in the North, industry can be developed through the encouragement of light engineering and chemical works, both of which could concentrate on producing goods urgently needed by a progressive agricultural system. Until recently there have been very few alternative occupations except for sulphur and coal mining already mentioned, bauxite mining in Apulia, some textile manufacturing in Naples, the naval works in Taranto, trading activities in Messina, and fruit processing and

⁵In July, 1960, the Minister for Industry announced that ENI, the National Fuel Board, was planning the construction of a large industrial complex using natural gas at Ferrandina, while other supplies of the gas would be piped and used to provide power for the development of industry in other parts of Apulia and Basilicata.

packing in some of the other Southern regions. In the North the number of people engaged in industry and transportation rose between 1860 and 1936 from 14.1 percent to 17.1 percent of the population, while in the South it fell from 17.3 percent to 10.4 percent, with a decrease in the actual number of people employed.⁶ There are some Italians who believe that the establishment of industry in the South is impossible, and they give the following three reasons: lack of raw materials, lack of capital, and the absence of a trained labor force. These problems are old and serious. However, those who believe in the possibility of industrializing the South and raising the standard of living think that these difficulties can be overcome.

Until 1950 the lack of capital was probably the most difficult problem facing those promoting industry in the South. At that time there was almost no capital available for investment in industry or agriculture. At the beginning of the century attention was called to the disastrous effects of the Italian system of taxation in the South, where heavy taxes took up most of the capital which could have been reinvested in Southern regions. Aside from taxation, most of the Southern capital was transferred to national funds as a result of the rush of Southern landowners to purchase more estates, consisting largely of former Church property thrown

⁶SVIMEZ (Associazione per lo Sviluppo dell' Industria nel Mezzogiorno), Statistiche sul Mezzogiorno d'Italia (Rome, 1954), p. 39.

on the market by the national government after 1860.⁷ The income from the land was spent outside the South by its absentee landlords, while local banks invested sums in State debt, or in Northern railways or public works. This whole situation was changed in 1950 by the creation of La Cassa per il Mezzogiorno, which for the first time in the history of the South made regular funds available for a long period of time. However, a trained labor force is needed if industry is to develop in the South. Some more pessimistic Italians maintain that, even if sufficient capital is made available by the Cassa, no one could be expected to start an industry which could begin to compete with Northern Italian or foreign industries because of lack of skilled labor. Some of these people feel that the Southern worker is not only untrained but also untrainable. Lack of training does not mean that the Southern peasant is not latently skillful and cannot be taught. The cost of training skilled workers is considerable, but the State should help in this case. Technicians have admitted that Southern workers, after they are trained, often give better returns than the Northerners. For example, the Olivetti factory at Pozzuoli, where only Southern workers are employed, obtained excellent results which justified the enlargement of the factory in 1960. The Montecatini Chemical group is training unskilled workers in Brindisi for the plant under construction there, and is amazed by

⁷Carlyle, p. 20.

the ability of these men. Since most of the extra labor in the South is unskilled, the Italians interested in the development of industry there are deeply concerned with the question of training.

The over-population of the South presents a serious obstacle to social and economic progress. The population of Italy is growing by an average of 0.6 percent a year, and between 1951 and 1961 the average annual increase in the South was approximately 0.5 percent per year; in 1951 the population of the South accounted for about 37.2 percent of the country's total population (see Table 1). The increase is due mainly to the decline in the death-rate to 9 per 1000, a figure similar to that of Northern Italy, and to the steady decline in the infant death-rate. The heavy population density in the South in relation to the land available is also a cause of over-population in that area.⁸ Some people also blame the Southerners for having large families, and also accuse the Roman Catholic Church of hindering the spread of birth-control knowledge. However, the important consideration is the influence of extreme poverty and ignorance. The situation, though, is slowly improving. This is reflected by the fact that in every Southern region the birth-rate fell considerably from 1931 to 1956. Obviously, the limitation of the number of births is going on, but the problem of

⁸The population density in the South, which covers about 41 percent of Italy, is about 300 per square mile as compared to 350 in Northern Italy, which covers about 59 percent of the entire country.

TABLE 1
RESIDENT POPULATION: ITALY (North and South)
1951 and 1961

(In Thousands)

Geographic Division	1951 ^a	1961 ^b	Average Annual % Increase or Decrease (-)
ITALY	47,515	50,624	0.6%
NORTH	29,832	32,049	0.7%
SOUTH	17,683	18,575	0.5%
Abruzzi and Molise	1,684	1,564	-0.8%
Campania	4,346	4,761	0.9%
Apulia	3,220	3,421	0.6%
Basilicata	626	644	0.3%
Calabria	2,044	2,045	0.1%
Sicily	4,487	4,721	0.5%
Sardinia	1,276	1,419	1.1%

^aCensus year, calculated as of November, 1951.

^bCensus year, calculated as of October, 1961.

Source: Italy, Istituto Centrale Di Statistica,
Annuario Statistico Italiano: 1951 and 1961.

over-population remains. It will be well to point out here that this is not a problem that is exclusive in Italy: this is a problem of underdeveloped countries all over the world where lower death-rates result in increased population.

One of the most obvious evidences of over-population is the sight of many men of all ages standing hopelessly in the streets in the daytime, except during the few weeks of the plowing, hoeing, and harvesting seasons. These towns are plagued with unemployment resulting from the fact that the only kind of work that exists is in agriculture. They are the towns of the braccianti, the agricultural day-laborers, of which there were over one million in Southern Italy.⁹ The serious nature of the situation is created by the pressure of a constantly growing population. It has long been recognized that agriculture alone cannot raise the standard of living of the South from the level to which it has sunk. Other occupations must be found for the people or they must move away from Southern regions. Some Italian economists believe that both solutions should be adopted, and they maintain that agrarian reform must be closely linked with both industrialization and emigration, although they also recognize that at the beginning any new system must be built on the reorganization of the one important existing industry--agriculture. The importance of agriculture is discussed in Chapter III.

⁹Italy, Istituto Centrale Di Statistica, Annuario Dell' Agricoltura Italiana: 1957, p. 460.

The important large-scale movement contemplated by the Italian government since 1950 is migration inside Italy. This is not only a movement from South to North, but also a movement from the country into the towns, a movement that has been going on since the end of World War II. This depopulation of the countryside is actually a sign of progress, since the Italian countryside in parts of the North and all over the South is overpopulated. Although some Italian authorities point out that the movement of peasants into the Northern Italian towns is regarded only as adding to the difficulties of the cities by crowding schools and upsetting housing plans, the difficulties can be overcome. This movement, particularly from the overpopulated countryside of the South, does help solve the population problem of this area. Even though the Southern workers find conditions in the Northern industrial towns difficult, there is hope of work and independence.

Most people who have lived or traveled in Southern Italy have discovered that there is no such thing as a typed "South Italian" or even a type referred to as the "South Italian Peasant," except in the purely geographical sense that he or she lives in one of the Southern regions. There are Campanians, Abruzzians, Apulians, Calabrians, Lucanians (Lucania being another name for Basilicata), Sicilians, and Sardinians, all differing greatly from one another, while within each region there are many different types. The Sicilians and the Sardinians differ distinctly

from the people of the mainland, whether Northern or Southern, since they are islanders with special characteristics. Therefore, it is not surprising that the 4,500,000 people of Sicily or the 1,250,000 people of Sardinia seem different in many ways from other Italians.¹⁰ However, one generalization can be made about the Southerners--most of them are much poorer than the other inhabitants of Italy. This statement needs to be qualified in view of the extreme poverty of some of the people living in some of the mountain valleys of the Piedmont, Emilia, or Friuli in the Veneto--a Northern section of Italy. The poverty of the South is clearly revealed by over-population and the fact that most of the people are engaged or employed in agriculture.

There are many incorrect views about the South and its people which are hard to discharge from the minds of some Italians. The most common of these is a belief in what is said to be the natural laziness of the Southerner. However, this is founded on a complete misunderstanding of the two reasons for the apparent idleness of the Southerner: malaria and lack of work. It is difficult for any Northerner to realize the enormous change in the life of the Southerner brought about by the near disappearance of malaria since 1945. One of the chief authorities on Southern Italy wrote at the turn of this century that malaria was the

¹⁰Carlyle, p. 15.

greatest obstacle to the development of Italy, and the disappearance of this plague is perhaps the greatest single improvement that is taking place in the South.¹¹ However, the benefit of the great change has not been completely felt. Many of the older men are still affected by the malarial attacks of their youth and, as a result, cannot do a hard day's work. Even with the disappearance of malaria, unemployment and especially agricultural underemployment are the curse of the South.

It is true that the Southern peasants no longer constitute a separate civilization remote from the rest of Italy. They belong to a modern world, and the more fortunate Northerners should help them to live and work in it. Their failure to get a good education and learn modern methods is not their fault, and the Government is the only agency which can remedy this situation. Without much help, the Southern Italians may not be able to take advantage of any improvement that may occur in their part of the country.

In Italy, education is compulsory for children from six to fourteen years, and there are five classes in the primary school, so that the normally intelligent child should go on to a secondary school at the age of eleven. Statistics show that about 40 percent of the children who obtain their certificate from the primary school go no further.

¹¹Carlyle, p. 6. She quotes F. S. Nitti, Prime Minister of Italy from 1919-1920.

Even in the relatively wealthy towns of Northern Italy, a large number of children leave school at the age of eleven and twelve. Among those who do go to school, only about 37 percent of those in Class I of the primary schools in the South reach Class V, as compared with 70 percent in the North. One reason for this evasion of law is poverty, where the small earnings of a child of eleven are worth having; another reason is the desperate shortage of school buildings in some areas. In Italy the community is responsible for the upkeep of school buildings, but there is seldom enough money for this in the South. However, the situation has been partly remedied by La Cassa per il Mezzogiorno which is empowered by the 1959 Law to provide school buildings in communities with less than 10,000 inhabitants. The report of the Department for School Buildings of the Ministry for Education pointed out that in Southern Italy, on January 1, 1955, 63.6 percent of the classrooms needed in primary schools were lacking compared with 24.2 percent in the North.¹² The figure rose even higher in some Southern provinces. It is not only disturbing that these figures are so high, but also that they rose between 1952 and 1955, in spite of a considerable amount of building. The shortage of technical and other secondary schools in proportion to the school population increased after 1952. However, Sicily and Sardinia were exceptions; although there was an improvement there

¹²Carlyle, p. 23.

during these years, the shortage is still much more than that of the North.

All over the South there are communities where no schools exist or else they are improvised using huts, barns, or cottages as school rooms. It is a miracle that under these conditions the children learn anything at all, or that teachers can be found to work under such adverse conditions. The teachers are, in fact, mostly young and inexperienced, accepting almost any post available, while others remain unemployed.¹³ It is hard to get experienced teachers from other parts of the country where the schools operate under better conditions. Often when schools are available in some areas of the South, there is no place for the teacher to live and bus communications with remote villages are often bad or nonexistent. One of the better plans of the Agrarian Reform agencies was the provision of schools and homes for teachers in all the peasant settlements. In 1958 if there was not a school building in a settlement, one of the new cottages was set aside for holding classes. The schools that do exist are usually pleasant, simple buildings with a small kitchen for the preparation of school meals. However, the distressing part is that some of the schools seem to have been planned without much thought having been given to the likelihood that in the future there will be a great many more children, and more classrooms will be needed.

¹³Carlyle, p. 24.

Another weakness is the fact that nearly all the teachers in the new settlements are inexperienced. Experienced teachers are not willing to come to Southern Italy unless they are inspired by a real missionary spirit, otherwise they regard these posts as starting points for experience and better jobs elsewhere. It would be interesting, if possible, to try to arrange for some kind of exchange system under which older and more experienced teachers would feel that they could make a real contribution to the cause of the country's youth without any loss of prestige or income. It seems that with the new development plans for the South, a system such as this could be initiated.

The illiteracy among so many young workers of the South has already been mentioned. To combat this problem the Reform agencies established classes in ordinary school subjects for young men. However, young girls directly from a teachers training course were the only teachers available. This created somewhat of a problem, because how can a young girl teach men of thirty or even older in Southern Italy where some areas still maintain their old fashioned ideas about women?

It is of utmost importance to improve education all over the South by the provision of properly equipped and adequately staffed primary schools. Even so, a primary education is not sufficient if the children of the South want to become successful farmers, industrial workers, or eventual emigrants. Presently, the opportunities for further education

are still somewhat limited. However, the authorization of the use of the funds of La Cassa per il Mezzogiorno, designated to promote technical education, are already responsible for the opening of a number of technical institutes. Specialized courses are essential for young people wanting to emigrate, and the chief Italian authorities on the development of the South agree that the hope of the future depends on emigration as well as industrialization and improved agriculture. Emigration inside Italy is also important, and much more so than is generally realized. Emigration today is completely different from the mass emigration of agricultural laborers between 1900 and 1914, since both emigrant and receiving countries have adopted a different attitude. Most immigrant countries are only willing to accept trained and skilled workers, and Italy certainly cannot spare these types. The organized emigration of poor citizens, such as at the beginning of the century, is expensive, and Italy is too poor a country to afford that type of emigration. More than likely, the emigrants of the future are likely to be trained industrial workers and not agricultural laborers. Possibly a large number of them will find employment in the European Common Market.

One institution which has done a great amount of work in the South is the Associazione Nazionale per gli Interessi del Mezzogiorno (National Association for the Interests of the South). Founded in 1910 by Senator Franchetti in collaboration with its present president, Senator Zanotti Bianco,

and a group of his friends, it has devoted its energies largely to providing those things which will make the Southern peasant able to stand on his own feet. Its principal work for years has been the establishment of nursery schools in many of the poorest and most inaccessible villages of Calabria and Basilicata and on a smaller scale in Abruzzi, Lazio, Campania, Apulia, Sicily and Sardinia. Before the Fascist Government limited many of the Association's activities, it was also concerned with providing education for adults. This problem is now being handled by the government, chiefly through the various Agrarian Reform Agencies. They have provided classes of various kinds especially for young people who urgently need at least a basic education if they are to succeed as farmers using modern agricultural methods, as recruits to the new industries to be set up in the South, or if they are to find employment in Northern Italy.

If Southern children are to benefit from future migration to the North, they must receive a better education than they presently do. A good technical education for those over fourteen is highly desirable, but more important is a good primary and secondary education for years legally compulsory (from six to fourteen). For years to come a vast majority of the Southern people will remain in the South and continue to work on the land; however, a good basic education is also essential for these people. But the older men, aged twenty to forty, need a different kind of education. Since poverty and isolation have left a large number of the adult farmers

ignorant of anything but the most primitive kind of agriculture, they know nothing of modern agricultural principles and methods. Many of them are familiar with only a crude type of extensive wheat farming and know little about the care of cattle and pigs.

In the whole of Italy, however, there are not nearly enough skilled workers, and the need for more industrialization is not confined to the South, but has been felt more and more in the North as a result of the success of Northern industry since 1955. Italy has a plan, called the Vanoni Plan, laid down on broad lines for industrialization. Italy's former finance minister, Signor Vanoni, who died in 1956, was largely responsible for this plan.¹⁴ It foresaw the need for an additional 900,000 workers for industry by 1965, with two-thirds coming from the South, and the remaining one-third coming from the rural North. If this plan is to be realized, more men will have to be trained either in special technical schools or in new factories. Southern workmen are already being trained in Northern factories as a result of the considerable internal migration which has been going on for some years.

Although some skilled workers will certainly be needed if industry is to grow, the number of skilled workers required in a factory is not so great. However, a supply of

¹⁴Minister for Finance in the various De Gasperi Governments of 1948 to 1953, and Minister for the Budget in the Scelba Governments, 1953 to 1956.

reasonably well-educated, adaptable workers will be necessary. This points to the importance of the early education, apart from the specialized training, of the Southern workers of the near future who are now in school. Every aspect of education in the South, from the primary schools to the universities, is most depressing. As a result there is a high degree of illiteracy all over the South. For example, in some parts the figure rises to over 20 percent of the adult population.¹⁵ The seriousness of the problem is that it exists among so many people, and even among children of six to fourteen years of age (the years during which education is compulsory).

Those who really know Southern Italy are convinced that although there are great difficulties created by nature and history, much can be done to remedy this situation. Very little was accomplished, however, until after 1945. The only real relief before 1914 came from mass emigration, and after 1922 from the huge sums of money sent home by the emigrants. With the establishment of the Italian Republic in 1948, those who were convinced that something could and must be done for the South had the power to do something by creating the Agrarian Reform Agencies and, above all, La Cassa per il Mezzogiorno.¹⁶ The problem was not solved

¹⁵Gustav Schachter, The Italian South: Economic Development in Mediterranean Europe (New York: Random House, 1965), p. 207.

¹⁶Lowry Nelson, Land Reform in Italy, A Report of the Agricultural Committee of the National Planning Association, Planning Pamphlet No. 97 (Washington, D.C.: National Planning Association, 1956), p. 10.

at once, but the years from 1950 to the present have shown that much can be achieved when both the will and the means exist. These achievements are discussed in a later chapter.

In the South there was once widespread apathy, but now there is an atmosphere of confidence and hope. However, one difficult problem that still remains is that the wealth belongs to so few, while the poor are so many. Even though there are few large landowners left, in many cases the condition of day-laborers and the tenants of the medium-sized estates is little better than it was in the days of large landowners. Many of the landlords are still absentee owners, anxious only to get what they can out of the land, with no spare capital to invest and with no interest in the well-being of tenants or laborers. Some of them utterly fail to realize the longing for independence and freedom of their tenants.

There exists hope for a better future for the Southern Italians. Once a great social movement gets under way it rapidly gains speed. This is actually happening now in Southern Italy where recent developments have produced a new situation. The general economic improvement of the whole area must inevitably be slow, but there seems to be good reason to believe that the poverty will soon disappear with the growth of improved agriculture, industrialization, and the removal to other parts of Italy and abroad of part of the surplus population.

CHAPTER II

ECONOMIC DUALISM IN ITALY

Up to this point the background of the South of Italy, including a survey of the population, culture, geography, and the causes of the poverty of this area, has been discussed. In this chapter the economic split between Northern and Southern Italy will be examined and the differences between the two regions, showing that two economies actually exist in the country, will be pointed out.

Today Italy's economy is a mixture of two phases of economic development. On the one side it contains a highly developed sector characterized by the hired-labor system, large scale operations, and modern, capital-using methods of production, which yields to those employed in it a reasonably high income per person. On the other side, it contains a large pre-industrial sector based mostly on artisan or family labor and small scale operations, which provides for those working in it only a low income per capita. The development work being done in the South today is aimed at removing the large disparity in levels of economic and social progress between the two geographical areas.

The true boundary between the "two Italies" or the dual economy of Italy is not a purely regional one. Economic dualism exists within Northern and Central Italy as well as between that region and the South, although the backward

and poor segment of Italian society is largely concentrated in the latter area. And it exists within both agriculture and industry, as well as between agriculture and industry, although the greater part of the poor group is to be found in agriculture.

Some of the indicators of the disparities between the North and the South are reproduced in the tables included in this chapter. The South's low ratio of active to total resident population (39 percent in 1951 compared with the North's 46 percent), together with its relatively large share in the high national total of registered unemployed, are sure signs of the poor employment opportunities in the area.¹⁷ Estimates of regional distribution of national income indicate that per capita income in the South in the 1950's was not much above 45 percent of that in the North.¹⁸

Another conspicuous feature is the concentration of the labor force of the South in the small scale sector of the national economy. This is pointed out in Table 2. The

¹⁷Vera Lutz, *Italy: A Study in Economic Development* (London: Oxford University Press, 1962), p. 91. Other factors influencing the ratio of active to total population in the South are the social prejudices in parts of the area (i.e., in Sicily) against women working outside the home, and the fact that the larger proportion of the population is in the unproductive age groups (under 14), although the effect of the latter is partly compensated for by the tendency for children to be put to work early in agriculture.

¹⁸Lutz, p. 91. While only 3 percent of the population in the North were estimated to live below the "poverty line" in 1952, 27 percent were in this category in the South.

TABLE 2
INDICATORS OF ECONOMIC DISPARITY BETWEEN
THE NORTH AND THE SOUTH

Sectors	North (1)	South (2)	Italy (3)	Ratio (2):(3) (percent)
<u>Population (Nov. 1951)</u>				
1-Resident Population (000)	29,832	17,683	47,515	37.2
2-Active Population (000)	13,779	6,982	20,672	33.3
3-Active Population in Agriculture (000)	4,634	3,627	8,261	43.9
Ratio 2:1 (percent)	46.2	39.0	43.5	. .
Ratio 3:2 (percent)	33.6	52.6	40.0	. .
<u>Employment in Industry and Commerce (Nov. 1951)</u>				
Industry ^a (000)	3,508	734	4,242	17.3
Small units ^b (percent)	24.8	52.9	29.7	. .
Commerce (000)				
Wholesale trade	198	47	244	19.2
Retail trade	679	279	958	29.1
Itinerant trade	153	61	214	28.3
Other	450	145	596	24.4
Total Commerce	1,480	532	2,012	26.4
Transportation and Communication (000)	425	154	579	26.6
Banking, insurance, and finance (000)	125	38	162	23.3
<u>Gross Saleable Output of Agriculture and Forestry (Billions of current dollars)</u>				
1949-1952 (average)	2.7	1.2	3.9	30.8
1953-1956 (average)	3.3	1.7	5.0	34.0
				Ratio (2):(1)
<u>Net Income Per Capita (Current dollars)</u>				
1951-1953 (average)	391.00	187.00	315.00	47.6
1957-1959 (average)	577.00	266.00	460.00	46.1

^aIncludes operating plus administrative units.

^bNumber of persons employed in operating units with ten or fewer persons as a percentage of total employment in operating units.

Source: Vera Lutz, Italy: A Study in Economic Development (London: Oxford University Press, 1962), p. 92.

1951 Census showed that about 53 percent of the active population in the South were engaged in agriculture. This group represented 44 percent of the farming population of the whole of Italy. The gross value of saleable output of Southern agriculture was, however, only a little more than 30 percent of the national total in the mid-1950's. Typical also are the low level of industrial employment and the relatively primitive structure of Southern industry. In 1951, the total industrial employment in the South was only 734,000 or about 11 percent of the active population of the area, whereas in the North it was about 25 percent. The South only accounted for about 27 percent of Italy's total employment in transportation and communications, and only slightly more than 23 percent of the country's employment in banking, insurance, and finance. A similar situation existed in commerce where only 26 percent of Italy's total employment in the field was accounted for by the South.

Table 3 shows a more detailed breakdown of industrial employment in the South, as compared to all of Italy. The figures point out that the South accounted for 41 percent of the country's total mining employment. In the manufacturing industries Southern Italy only accounted for about 16 percent of Italy's total employment in this sector. Of the total number of Southerners engaged in manufacturing, more than 64 percent were employed in establishments employing ten or fewer persons. Disregarding mining, a large part of the population was concentrated in those industries which

TABLE 3
INDUSTRIAL EMPLOYMENT IN THE SOUTH AS COMPARED
TO ALL OF ITALY: NOVEMBER, 1951

Industries	Number Employed in Mezzogiorno (000) (1)	Number Employed in All of Italy (000) (2)	Ratio (1):(2) (Percent) (3)	Proportion Employed in Small Units ^a (Percent) (4)
Mining	48.7	118.7	41.0	14.0
Manufacturing				
Textiles	25.3	650.9	3.9	30.9
Paper	4.6	63.4	7.3	17.2
Printing & Pub.	7.6	74.5	10.2	51.0
Leather & Skins	5.0	38.6	12.9	65.4
Rubber	0.7	40.1	1.8	75.3
Chemicals	13.8	148.7	9.3	25.3
Petro. & Coal				
Derivates	3.3	18.7	17.4	4.1
Cellulose & Artifi-				
cial Fibers for				
Textiles	0.9	32.4	2.7	. .
Non-metallurgical				
Minerals	36.4	206.7	17.6	40.2
Metallurgical	10.1	145.1	7.0	0.9
Engineering	84.6	896.9	9.4	62.8
Food & Allied	139.2	360.1	38.7	65.6
Tobacco	24.7	52.5	47.1	3.4
Clothing & Furni-				
ture	113.8	411.4	27.7	94.1
Wood Furniture,				
Etc.	78.3	293.6	26.7	82.3
Photography, Cine-				
matography, Etc.	2.4	111.1	21.5	99.4
Miscellaneous Mfg.	2.2	53.6	4.0	47.4
Total Manufacturing	553.0	3,498.3	15.8	64.2
Electricity	14.2	67.1	21.1	25.1
Water	4.7	11.8	39.6	42.4
Gas	1.8	14.1	12.7	1.8
Construction	111.5	532.1	21.0	15.6
TOTAL	733.7	4,241.9	17.3	52.9
Total Excluding Construction	622.2	3,709.8	16.8	59.3

^aRepresents ratio of persons working in operating establishments employing ten or fewer persons to total of all persons employed in operating establishments.

Source: Italy, Istituto Centrale Di Statistica, Censimento dell' Industria e del Commercia: 1951, p. 319.

are either closely associated with agriculture or those producing industrial goods that are in demand at low income levels. Those employed in the electricity, gas, or construction sectors only accounted for a small percentage of the country's total employment in those sectors. However, the number of people employed in the water sector accounted for almost 40 percent of Italy's total employment within this sector. Nearly 53 percent of the South's total industrial employment were attached to firms with ten or fewer persons, and total industrial employment in the South only accounted for 17 percent of Italy's total. Exclusive of construction, almost 60 percent of the South's industrial employment were attached to firms with ten or fewer persons while in the North the comparable figure was less than 25 percent.¹⁹

All of these aspects comprised a situation in which it was evident that the South of Italy contained the larger part of the lower income sector of the national economy.

The South's relatively low share of savings (15 percent in 1952 compared with the North's 85 percent) together with the small share of income produced (20 percent) are additional signs of economic disparity between the North and the South, as indicated in Table 4.

The great disparities of income produced by the various economic sectors in the North and South may be readily seen from a comparison of the data in Table 5. In all of the

¹⁹Lutz, p. 93.

TABLE 4
DISTRIBUTION OF SAVINGS BETWEEN NORTHERN
AND SOUTHERN ITALY: 1952

Sectors	Geographic Breakdown	1952
Total savings in banks and post offices in Current \$ (millions)	North	1,093
	South	198
	Italy	1,291
Percentage of Total Savings	North	84.6
	South	15.4
	Italy	100.0
Total Income Produced in Current \$ (millions)	North	9,841
	South	2,409
	Italy	12,250
Percentage of Income Produced	North	80.3
	South	19.7
	Italy	100.0

Source: Italy, Istituto Centrale Di Statistica,
Annuario Statistico Italiano: 1952.

TABLE 5
 PERCENTAGE BREAKDOWN OF INCOME PRODUCED BY THE
 VARIOUS ECONOMIC SECTORS IN THE NORTH
 AND THE SOUTH OF ITALY

Sectors	Geographic Breakdown	1952 Percentage Breakdown of Income Produced
Agriculture & Forestry	North	69.0
	South	31.0
	Italy	100.0
Fishing	North	42.5
	South	57.5
	Italy	100.0
Building	North	73.8
	South	26.2
	Italy	100.0
Industry, Commerce, Credit, Insurance & Transportation	North	86.7
	South	13.3
	Italy	100.0
Professions, Industrial and Domestic Services	North	82.1
	South	17.9
	Italy	100.0
Public Administration	North	68.1
	South	31.9
	Italy	100.0
Total Income of the Private and Public Sectors net of duplication	North	80.3
	South	19.7
	Italy	100.0

Source: Italy, Istituto Centrale Di Statistica, Annuario Statistico Italiano: 1952.

sectors, the South's percentage of total income produced was far below that of the North, except for the fishing sector where the South accounted for a little more than 57 percent of Italy's total income from this sector. However, the South only produced 20 percent of the country's total income from these economic sectors, while the North accounted for a high 80 percent.

From the very beginning, two contrasting views existed as to why there was an economic disparity between the North and the South. One view emphasized the inadequacies of the social environment as the main obstacle to economic progress in the South; the other stressed the poor physical environment. F. S. Nitti expressed the opinion that the most important single factor holding back the South's progress was the tradition of its people.²⁰ Critics have charged the Southerners with failing to produce either a local class of leaders or a business-minded middle class, and with preferring a mediocre position in the bureaucracy to a career in industry. Northern businessmen have expressed their dismay at the undisciplined commercial habits encountered in the South. Giustino Fortunato, a Southern writer, has put most of the blame for the backwardness of the South on natural poverty resulting from poor agricultural resources together with demographic pressure.²¹ Some of the factors which put Southern agriculture

²⁰Lutz, p. 95, quoted in F. S. Nitti, Scritti sulla Questione Meridionale (Bari, 1958).

²¹Cf. footnote 7, Lutz, p. 96.

at a disadvantage compared with that in the North are large areas of hilly land, with stones and clay, that respond poorly to attempts at improvement; the lower amount of rainfall (compared with that of the North) and its concentration in fewer months of the year; and the small extent of plains in proportion to the entire area of farm land.

However, the original disadvantage of the South, whether it came from the habits and traditions of the people, or from natural poverty--or from both sources at once--was regarded as being aggravated by various aspects of the economic policy of the united Italy, a policy that was allegedly dominated by Northern interests. For instance, after the political unification of 1860-1861 both the tax burden and public expenditures were inequitably distributed, with the South contributing to government revenues more than in proportion to its wealth, and benefitting from government expenditures less than in proportion to what it paid. Great weight was attributed to this factor as a source of poverty in the South.²² It was also believed that the slow economic development of the South and its enduring inferiority with respect to the North were due to the establishment of a national market by political unification.²³ This meant the removal of the tariff protection that Southern industry had previously enjoyed against competition from the North, and

²²Schachter, p. 31.

²³Lutz, p. 97.

the application of a lower tariff to foreign countries. Evidence in support of this view is frequently sought in the fact that the cleavage between the two areas with regard to industrial development was negligible before 1860, and only afterwards became conspicuous. However, around 1860 there were few enterprises of the factory type in either area, and those that existed in the South were probably what have been called "hot-house plants," grown partly under strong tariff protection and partly under the natural protection provided by transport difficulties so long as North-South railway links were lacking. And the full burst of modern industrial development did not occur even in the North of Italy until the last two decades of the century.

Some authorities have blamed the commercial policy of a united Italy for a different reason. They felt that the tariff of 1887 gave stronger protection to manufacturers and to some agricultural producers, such as those producing grain, and they criticized it on two grounds. First, it obliged the almost exclusively agricultural South to pay higher prices for its manufactured goods than would have been paid under free trade; and, second, it gave agriculture a kind of protection which primarily benefited large land-owners.²⁴ The view that free trade between South and North had harmed the former prompted the suggestion made some time ago by Professor Vochting, who had spent many years studying

²⁴Lutz, p. 95 (Cf. footnote 6), p. 97.

Italy's Southern problem, that even at the present stage the institution of a tariff on Northern manufactures imported into the South might be the proper way of inducing industrialization there.²⁵

The present day conceptions of the remedy for the South's underdevelopment found their basis mostly in the principles evolved by modern development theory, which found a highly receptive public in Italy during the period following World War II. With regard to the problem of the South, many people dismissed the obstacle to economic development which earlier writers had seen in the lack of balance between population and natural resources, and felt that the natural poverty could be overcome by investment brought in from the outside or from the North. Technical progress had also made the industrialization of new areas easier. Many people felt that by freeing industry from dependence on coal, and by improving the means of transportation, the choice of location of industry, within wide limits at least, was a matter of indifference. Attention was then focused on the special difficulties that face any area which is late in developing industrially. Stress was laid on the necessity of creating parity of conditions in the South, by taking action deliberately to endow it with the advantages which the North already enjoyed, such as the process of industrial

²⁵F. Vochting, "Industrialization or Pre-Industrialization in Southern Italy?" Banca Nazionale Del Lavoro Quarterly Review (April-June, 1952).

development which had started at a much earlier date. The first step toward endowing the South with the advantages of the North was to provide the area with a more adequate stock of social fixed capital, i.e., roads, railways, telephones, water mains, sewers, schools, hospitals, and so forth. The second step was the generation of external economies which industrial expansion itself contributes to the improvement of the industrial environment. A leading part in the propagation of these ideas was taken by a private organization called the Association for the Industrial Development of the South.²⁶

The Government's development policy for the South evolved along similar lines. The first stage was that of promoting pre-industrialization, or of building the infrastructure of industry, and it then progressed to the second stage of trying to launch industrialization proper. The early program of the La Cassa per il Mezzogiorno placed emphasis on public works investments; it then gave way to a policy which attached increased importance to aid for private investment in industrial plants. It was also assumed that in the third stage the external economies created by industrial growth itself would turn the latter into a self-propelling process, which would no longer be dependent on government aid.

²⁶Also called SVIMEZ (Associazione per lo Sviluppo dell' Industria nel Mezzogiorno).

One phase of economic theory which has been widely used in describing the mechanics of the development process is that of multiplier analysis. SVIMEZ made, in 1951, the first estimate of the multiplier effects of the Cassa investment expenditure in the South. It divided up the total domestic income-effect of this expenditure (after allowing for the leakage due to additional imports from abroad) between the part that went to the North and the part that went to the South. It pointed out that the multiplier effect for the South, taken separately, fell short of that for Italy as a whole, because some part of the total money outlay for investments and consumption purposes in the South went to pay for imports from the North that were not counterbalanced by corresponding exports to the North. This fact led some Italian officials to believe that much of the benefits of the public-works expenditure, undertaken with the explicit intention of aiding the South of Italy, went in fact to the North. This revived the argument that the North always managed to exploit the South. Because of this, subsidized investments in Southern industrial plants were advocated on the grounds that only through these types of investments could the multiplier effects of other investments (in public works) in the area be kept in the South.²⁷ Then the historic relationship between the Northern and Southern economies

²⁷"Italy: A Hundred Years Later," The Economist, May 14, 1960, p. 640.

could possibly be altered. However, it is pointed out in Chapter IV that this only prevented the gap between the Northern and Southern living standards from widening as much as it would have if things had been left to themselves.

It was perceived that unification in Italy entailed a Southern problem; however, nothing was done about it at the time, and it is unlikely in any case that much could have been done to alter the main lines of the country's economic development. Those lines, from the unification to the outbreak of the Second World War, are now fairly well known. However, what was new and unexpected was the way things developed since the Italians started legislating for the depressed area of the South after the war. No one foresaw in that postwar period that the North would develop very rapidly, mostly due to world market conditions and the demand stimulated by public works in the South. However, South and Central Italy developed at a much slower pace. Much of the money that was spent in the South eventually worked its way back to the North since most of the industries engaged in public works were located there, and because only the large Northern firms were strong enough to supply the banks with the guarantees required to obtain special credits.

Therefore, partly due to favorable world market conditions and also to government-created markets in the South, Northern Italy is now in the phase of automatic expansion. But the important questions that will dominate Italian

politics and economic development in the future are whether the different rates of growth and progress will pull Central and Southern Italy further away from the North and accentuate the difference between the North and South, or whether the Northern expansion will be strong enough to carry the rest of the country with it.

In this chapter we analyzed the differences in the Northern and Southern economies in Italy and some of the reasons for these differences. This was done for two purposes: first to show that there are significant differences in the economies of Northern and Southern Italy; and second, to point out the need for economic development in the South. The following chapters will attempt to describe what has recently been done to develop the South, and what effects these efforts have had on the Southern economy.

CHAPTER III

LA CASSA PER IL MEZZOGIORNO AND ECONOMIC DEVELOPMENT

Several alternative approaches to the solution of the problem of economic underdevelopment in Southern Italy were considered in 1950. Increasing investments in the already developed North with a view to encouraging internal migration from the South was rejected on the basis that considerable over-capacity characterized much of the Northern industry and that output could be expanded considerably by the better utilization of manpower already available there. Also any substantial increase in public works in the North was not expected to channel any benefits to the South through internal migration of laborers from the South to the North, or from the purchase of goods and services there. An attempt at immediate industrialization in the South did not seem feasible because of the over-capacity in Northern industry and the limitation set by the local market. With the existence of this situation, it seemed that the most reasonable approach was to launch a pre-industrialization program in the South, and the Italian Government undertook to increase the level of public investments under a ten-year development plan for Southern Italy.²⁸

²⁸International Bank for Reconstruction and Development, Cassa per il Mezzogiorno and the Economic Development of Southern Italy, A Report Prepared by the Department of Operations: Europe, Africa, and Australasia (Washington, D.C.: International Bank for Reconstruction and Development, 1958), p. 2.

The primary objective of this program was to raise the productivity of the land and labor and to eliminate the economic waste involved in unemployment and underemployment. Increasing the productivity of the land and the labor in the South, it seemed, would not only raise the standard of living within the region, and subsequently lead to its industrialization, but it would also reduce unemployment in the North by stimulating demand for its industrial products and services. Primary emphasis was placed on the early development of a healthy and prosperous agricultural system for the entire area, an emphasis similar to that of many other underdeveloped countries. Wanting a degree of coordination and continuity which could not be achieved by the regular ministries, the Italian Government entrusted the execution of the program to a new agency, La Cassa per il Mezzogiorno.

The Cassa was the result of the first major legislation for the South, sponsored by the late Prime Minister Alcide De Gasperi. This legislation was notable in that it established, in August, 1950, the chief instrument with which the Government would administer its ten-year plan for the economic and social development of Southern Italy. The Cassa was made directly responsible to a Committee of Ministers for the South and was entrusted with the formulation and execution of the development program.²⁹ It was the

²⁹The Committee is made up of the President of the Council of Ministers, the Minister for the Mezzogiorno, and the Ministers of Agriculture, the Treasury, Industry and Commerce, Public Works, Labor, and State Holdings.

Cassa which, over the ensuing years, would dispense the billions of dollars to carry the Southern development program forward.

The analysis of this new policy for the South must take as its point of departure a study of its objectives. The 1950 law opened up, for the first time in the attempts to aid the South, the possibility of long-term programming of investments, and it stated that the State would be responsible for the task of supplying the Cassa with funds for a period of ten years (later extended to twelve and then fifteen years). Recently (January, 1965) the life of the Cassa was extended to 1980.³⁰ The authority delegated to the Committee of Ministers was designed to secure the formulation and execution of a general plan of extraordinary works to further the economic and social progress of Southern Italy. The above plan was concerned with groups of works relating to flood and erosion control in mountain river basins, land reclamation, irrigation, and land transformation. It was also concerned with programs of land reform, ordinary local roads, plants for processing agricultural commodities, and works of tourist interest, as well as the construction of aqueducts and sewers, and improvements to railways bearing heavy traffic.

³⁰The author received this information during an interview with Dr. Giorgio Ricci of the Italian Commercial Office. However, at this time there is no published information available as to the new funds allocated to the Cassa under this new law or the new incentives offered to industry.

The law which established the Cassa also provided for a total appropriation to it of \$1.6 billion for the ten-year period. In 1952 its funds were increased to \$2.0 billion. With the additions allotted under the law of July, 1957 (\$1.2 billion) and July, 1959 (\$50 million), the sum grew to more than \$3.3 billion. At the time of its establishment the Cassa's major problem was the allocation of funds for specific works. This was a difficult task because of the absence of a soundly formulated and properly coordinated economic development program for the South on the one hand, and the multiplicity of regional, political and other pressures to which the Cassa was subjected on the other. Against this background the Committee of Ministers for the South laid down the broad outlines for the ten-year program and made a preliminary allocation of the funds.

These allocations were intended to indicate the over-all magnitudes of the works which would be carried out by the Cassa in the different sectors of the economy and were not in any sense firm commitments. Geographically the allocation of funds was made on the basis of population and the degrees of economic and social depression prevalent in the various Southern regions. Table 6 illustrates the distribution of funds for the ten-year and subsequently for the twelve-year programs, and it indicates the nature and the direction of the Cassa program. Its pre-industrialization character is clearly revealed by the concentration on agriculture and on linking the various parts of the area by a

TABLE 6

PLANNED USE OF FUNDS FOR LA CASSA PER IL MEZZOGIORNO
TEN-YEAR AND TWELVE-YEAR PROGRAMS
(Millions of Current Dollars)

Sectors	Ten-Year Plan		Twelve-Year Plan	
	Amount	Percent	Amount	Percent
Agriculture	1,232	77	1,419	69
Land Reclamation	(496)	(31)	(565)	(27)
Reforestation	(80)	(5)	(198)	(10)
Land Reform	(448)	(28)	(448)	(22)
Private Land Improvement	(208)	(13)	(208)	(10)
Transportation	176	11	304	15
Roads	(176)	(11)	(184)	(9)
Railways	. .	. .	(120)	(6)
Aqueducts & Sewers	144	9	285	14
Tourism	48	3	40	2
Total	1,600	100	2,048	100

Source: International Bank for Reconstruction and Development, Cassa per il Mezzogiorno and the Economic Development of Southern Italy, A Report Prepared by the Department of Operations: Europe, Africa, and Australasia (Washington, D.C.: International Bank for Reconstruction and Development, 1958), p. 4.

network of roads. Although the relative proportion of agriculture declined somewhat in the twelve-year plan, it still claimed nearly 70 percent of the financial resources of the twelve-year plan, and the amount allocated for agricultural purposes increased absolutely. The allocations for transportation increased both absolutely and relatively through the addition of funds for railroads. The health and welfare aspects of the plans are reflected in the substantial sums allocated for aqueducts and sewers. Tourism claimed only a small part which declined both relatively and absolutely; however, many of the improvements in transportation and sanitation should make the South more attractive for tourists.

A great deal of effort went into the formulation of an agricultural development program for the South, since the problem of the South had generally been regarded as agricultural. As a result, the first phase of the Mezzogiorno program dealt with agrarian reform. The large Southern estates, made up of large areas of unused land, were expropriated and parcelled out to land-hungry peasants. More than a million acres were thus distributed in ten-acre lots.³¹ The program was intended to convey the impression that no significant part of Southern agriculture was to be neglected and that something was going to be done for nearly everyone. Moreover, to make economic sense of agrarian reform there was a need for dams, irrigation canals, electric

³¹Nelson, p. 14.

current, access roads in reclamation districts, reforestation of woodlands, and much else besides. Therefore, concurrently with the land reform, the Cassa embarked on an extraordinary public works program designed primarily for infrastructure improvements to aid farming and future industrial development. These improvements included the construction of a series of concrete and dirt dams, together with the building of new aqueducts which have put more than a half-million acres under irrigation. During the same time water systems were provided for 1,300 communities with a total population of over four million. New roads were built and old ones were asphalted. Almost one-half million acres of land were reforested, while over a million and a half acres were reclaimed to cultivation.³² The Cassa also provided for building farm houses, barns, processing plants, and other farm structures such as wells, silos and warehouses. The railroad program was planned to increase capacity by building longer sidings and electrifying a number of main Southern railways. Lastly the investments to encourage tourists to travel to the South were made to provide better roads and improved water supplies (in addition to the other programs) in recognized tourist centers and to expand the variety of archeological excavations and other attractions.

The Cassa program started out essentially as a

³²Neville, p. 56.

pre-industrialization effort for the South with primary emphasis on improving the output and income of the farm population. It was soon realized, however, that the long-run manpower requirements of the more intensive agriculture would eliminate only a part of the existing agricultural underemployment, and that jobs outside of agriculture would have to be found for the remaining labor force. Furthermore, given the heavy population density in the South in relation to the land available, the opportunities for increasing incomes through agricultural development alone were severely limited. Since the South has certain natural advantages such as favorably located ports with unused capacity, cheap labor, and a growing local market, the need to industrialize the South was recognized and efforts in this direction began to take form, although it took some time for a large scale program to materialize.

As a result of this recognition and the growing demand in the South for industrial products, the scope of the Cassa's activities in promoting the economic development of Southern Italy was greatly extended by a special law of March 22, 1952. This law recognized that in order to attempt to solve the Southern problem, a favorable climate for industrial growth needed to be created, and it therefore empowered the Cassa to start financing industrial enterprises. A variety of inducements were offered to Italian and foreign businesses to make investments in the South. Foremost among these were tax and tariff concessions and long-term credit on

favorable terms. These early incentives were strengthened by a subsequent law which extended the life of the Cassa and provided it with funds to launch a major effort for the industrialization of the South.³³ The various incentives offered to businesses are discussed more fully later in this chapter.

The new law extending the life of the Cassa has been referred to as the second stage of its operations. A detailed analysis of the law reveals that it is by and large a continuation and intensification of the Cassa's former activities. Perhaps the best indication of what the Committee of Ministers for the South hoped to obtain under the new law is illustrated in Table 7, which shows the planned use of the funds.

Unlike the earlier programs (Table 6), allocations for agriculture amount to only 55 percent under the new law of July, 1957, and the additional funds allocated under the law of July, 1959. Nevertheless, the funds allocated for agriculture increased absolutely and claimed more than one-half of the total funds. They were to be used for land reclamation, reforestation, land reform, and private land improvement.

The transportation sector continues to be important in the extended programs. The funds allocated to this sector

³³This new law intensified the Cassa's former activities, putting greater emphasis on industrialization, since the pre-industrialization stage had at least been fully mapped out.

TABLE 7

PLANNED USE OF FUNDS FOR LA CASSA PER IL MEZZOGIORNO
FIFTEEN-YEAR PROGRAM
(Millions of Current Dollars)

Sectors	Law of July, 1957		Law of July, 1959	
	Amount	Percent	Amount	Percent
Agriculture	1,820	55.6	1,840	55.4
Transportation	414	12.6	414	12.5
Aqueducts & Sewers	499	15.2	499	15.0
Industry	392	12.0	392	11.8
Handicrafts	8	0.2	8	0.2
Tourism	71	2.1	90	2.7
Fishing	8	0.2	8	0.2
Schools	60	1.9	69	2.1
Social Welfare	3	0.1	3	0.1
Total	3,275	100.0	3,323	100.0

Source: Shepard B. Clough, The Economic History of Modern Italy (New York: Columbia University Press, 1964), p. 346.

increased absolutely and showed only a slight relative decline as compared to the earlier programs. Most of the funds allocated to this sector would eventually be spent on surfacing existing roads, for the construction of regional and interregional highways, and for roads connecting farms to market areas, as well as for roads adding to the efficiency of the existing provincial and communal networks. Road traffic has been increasing in the South and, with continued emphasis on rapid economic development, additional highway construction is probably justified on the grounds that it should help agriculture, industry, and tourism. In addition, some of these funds were to be spent on improving railroads in the South.

There was a substantial increase in the funds allocated for aqueducts and sewers. These funds also increased relatively as compared to the earlier programs (outlined in Table 6); however, they showed a slight relative decrease under the law of July, 1959. They were mostly intended for the completion of water mains leading into consumption centers and for internal distribution networks. Funds to complete the system are essential in order to bring potable water to most of the population of the South. Although these public works will reduce the price of water to consumers, they should be judged in terms of public health and social benefits, rather than pecuniary criteria. Funds allocated for tourism continued to increase under the new programs. These would be used as a means of attracting tourists to Southern Italy by improving existing tourist sites and by creating new ones.

The new allocations for schools are extremely

important, although they accounted for only some 2 percent of the total allocations. These funds would be used for training technicians and for building vocational and other schools. It has been demonstrated in Southern Italy that with a large number of unemployed workers there is a shortage of all types of skilled workers. The amount allocated for handicrafts, fishing, and social welfare accounts for less than 1 percent of the total allocations; however, these items did not even appear under the earlier program.

In terms of its long-run significance to the economic development of Southern Italy, the allocation of funds for industry is by far the most important aspect of the new law of July, 1957, even though these funds accounted for only about 12 percent of the total funds made available to the Cassa. Most of these funds were allocated for subsidies for buildings and machinery and for the subsidization of other costs in creating additional industrial zones. These funds are expected to meet up to 50 percent of the costs of the purchase of sites, installation of water supplies and sewers, and construction of roads, sidings, and transmission lines.

It was pointed out that originally the Cassa was given a large role in improving agriculture in the South, while in the industrial field its task was mostly confined to improving the infrastructure and granting loans to concerns setting up plants for processing agricultural products. Its scope was soon extended to the general fields of industrial

credit. It exercised this function directly at first and afterwards indirectly through the Special Industrial Credit Institutes (which are discussed in detail later in the chapter).

Although large numbers of people have derived benefits from the public works program, it has been criticized a great deal. For example, there is suspicion that in some mountain districts, destined to be depopulated once industrial development takes place elsewhere, the newly built facilities will be used little, and many of the new roads might be used only for people to move away.³⁴ There is also some doubt concerning the usefulness of much of the agricultural investment aimed at land improvement. It has also been observed that the Cassa's program has been partially wasteful because of the failure of the authorities to begin with enough perception of the practical possibilities regarding the locational pattern of future agricultural and industrial developments and population movements in the South.³⁵ The Cassa has also been criticized for spreading the available funds too thinly over too wide an area, instead of concentrating them in amounts large enough to produce the maximum effects.³⁶ Some of the criticism is justified; however, some mistakes are inevitable in a program of such large dimensions. Also, in the early years, there was political

³⁴Lutz, p. 104.

³⁵Schachter, p. 183.

³⁶Lutz, p. 105.

pressure for making improvements.

The law of July, 1957, initiating the second cycle of measures for the South, provided for public investments aimed at improving the environmental conditions for industry in zones where prospects existed for a certain amount of industrial development. The local authorities of a zone could form a consortium to develop the basic capital equipment (road and railway links, water and power supplies, and sewers) of that zone, and take any other initiative considered useful for its industrial development; then the Cassa could grant contributions of up to one-half of the cost of the improvements. This proportion is subject to the approval of the Committee of Ministers for the Mezzogiorno.³⁷

Some critics, however, had complained that the construction work of the Cassa was too often a substitute for activities that would have been undertaken by the ordinary public authorities, instead of being additional to these. They urged that the public investments in the South by these authorities ought to bear the same proportion to the national total of such investments as the population of the South bore to that of the whole country, and that the expenditures of the Cassa should be above this. Therefore, in the law of 1957, Parliament promulgated the rule that each Ministry responsible for public construction should be sure that the

³⁷By the end of 1958 the Committee had drawn up a preliminary list of ten zones in which the local authorities might be encouraged to constitute such a consortium; and, by the end of 1959, Bari, Brindisi, and Taranto had been declared areas of industrial development.

proportion of its public works expenditures allocated to the South was not smaller than the population ratio.³⁸

Most of the direct incentives offered to private industry apply to the setting up of new industrial plants in the South, to the transfer to the area of plants from Northern and Central Italy, to the reopening, reconstruction, or conversion of plants already there, and to the expansion of existing plants in the South. They are confined to establishments which are considered to be factories or workshops possessing mechanical-power installations with fixed transmission lines. This category automatically excluded most artisan establishments which are also more explicitly excluded from certain benefits reserved for industrial establishments. However, artisan firms benefit from certain measures which are discussed later in the chapter.

Most of the incentives are calculated to reduce the initial cost of investment in plant and equipment, or to make its financing easier by loans on privileged terms or by self-financing from untaxed profits. Among the early measures taken were those providing tax relief. One of the most important first exemptions was that relating to the national government tax on business profits. Ten-year exemption from this tax was, and still is, granted on the income earned from any of the activities mentioned above. Other items of fiscal relief include the reduction by one-half of

³⁸Lutz, pp. 105-106.

the general turnover tax on construction materials and fixed equipment bought for the purposes listed, and the reduction of the stamp and registration duties on property transfers and on mortgages connected with industrialization projects.

A new kind of income tax relief was granted under the law of July, 1957. It applies to retained earnings used by any company or firm, whether the registered office is located in Northern or Southern Italy, to finance the establishment or expansion of industrial plants in the South. Retained earnings up to an amount not exceeding 50 percent of total declared earnings and not exceeding 50 percent of the cost of the investment, are, when thus used, exempt from the national income tax. This relief also applies to earnings used to finance agricultural improvements. The local authorities were also empowered by the 1957 law to concede exemptions from income tax which they normally levy on industries and from consumption taxes. All the tax-relief measures remain in force until the end of the lifetime of the Cassa.

Various other concessions are also granted by the Cassa. They include reductions in the rates of rail transportation of equipment and materials used for any of the purposes already listed, and exemption from customs duties of construction materials and equipment imported for such purposes.

Probably the most important group of incentives was

those aimed at improving the terms on which capital was available to Southern industry. There were two policy developments in the field of industrial credit. The first was the increase in the number of institutions engaged in medium-term lending to industry. In this case particular emphasis was placed on the need for more borrowing facilities for medium and small industrial concerns.³⁹ Recognizing this need as early as 1948, three departments for small loans were opened at this time. The one operating on a national level was opened at the Banca Nazionale del Lavoro, and the other two were opened within the industrial credit sections of the Bank of Naples and the Bank of Sicily, both operating in the South.

Under a general law of June, 1950, eleven Regional Institutes for lending to medium and small firms were founded in North and Central Italy. Three Special Southern Institutes were set up in 1953, and a Central Institute, called the Mediocredito, was established at the same time to provide funds to institutions directly engaged in medium-term lending to medium and small industrial concerns.⁴⁰ A special Artisan's Bank (Cassa per il Credito alle Imprese Artigiane) was created for strengthening the medium-term credit facilities available to very small industry throughout

³⁹For a definition of medium and small firms, see page 59.

⁴⁰The Mediocredito also provides funds for certain types of exports through the medium-term credit institutes.

all of Italy.

The establishment of these institutes served the purpose of maintaining the strict separation between short and medium or long-term lending provided for in the Banking Law of 1936. This separation meant that banks engaged in short-term deposit business were not permitted, except within narrow limits, directly to offer medium or long-term loans to industry. These new institutions discussed above provided a means of satisfying the longer-term credit needs of smaller firms which lacked the name or reputation which would permit them to issue their own securities on the capital market, and which had relatively limited possibilities for self-financing.

The category referred to as medium and small industrial concerns is of primary importance in the special legislation relating to medium-term credit for the South. In 1953 the Interministerial Credit Committee⁴¹ first defined this class of borrowers as enterprises employing 500 or fewer persons, and having an invested capital (fixed and circulating) of not more than \$2.4 million. In the case of the South, the definition applied to the single plant in the area, whether or not this belonged to a larger firm, as long as the registered office of the parent company and its other

⁴¹The Interministerial Committee for Credit and Savings, of which the Bank of Italy is the executive organ, is composed of the Minister of the Treasury and the following Ministers from the main government departments dealing with economic affairs: The Ministers of Public Works, Agriculture, Industry and Commerce, Foreign Trade, the Budget, Finance, and State Holdings.

plants were situated outside of the South. However, in 1958 the definition was broadened to cover, in the case of the South only, plants or firms with an invested capital of up to \$4.8 million.

The process of strengthening the institutional set-up did not automatically imply that all, or any, classes of borrowers should be accommodated on privileged terms. However, with the reinforcement of the institutional framework, a movement did occur towards privileged financing for industrial borrowers in the South. In 1953 medium-term financing was made the function primarily of three Special Institutes: ISVEIMER⁴² for the Southern mainland, IRFIS⁴³ for Sicily, and CIS⁴⁴ for Sardinia. The first two institutes were already existing concerns, and the third one was specially created. ISVEIMER and IRFIS began operations in the new field of subsidized credit in 1954 and CIS began in 1956.⁴⁵

These institutes, which were now responsible for the bulk of these lending operations, were made the avenue for the industrial investments which formed a progressively

⁴²Istituto per lo Sviluppo Economico del' Italia Meridionale.

⁴³Istituto Regionale per il Finanziamento Alle Industrie in Sicilia.

⁴⁴Credito Industriale Sardo.

⁴⁵The capital stock of ISVEIMER was subscribed by the Cassa, by the Bank of Naples, and by savings and other banks with registered offices on the Southern mainland. That of IRFIS came from the Cassa, the Bank of Sicily, other local banks, and the Regional Government. For CIS it came from the Cassa, the Bank of Sardinia, the Regional Government and other local banks.

larger part of the Cassa's program. They were also endowed with a series of other Special and Revolving Funds (provided by the National Treasury, and for Sicily and Sardinia by the Regional Governments). In addition they exercised their rights of issuing bonds, at low interest rates, with the Mediocredito. The Special Institutes also became the intermediaries for making loans to industry out of the funds borrowed by the Cassa from the International Bank for Reconstruction and Development.

The institutes had a much larger base of interest-free bonds to work with than the industrial credit sections of the three banks had, and they also had the right to place half of any of the loans they might issue with the Mediocredito at cheap rates. However, direct contributions to interest charges were reintroduced with a slightly different formula by the law of July, 1957. This law authorized the Cassa to grant interest-rate subsidies (at figures to be determined by the Interministerial Credit Committee) on the bonds placed on the market by the three Southern Institutes, or on funds obtained by them from other non-official sources i.e., those sources other than the Treasury, the Cassa, and the Mediocredito.

At the beginning, the industrial credit sections of the three Southern banks were authorized to make loans for terms of from one to ten years (the usual terms in practice were three, five, or ten years). The same rule governed the operation of the Special Institutes; however, at the end of

1958 the maximum duration period was extended to fifteen years. The law also stipulated that the pre-amortization period, during which no installments are yet due for repayment of the principal, could extend up to five years, and the utilization period, during which no interest payments are due, up to two years.

The ceiling on the amount that could be lent to a single firm or customer was set in 1954 at \$480,000. If the amount of the loan requested was larger than this, it required the prior authorization of the Interministerial Credit Committee. In 1959 the maximum loan that could be made without such authorization was raised to \$800,000. The rule that has generally prevailed requires that the Institutes should not finance more than 70 percent of the total fixed investment costs of any individual project approved, thus keeping a normal relationship between loan and risk capital.⁴⁶ The interest rate, including all costs and commissions, which the industrial credit sections and later the Special Institutes were permitted to charge the borrower was greatly reduced between the beginning and the end of the 1950's. At the beginning, the rate did not exceed the official discount rate plus 3.5 percent. This implied a maximum rate which fell by stages from 9.0 to 8.0 and then in April, 1950, to 7.5 percent. A law of May, 1950, reduced the

⁴⁶From 1954 to 1958 the average proportion covered in the case of ISVEIMER was 53 percent; this average was much higher in some years than in others and in some regions (Basilicata and Calabria) than in others.

maximum rate to 5.0 percent. In 1953 the law governing the operations of the three Special Institutes provided for the annual fixing of the rate by the Interministerial Credit Committee. A rate of 5.5 percent for loans up to \$480,000 was charged until the end of 1958, when the Committee lowered it to 4 percent (for loans up to \$800,000).

For some years the government's credit policy for the South had been criticized for its inadequacy and there had been strong pressure on Parliament to grant larger concessions in this as in other directions. One of the most frequent complaints was that the supply of funds available at the privileged interest rates was insufficient to satisfy the demand for them. Another complaint was that the facilities did not extend on any considerable scale to working capital needs, which usually had to be met through normal banking channels at unsubsidized interest rates. The objection was also raised that the collateral security required by the medium-term credit institutions was burdensome for the borrower and in many cases applications for loans were dismissed on this account alone. In other cases the borrower was left without the means of putting up the security for the bank loans required to finance working capital. However, ISVEIMER stated that insufficient collateral was never a motive for refusing a loan in cases where the proposed investment, and the entrepreneurial capacity going with it, gave good promise of success. However, increasing provision for working capital needs was made as time passed.

Not all of the industrial expansion in the South was a result of these subsidized credit facilities. In some cases the firms, benefiting from the measures of fiscal and other relief, relied on ordinary unsubsidized channels, or on self-financing aided by the measures of tax exemption of profits.

There were two methods of selection which the Special Institutes applied to otherwise equally credit-worthy applicants. The first one was a preference for aiding new plants rather than the expansion of old ones. From 1954-1959, ISVEIMER granted 429 loans for financing new plants, and 413 loans for the expansion or modernization of old ones. During the same period IRFIS granted 149 loans for new plants and 235 loans for the expansion of old ones. Secondly, medium and small firms were generally favored in preference to large ones. However, some of the larger projects were accommodated on about the same terms out of the funds lent to the Cassa by the International Bank for Reconstruction and Development. The first five loans made by the Bank between 1951 and 1958 totaled \$238 million. From these loans, \$64 million were used for irrigation projects, \$94 million for fourteen electricity plants, and \$80 million for twenty-two industrial plants. The sixth loan, in the amount of \$40 million, was made in 1959 in conjunction with the European Investment Bank. It was used for electricity and industrial plants.

Generally speaking, even if there was a certain

rationing element in the distribution of subsidized credit, and if other rules of eligibility besides credit-worthiness have occasionally been applied, the relationship between the volume of funds available to the Institutes and the demand for finance on subsidized terms was, at least in the years from 1954 onwards, a favorable one, since the Institutes were in a position to satisfy a very high proportion of the applications from credit-worthy customers. This appears to be the view of an expert on this subject, Professor Ferdinando Ventriglia.⁴⁷

In July, 1957, a new law authorized the Cassa to grant capital subsidies to artisans in any part of the South, and to medium and small industrial concerns establishing plants in communes with not more than 75,000 inhabitants where industrial activity was poorly developed. For artisans the grant amounted to a maximum of 30 percent of the expenditures on equipment for transforming, modernizing, or mechanizing the workshop. For medium and small industries it was (for new plants) up to 20 percent of the cost of buildings and of the construction of links with roads, railways, and sources of power. The new law also provided for grants up to 10 percent of the costs of fixed equipment which had not benefited from the custom-duty exemption. This last concession was intended as a partial offset, for domestically

⁴⁷Ferdinando Ventriglia, "The Industrial Credit System in Southern Italy," Banco di Roma Review of Economic Conditions in Italy, Special Number (January, 1959).

manufactured equipment, to the customs-duty exemption on equipment imported from abroad, to which all Southern industrial firms were entitled. The Supplementary Law of July, 1959, permitted the grants to artisans to cover buildings as well as fixed equipment. For medium and small firms, the grant could cover the expansion of plants as well as their initial establishment. The maximum permissible grant towards equipment produced in the South was raised to 20 percent. Furthermore, communes with up to 200,000 inhabitants could apply and obtain grants. The grants could now be obtained cumulatively with loans from the medium-term credit institutes as long as the total of the two benefits did not exceed 85 percent of the total capital invested.

Offering grants on this scale attracted a large number of applications. From 1957 to 1959 about 700 applications, for subsidies relating to plants costing over \$112 million, were filed by medium and small companies with the industrial credit institutes. Over 6,000 applications relating to subsidies toward outlays to about \$6.4 million had been submitted by artisans. The final task of determining the types of enterprises that met the qualifications for these grants rested with the Committee of Ministers for the Mezzogiorno.

An attempt to analyze what the various tax and credit privileges add up to in terms of the effect on costs and

profits was made by Gardner Ackley and Lamberto Dini.⁴⁸ Their investigation, which was based on selected hypotheses about the structure of assets, the amount of borrowing, and the gross sales and operating expenses, both of which they assumed to be the same between the North and the South, rendered the following results. In 1957 when the cost of unsubsidized medium-term credit in the North was approximately 9.5 percent, as compared to the subsidized rate of 5.5 percent in the South, a Northern firm was earning a profit of 6 to 9 percent on total capital investment, and a Southern firm (making maximum use of all the special facilities available) was earning 12 to 15 percent on capital investment. These margins in favor of the South depend on the assumption, which is not usually valid, that operating costs and sales revenues are the same in both areas. However, they do serve the purpose of pointing out that Southern firms were able to offset at least some of their higher operating costs or lower sales revenues. The figures quoted were for profits before taxes; for profits after taxes the margin in favor of the South would be larger. The margin was, however, lowered to a certain degree after existent interest rates were decreased at the end of 1959. At this time a Northern concern was able to borrow either at an unsubsidized rate of about 7 percent, or at a subsidized rate

⁴⁸Gardner Ackley and Lamberto Dini, "Tax and Credit Aids to Industrial Development in Southern Italy," Banca Nazionale del Lavoro Quarterly Review, (December, 1959), pp. 339-368.

of 5 percent, while a Southern firm borrowed at the subsidized rate of 3 percent.

Several general aspects of the Southern development policy deserve comment. First of all, there was a tendency to try a great many different methods, as opposed to concentrating on a few. This tendency increased as one measure after another failed to yield the results that had been hoped for. A second aspect is the location of new industry. There was much discussion during the 1950's as to whether the industrial development program for the South should seek a wide geographical spread, or whether it should be focused on a limited number of areas which had shown the best development potentialities. The 1957 and 1959 laws encouraged small, decentralized industry, and at the same time they aided the larger concentrations in selected zones and development areas. Much disagreement still exists as to which principle should prevail. It was suggested that a policy of differentiated incentives between the various regions of the Continental South should be introduced, in order to stimulate preferences for regions (Apulia, Calabria, and Lucania) where entrepreneurs had paid little or no attention, as opposed to those (Campania and Latium) where the greater part of the new industrial development had been concentrated. However, early in 1961 official and much of the unofficial opinion was in favor of concentrating the maximum effort on a limited number of development regions.

A third aspect of the development policy, which is

worthy of comment, is the choice of subsidies. As Ackley and Dini pointed out, the choice was mainly oriented towards subsidizing capital costs, thus giving special encouragement to investments in the more capital-intensive sectors, with a corresponding small effect on employment. It seems that if a larger employment-effect had been desired, more of the subsidies would have to be for labor costs.⁴⁹ One possibility in this case would have been to relieve the Southern employee from contributions to the Family Allowances Funds, and to place this burden, instead of some other, on the national exchequer.⁵⁰ In 1958 family allowances cost Southern industry and other non-agricultural activities, in spite of a sizeable subsidy from Northern firms, about \$94 million. However, Table 8 illustrates the fact that quite a substantial

⁴⁹These two authors suggest that current output (sales) instead of capital investments might be subsidized.

⁵⁰Family allowances come under the labor laws, but may be revised by collective contract, in which case they are given the force of law by a regulation issued by the Ministry of Labor. The allowances apply only to those in subordinate employment (excluded are domestic servants, share-tenants in agriculture, and outworkers) and not to all persons with children or other dependents, regardless of those persons' employment status. The allowances are disbursed to the worker as part of his pay, with the allowances ceasing when subordinate employment ceases. The unemployed are entitled only to the family allowance provided under the unemployment insurance scheme. In most sectors, the entire cost falls on the employer, except in agriculture where the allowances are partly financed by public funds. The employers' contributions, calculated on the basis of wages paid to all workers whether or not they have children, are credited to a single Family Allowances Fund which is administered by the National Institute of Social Insurance. Payments are due individual workers in accordance with the number of their dependents.

TABLE 8
CONTRIBUTIONS TO AND PAYMENTS FROM
FAMILY ALLOWANCES FUND: 1958
(Millions of Current Dollars)

	Agriculture		Artisan		Other Sectors		All Sectors	
	Conts.	Pmts.	Conts.	Pmts.	Conts.	Pmts.	Conts.	Pmts.
North	17.8	20.8	9.0	9.0	500.3	388.8	527.0	418.6
South	8.6	29.6	1.3	4.6	94.4	183.8	104.3	218.2
Italy	36.0 ^a	50.4	10.3	13.6	594.7	572.6	638.1 ^a	636.8

^aIncluding government contributions to the fund for agriculture. Other differences between sums of constituent items and totals are due to small amounts which for the sector remained unspecified at the end of the year.

Source: Italy, Istituto Centrale Di Statistica, Annuario Statistico Italiano: 1959.

transfer of funds occurred between Northern firms taken as a group and Southern workers taken as a group. This was partly due to the fact that a larger proportion of workers in the South receive daily rates of pay below the maximum subject to the percentage contribution, and partly because the average size of the worker's family is larger in the South than in the North. The extent of the North-South transfer in a recent year may be seen from the figures shown in Table 8 of contributions collected by the Fund from employers and benefits paid to the workers in each of the two geographical areas. In the non-agricultural sectors about 18 percent of the contributions paid by Northern employers went to Southern workers.

The discussion in this chapter has emphasized incentives and facilities provided by legislation of the National Parliament for the whole of the South. In addition to these, other concessions were granted for their respective areas by the Regional Parliaments of Sicily and Sardinia. They included special regional grants towards interest charges, allowing the rates charged to customers to be brought earlier to 4 percent there than in the remainder of the South. They also included capital grants and subscription by the public authorities towards the share capital of industrial firms.

The reservoir of apparatus needed for Southern development was now nearly full, and it seemed as though Parliament had provided for almost every stimulus to private

industry in the South. One extreme measure had, however, been avoided, and rightfully so to the benefit of all of Italy. In 1956 a proposal was voiced in influential circles that a law be passed placing a ban (for private and public enterprises alike) on the establishment of new industrial plants, and the expansion of old ones, in the North until a sufficient amount of industry had been developed in the South. Fortunately this proposal was set aside before it could give rise to action.

CHAPTER IV
DEVELOPMENTS IN THE SOUTH OF ITALY SINCE
THE ESTABLISHMENT OF
LA CASSA PER IL MEZZOGIORNO

In this chapter the developments in the South since 1950 are discussed, using statistical analysis to show the effects of this development on the South's economy and the achievements resulting from the development, with emphasis on the Cassa programs and investments.

A proper evaluation of the Cassa program must consider its achievements, its shortcomings and its mistakes in the light of the background against which it had to operate. The immense size and diversity of the program rendered a quick take-off very difficult, and operations got off to a slow start. As often happens in programs of this type, it encountered a number of difficulties which were not fully foreseen in the preparation plans. Organizing and staffing took longer than expected. Cassa personnel soon discovered that in many of the projects put forward for financing, much detailed technical preparation remained to be done. In many cases the regional associations of landowners or other bodies with which the Cassa was supposed to work were either poorly staffed or practically non-existent.

Much time was thus spent in the administrative and technical review of projects before contracts could be awarded. Even at this stage, however, difficulties were

encountered, primarily because bidding was originally limited to Southern contractors, whose prices were on the whole quite high. The contractors experienced difficulties in obtaining equipment and machinery necessary for a rapidly growing public works program. To meet these problems the Cassa encouraged bidding by qualified Italian contractors even though they were not located in Southern Italy. It thus appeared to have succeeded in overcoming the original reluctance on the part of many established construction firms to bid. The Cassa has handled each problem as it arose and, in general, has done a satisfactory job in overcoming these difficulties.

Needless to say, the pressures on the Cassa were very great to limit its review of the projects, in order that it could spend the funds at its disposal as early as possible and thereby create employment directly in the South and indirectly in the rest of the country. Not wishing to proceed without being satisfied with the economic and technical merits of its works, the Cassa adopted the general policy of approving and launching the simpler works first, at the same time continuing to prepare plans for the more complex works. During its first seven years of operations the Cassa examined investment applications totaling \$1.4 billion, approved a total of \$1.3 billion of projects, and entered into formal contracts of \$813 million.⁵¹ In addition

⁵¹International Bank for Reconstruction and Development, Cassa per il Mezzogiorno and the Economic Development of Southern Italy, 1958, p. 7.

the Cassa approved expenditures of the land reform agency and extended subsidies for private land improvements.

It had long been apparent that an improved agricultural system would not alone solve the South's economic problems. More rapid industrialization obviously appeared necessary to absorb the chronic unemployment and underemployment. Plans along this line were being developed for some time. Through 1957 the Cassa had spent about 70 percent of its funds on agriculture; thereafter more was spent for industrialization purposes. However, some industrialization had been achieved before this date. It was not until 1957 that the Government pushed through what has proven to be a most effective industrialization measure--legislation requiring that state-controlled or state-operated industrial organizations allocate 40 percent of all new investment to operations or projects in the South. This provision applied most significantly to the two large state controlled concerns, ENI (National Hydrocarburates Corporation) and IRI (Industrial Reconstruction Institute) and their subsidiaries.⁵² These two large industrial complexes have since invested not less than \$2 billion in the South.

Parallel steps were the establishment of industrial areas in the South as a means of attracting private industry and the offering of various incentives by the Cassa (discussed in Chapter III). The industrial areas were carefully

⁵²For a discussion of activities and historical background of these two concerns see Lutz, pp. 269-276.

defined and selected. Each was provided with adequate water and power supplies, roads, public services, hospitals, schools, markets and banks, thus enabling it to draw on the sizeable and readily available work force. About eleven industrial areas were designated, plus a number of lesser zones called industrial nuclei, as illustrated in Figure 1. Thus the South now offers a wide variety of industrial locations, one or more of which should satisfy the needs of almost any prospective industrial investor.

As for the incentives offered to private industrial concerns (both Italian and foreign), the value is impressive. For example, it was reported that one American businessman, ready to invest \$340,000 in a printing plant in the South, found that by making use of all available concessions and incentives, he had to provide only \$90,000 in cash.⁵³ Over one thousand Italian firms have taken advantage of these various incentives to move into the South during the past decade or more; however, most of them have gone there in the last three or four years. In addition more than fifty foreign firms, about half of them American, have set up plants in the South during the same period. They vary in size and include those engaged in textile, soap, chemical, plastics, and transistor manufacturing, and refineries, pharmaceutical firms, canneries, and ceramics concerns. At the present time private industry seems to be playing a major role in

⁵³Commercial Office of the Italian Embassy, Italy: An Economic Profile 1962 (June, 1963), p. 33.

FIGURE 1

MAP OF THE REGIONS OF SOUTHERN ITALY: INDUSTRIAL
NUCLEI AND INDUSTRIAL AREAS



developing the South, and it is estimated that about 80 per cent of all industrial investments come from private firms.

Until recently large firms, rather than small ones, have led the way in investing in the South. Actually this has been a cause for some concern, since the large heavily-automated plants, though they represent large investments and introduce advanced technology, provide relatively few jobs. Present emphasis is, therefore, on trying to attract small and medium firms into the South. Although they have located in the South in considerable numbers, many more are still needed.

In some cases the industrial development in the South has been fostered by distinct natural factors. Part of it is based on the discovery and exploitation of local fuel and raw materials. One particular case is that of Southeastern Sicily, where the discovery of mineral oil⁵⁴ and the working of potassium deposits have helped the development of the area. Since there have been no startling new discoveries of mineral resources, it appears that the future contributions of resources to the industrial development potential of the South will not be great. The hopes of finding large natural gas and oil resources on the Southern mainland disappeared as prospecting proceeded. However, ENI struck what it believed to be an important deposit of natural gas in

⁵⁴In 1958 Sicily produced 1,579,670 short tons (93.6%) of crude oil out of a total 1,686,150 short tons for all of Italy.

the Basilicata region in 1960.

Another part of recent industrial development is associated with the needs and resources of the more progressive part of Southern agriculture. This includes the food-processing industry, the fertilizer branch of the chemical industry, and the agricultural-machinery section of engineering. And in some areas, agriculture which is more prosperous than the general average for the entire South has stimulated the growth of a local market for a variety of consumer industrial goods.

Part of the new industry, such as cement, has been directly related to the demand created by public works construction; part has been aided by a favorable geographic position with respect to markets in the North; and part is connected with the oil refineries which are located at several coastal points that benefit because of their location from the oil routes from middle Eastern countries. It is probably true, however, that some of the new industry, associated with some of the large Northern names, has been undertaken more as a prestige measure or in response to over-persuasion of the duty to help the South rather than in response to economic criteria.

Sufficient time has now elapsed to analyze the works which have been carried out under the Cassa program. At the end of its twelfth financial year (1962), a total of \$3.5 billion dollars had been invested by the Cassa (directly and

indirectly) in Southern Italy. A summary of these investments is shown in Table 9. The combined total of investments in the various economic sectors is substantial, and although they have not completely changed the economic structure of the South, they have had a significant impact. About 60 percent of these investments had been made under the direct auspices of the Cassa; the remaining 40 percent were carried out by third parties, financed by the Cassa out of its own funds or out of those which it borrowed (mainly from the International Bank for Reconstruction and Development and the European Investment Bank).

The Cassa's largest investments have been in infrastructure (about 53 percent). These are important both from the standpoint of money invested and from the contributions of the Cassa's goals of Southern economic development. During this period about 9,000 land reclamation and mountain basin projects were approved and valued at \$697 million (completed projects are valued at \$682 million). These investments were used for irrigation, water control systems, and reservoirs, and for reforestation, mountain reservoirs, and artificial lakes in mountain areas, thus following the traditional scheme of public investments in the agricultural sector. In addition rural roads were built.

Physical progress in ordinary roads has been considerable. During the twelve year period the Cassa invested \$228 million in this sector. This sum provided for the approval of more than 2,000 projects, with the completed projects

TABLE 9

INVESTMENTS MADE DIRECTLY AND INDIRECTLY
BY THE CASSA IN THE FINANCIAL
YEARS FROM 1950-51 to 1960-62
(Millions of Current Dollars)

Sector of Activity	By Cassa	By Third Party		Total
		(1) ^a	(2) ^b	
Infrastructure	1,774	36	21	1,831
Land reclamation and mountain basins	663	16	18	697
Ordinary roads	228	. .	. .	228
Aqueducts and sewers	264	14	3	281
Works of tourist interest	46	. .	. .	46
Railways and ports	145	6	. .	151
Land reform	428	. .	. .	428
Incentives to Private Enterprise	284	937	320	1,541
Land improvements	250	297	32	579
Industrial enterprises	16	603	288	907
Fishing and handicrafts	18	37	. .	55
Other Activities	28	49	20	97
Measures in favor of the province of Naples	. .	28	18	46
School buildings, professional training, social work	28	21	2	51
Total	2,086	1,022	361	3,469

^aOut of funds lent to the Cassa.

^bOut of the Cassa's own funds.

Source: Cassa per il Mezzogiorno, Bilancio 1961-1962: Dodicesimo Esercizio, Relazione (Roma: Tipografico Fausto Failli, 1962), p. 133.

valued at about \$202 million. Approximately \$281 million were used to construct aqueducts and sewers for the purpose of making potable water available to most of the Southern population. About 1,700 projects were approved; the value of these projects which had been completed by the end of 1962 was about \$269 million.

To attract tourists, archeological excavations have been carried out at Pompeii and elsewhere in the South; historic structures and monuments have been restored, and some special roads designed to attract tourists have been built. In addition limited credit has been granted to private enterprise for the construction of hotels; as a result, by the end of 1960, 268 new hotels had been completed in the South. As of 1962 about 600 projects had been approved and valued at \$46 million; almost all of this amount had been used for the completed projects.

The money invested in railways and ports was used for doubling tracks on the main line along the Tyrrhenian Coast, for new equipment and electrification, and for the improvement of the conditions of the ports. About 200 projects had been approved with an investment value of \$151 million. The cost of railways and port projects completed in 1962 was about \$130 million. The final item under infrastructures is land reform and as of 1962 the total investment made in this sector was \$428 million.

Table 9 points out that about 44 percent (\$1.5 billion) of the Cassa's total investments during the twelve

year period were used to encourage private and industrial enterprise in the South. About \$600 million of the total \$907 million invested in industrial enterprises were loaned to third parties from funds lent to the Cassa. Of this \$907 million, the Cassa granted loans to about 1,800 small and medium enterprises, thus permitting the purchase of plants valued at about \$190 million; the remaining portions of these investments were used for transferring plants from Northern Italy to the South, for expanding existing plants in the South, and for converting plants already there. The size of the Cassa's investments in industry reflects the emphasis that had been put on industrial development since 1957 and the trend towards industrialization which had become more noticeable at the beginning of the 1960's. At first most of the industrial investments were directed to the traditional Southern industries of food processing (i.e., canning, wines, flour mills, and oil presses). However, these industries tend to operate on a very small scale. More recently, a substantial part of these investments took place in the mechanical, chemical, building material, fertilizer, textile, and engineering industries. (Refer to Table 10 for a breakdown by sectors of manufacturing industry of investments made by the three special credit institutes.)

In the private land improvements sector, more than 200,000 projects were approved and valued at \$579 million during the twelve-year period under consideration. About \$215 million have been spent on completed projects.

TABLE 10
INVESTMENTS IN SOUTHERN ITALY PROMOTED BY THE
THREE SPECIAL CREDIT INSTITUTES AS OF
DECEMBER 31, 1959

Productive Sectors (Manufacturing Industry Only)	Millions of Current Dollars	Percent of Total
Food, drink and similar industries	94	16.0
Textile & clothing industry	33	5.8
Wood industry	8	1.4
Paper industry	30	5.3
Metallurgical industry	19	3.2
Engineering industry	56	9.7
Building material industry	98	16.9
Chemical industry	231	39.9
Other	11	1.8
Total	580	100.0

Source: Centro Di Azione Latina and Cassa Di
Risparmio Delle Provincie Lombarde, Italy's Economy 1961,
(Milano: Giuffre Editore, 1961), p. 375.

These investments have produced a fundamental change in farming because of the availability of irrigation works. Other investments have gone to the fishing industry and to artisans (handicrafts). About \$55 million were invested in these two industries. About 37,000 artisan undertakings have been completed and more than 5,000 requests for capital from the fishing industry have been financed; these completed projects are valued at about \$20 million.

The remaining 3 percent (\$97 million) of the Cassa's total investments during the twelve-year period went to measures in favor of the Province of Naples (\$46 million) and to school buildings, professional training, and social work (\$51 million).

Table 11 gives an indication of the Cassa's investments as a percent of total fixed gross investments in Southern Italy for each year from 1951 to 1960. Disregarding 1951 (the first year in which investments were made by the Cassa), from 1952 to 1960 the Cassa's percent of total fixed gross investments averaged about 28 percent for each year; the annual percentages showed little tendency to increase or decline over time.

Such investments have permitted the Cassa to achieve some impressive results; some of them are mentioned below.⁵⁵

Under its land reclamation program, the Cassa has been responsible for about 2,600 miles of water and river control,

⁵⁵ Southern Problems, Vol. XII, No. 2 (Rome, 1963), p. 39.

TABLE 11

INVESTMENTS OF THE CASSA AND TOTAL FIXED GROSS
INVESTMENTS MADE IN SOUTHERN ITALY^a
(Millions of Current Dollars)

Years	Cassa Investments		Total Fixed Gross Investments ^a
	Absolute Value	% of Total Fixed Gross Investments	
1951	33	6.0	551
1952	146	20.7	704
1953	235	28.7	816
1954	253	30.1	829
1955	308	32.9	936
1956	273	28.4	960
1957	279	26.7	1,044
1958	316	30.0	1,053
1959	361	32.0	1,126
1960	418	29.3	1,428

^aTotal fixed gross investments do not include investments in the housing sector in this table, since they are not included in the Cassa's sectors of investments.

Source: Cassa per il Mezzogiorno, Cassa per il Mezzogiorno Dodici Anni, Vol. I; La Cassa e Lo Sviluppo Del Mezzogiorno (Bari: Editori Laterza, 1962), p. 342.

banking, and drainage. About 1,725,000 acres of land have been drained and irrigation channels and canals have been laid over 3,800 miles. Roads built in the land reclamation areas now total 3,700 miles. Approximately 4,500 miles of aqueducts have been laid and 1,500 reservoirs have been built.

For the purposes of improving the road network and improving tourist possibilities, the Cassa has built over 1,500 miles of new roads and repaired over 9,000 miles of those already in existence.

In regards to vocational and technical training, the Cassa's program includes the opening of 21 agricultural schools (all completed) which have 129 branch schools. The latter are all functioning, but some still have to move to more permanent premises. Each school has an average of 100 students. Planning also includes thirty-four State vocational training schools for industry and the artisan trades, and 229 private schools (for industry and artisan trades also) have either been completed or will be shortly. In addition six inter-company training schools are to be built in the near future. About 700 nursery schools have been constructed with financial aid from the Cassa. The Cassa has financed projects of rural building (i.e., houses, stalls, sties, poultry runs, lofts, sheds, etc.), and it has also financed and approved loan requests for oil mills, dairy plants, wine presses, food processing machinery, fruit storage, etc. It has constructed about 4,000 miles of farm roads, 60,000 wells,

cisterns, and local water mains, and has erected 1,700 miles of supply lines for electrical current.

Although the Cassa's plans are still in progress, improvements may be observed in various places in the South, and progress is constantly in evidence.

An attempt will now be made to evaluate the first results of the development policy in the South. The analysis will rely heavily on the following statistical tables which compare increases or decreases in the various sectors and aspects of the South's economic structure. Table 12 indicates the effects of the development policy on net product and regional income in Southern Italy for 1951 and 1960. The statistics are shown in both current and constant prices. However, average annual percentage increases and other relationships are discussed for constant price figures only, thus allowing for increases in the price level. In analyzing the contributions of the various sectors to the net private product, the table illustrates that, although agriculture is still one of the most important economic sectors, it had a per annum increase of only 1.7 percent from 1951 to 1960. Its relationship to the total dropped steadily from 45 percent in 1951 to about 34 percent in 1960, reflecting a tendency towards a modification of the South's economic structure. The next most important sector is the manufacturing industry. Although the net product for this sector was only 70 percent of the agricultural sector in 1960 it increased by 7.2 percent per annum from 1951 to 1960. The

TABLE 12

NET PRODUCT BY ECONOMIC SECTOR AND REGIONAL
INCOME: SOUTHERN ITALY
(Millions of Dollars)

Economic Sector	Current Prices		1953 Constant Prices ^a		Average Annual % Increase
	1951	1960	1951	1960	
Agriculture, forestry & fishing	1,224	1,500	1,235	1,439	1.7
Mining industries	47	66	37	89	10.2
Manufacturing industries	571	953	539	1,013	7.2
Building industries	107	397	118	302	11.0
Electric, gas & water industries	41	96	47	92	7.7
Transportation and communications	184	440	202	354	6.4
Commerce	254	526	269	440	5.6
Credit and insurance	74	196	89	134	4.6
Various services	142	259	157	188	2.0
Manufactures	57	294	63	213	14.5
Total	2,701	4,727	2,756	4,264	4.9
Adjustments	-162	-387	-168	-340	. .
Net product: private sector	2,539	4,340	2,588	3,924	4.8
Net product: public administration	400	976	492	705	4.1
Net domestic product	2,939	5,316	3,080	4,629	4.7
Net income from abroad	-120	-230	-105	-241	. .
Regional income at cost of producer	2,819	5,086	2,975	4,388	4.4
Regional income at market prices ^b	3,133	5,652	3,294	5,010	4.8

^aPrice Indices of Gross Domestic Product by Industry of Origin were used to convert current prices into 1953 constant prices.

^bIncome at market prices differs from income at cost of producer (welfare and service product value obtained at price of products) by the value of indirect taxes.

Sources: Il Popolo (Roma), December 1, 1963, Supplement.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 134.

net products of the transportation and communications sector and the building industry showed a high rate of development. They increased 6.4 percent and 11.0 percent per annum respectively during the period under consideration. This is another indication of the changes taking place in the South, demonstrating an increase in the circulation of goods and persons in the region, and the fact that the early investments made in this type of public services are beginning to show results. Lastly, the increase in the net product of the remaining sectors was no less significant. As a result of these increases in the net product of the various economic sectors, regional income at market prices increased by 4.8 percent per annum.

Gross investments in Southern Italy increased by 9.0 percent per annum from 1951 to 1960, as indicated in Table 13. Each activity of investment increased significantly, with the exception of public works which only increased by 2.8 percent per annum, during the period under consideration. Thus, public works accounted for a smaller percentage of the total investments in 1960 than in 1951. The agriculture sector showed the same trend, accounting for 22.2 percent of total investments in 1951 and 20.2 percent of total investments in 1960. The increase in the industry sector (11.8 percent per annum) reflects the trend toward industrialization, and it accounted for more than 26 percent of total investments in 1960. The transportation and communications and housing sectors showed the largest increases. They increased

TABLE 13
GROSS INVESTMENTS BY BRANCH OF ACTIVITY IN
SOUTHERN ITALY
(Millions of Dollars)

Branch of Activity	Current Prices		1953 Constant Prices ^a				Average Annual Percent Increase
	1951	1960	1951	Percent of Total	1960	Percent of Total	
Agriculture	140	327	141	22.2	301	20.2	8.8
Industry	144	432	145	22.9	398	26.6	11.8
Transportation and Communi- cations	83	284	84	13.2	262	17.5	13.5
Housing	72	288	73	11.5	265	17.7	15.2
Public Works	144	203	146	23.0	187	12.5	2.8
Others	45	90	46	7.2	83	5.5	6.8
Total fixed investments	628	1,624	635	100.0	1,496	100.0	10.0
Stock variations	95	102	96	. . .	94	. . .	. . .
Gross investments	723	1,726	731	. . .	1,590	. . .	9.0

^aPrice Indices of National Product and Expenditure were used to convert current prices into 1953 constant prices.

Sources: Centro Di Azione Latina and Cassa Di Risparmio Delle Provincie Lombarde, Italy's Economy 1961 (Milano: Giuffre Editore, 1961), p. 374.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

by 13.5 percent and 15.2 percent per annum respectively during this period. The rate of growth of these investments resulted in an increase of their percentage of Italy's total from 21.2 percent in 1951 to more than 24 percent in 1960. This is indicated in Table 14, which shows gross investments by branch of activity (for both the South and the North) as a percent of all Italy.

Regional income in the South increased from almost \$3.3 billion in 1951 to \$5.0 billion in 1960 (56 percent for this period), as indicated in Table 15. During this period the South accounted on an average for about 22 percent of the total income of Italy, and an average of about 28 percent of that of the North, reflecting the fact that the South still contributes a small share to the total income of the country. Taking into account the fact that the South's resident population showed an overall increase of about 8.7 percent during the period under consideration, per capita income increased by more than 42 percent in constant dollars (from \$187.00 in 1951 to \$266.00 in 1960) as shown in Table 16.

However, in 1951 per capita income in Southern Italy was 47.8 percent of that of Northern Italy; the gap widened even further from 1951 to 1960 because of the continuation of the tendency towards greater development of the Northern economy. As a result the South's per capita income was only 43.1 percent of the North's in 1960. In 1964, however, per capita income in the South was a little less than \$500.00,

TABLE 14
GROSS INVESTMENTS BY BRANCH OF ECONOMIC
ACTIVITY: NORTH AND SOUTH AS A PERCENT
OF ITALY^a

Branch of Activity	1951		1960	
	South	North	South	North
Agriculture	32.1	67.9	40.9	59.1
Industry	13.0	87.0	20.5	79.5
Transportation and Communications	20.0	80.0	24.8	75.2
Housing	14.4	85.6	17.8	82.2
Public works	47.3	52.7	36.6	63.4
Others	21.7	78.3	23.5	76.5
Fixed investments	20.8	79.2	24.7	75.3
Stock variations	24.0	76.0	19.9	80.1
Gross investments	21.2	78.8	24.3	75.7

^aItaly = 100.

Source: Cassa per il Mezzogiorno, Cassa per il Mezzogiorno Dodici Anni, Vol. I; La Cassa e Lo Sviluppo Del Mezzogiorno (Bari: Editori Laterza, 1962), p. 339.

TABLE 15

DISTRIBUTION OF POPULATION AND NET INCOME: NORTH AND SOUTH ITALY

Years	South				North				South as % of North	
	Resident Population ^a	% of Italy	Net Income ^b	% of Italy	Resident Population ^a	% of Italy	Net Income ^b	% of Italy	Resident Population	Net Income
1951	17,683	37.2	3,294	22.2	29,832	62.8	11,570	77.8	59.3	28.5
1954	18,196	37.5	3,875	22.7	30,351	62.5	13,224	77.3	59.9	29.3
1957	18,732	37.6	4,520	22.4	31,028	62.4	15,649	77.6	60.3	28.9
1960	19,138	37.6	5,010	20.6	31,791	62.4	19,289	79.4	60.2	25.9

^aIn thousands.

^bMillions of dollars in 1953 constant prices. Price Indices of National Product and Expenditure were used to convert current prices into 1953 constant prices.

Sources: Cassa per il Mezzogiorno, Cassa per il Mezzogiorno Dodici Anni, Vol. I; La Cassa e Lo Sviluppo Del Mezzogiorno (Bari: Editori Laterza, 1962), p. 262.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

TABLE 16
PER CAPITA INCOME: NORTH AND SOUTH ITALY

Years	South		North		Southern Per Capita Income Compared to That in the North (North = 100)
	Per Capita Income (Constant Dollars) ^a	Index (1951 = 100)	Per Capita Income (Constant Dollars) ^a	Index (1951 = 100)	
1951	187.00	100.0	391.00	100.0	47.8
1954	213.00	113.9	478.00	122.3	44.6
1957	241.00	128.8	540.00	138.1	44.5
1960	266.00	142.2	617.00	157.8	43.1

^aPrice Indices of Consumer Expenditures were used to convert current prices into 1953 constant prices.

Sources: Cassa per il Mezzogiorno, Cassa per il Mezzogiorno Dodici Anni, Vol. I; La Cassa e Lo Sviluppo Del Mezzogiorno (Bari: Editori Laterza, 1962), p. 263.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

about half that in the North.⁵⁶ It was only in the early 1960's that the first major effects of the development had any bearing on the South's per capita income in relation to that of the North. In other words, from 1960 onwards, the traditional pattern of per capita income growth in each area, which up to that time had the tendency to increase the lack of balance in income between the North and the South, began to change. In this respect it should be pointed out that the aim of the policy is not, or for the present time cannot be, to bring the South's economic level up to that of Northern Italy. Instead it is to remove a structural situation characteristic of an underdeveloped economy in order to guarantee that the self-supporting forces, capable of ensuring the South's faster economic and social evolution, are set in motion.

The increase in the South's per capita income had a substantial effect on the increase in private consumption in the South. This increase in consumption is also an indication of the effects of the development policy on the South's standard of living. Table 17 points out that private consumption in Southern Italy increased more than 38 percent in constant dollars from 1951 to 1959 (equal to a per annum increase of about 4.1 percent).

The improvement of the standard of living is moreover confirmed by the increase in personal expenditures for some items, as illustrated in Table 18 for 1951 and 1959. The

⁵⁶New York Times, February 28, 1965, p. 40.

TABLE 17
GROWTH OF PRIVATE CONSUMPTION IN SOUTHERN ITALY

Years	Current Prices		1953 Constant Prices ^a	
	Millions of Dollars	Index (1951=100)	Millions of Dollars	Index (1951=100)
1951	2,994	100.0	3,165	100.0
1952	3,268	109.2	3,308	104.5
1953	3,576	119.4	3,576	113.0
1954	3,712	124.0	3,657	115.5
1955	3,931	131.3	3,776	119.3
1956	4,271	142.6	3,973	125.5
1957	4,460	149.0	4,088	129.2
1958	4,627	154.5	4,157	131.3
1959	4,820	161.0	4,386	138.6

^aPrice Indices of Consumer Expenditures were used to convert current prices into 1953 constant prices.

Sources: Centro Di Azione Latina and Cassa Di Risparmio Delle Provincie Lombarde, Italy's Economy 1961 (Milano: Giuffre Editore, 1961), p. 376.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

TABLE 18
PERSONAL EXPENDITURES FOR SOME ITEMS IN
SOUTHERN ITALY
(Millions of Dollars)

Items	Current Prices			1953 Constant Prices ^a		
	1951	1959	Average Annual Percent Increase	1951	1959	Average Annual Percent Increase
Food and drink	1,763	2,719	5.6	1,846	2,525	3.9
Tobacco	134	235	7.2	149	220	4.9
Clothing	408	487	2.2	378	476	2.9
Rent and housing	266	512	8.5	348	357	0.4
Health	83	181	10.2	92	169	7.9
Transportation and communications	125	297	11.5	139	278	9.1
Entertainment	111	205	7.9	124	192	5.6
Hotels, restaurants, etc.	103	186	7.6	109	160	5.7
Total	2,993	4,822	6.2	3,185	4,386	4.1

^aPrice Indices of National Product and Expenditure for each item were used to convert current prices into 1953 constant prices.

Sources: Centro Di Azione Latina and Cassa Di Risparmio Delle Provincie Lombarde, Italy's Economy 1961 (Milano: Giuffre Editore, 1961), p. 209.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

table indicates that expenditures on these items increased by an average annual rate of 4.1 percent. Expenditures for health purposes and transportation and communications showed the largest increases.

A number of other indicators reflect the many aspects of Southern Italy's social and economic development. These have been summarized from a lengthy discussion in Italy's Economy 1961. From 1951 to 1959 the number of radio and television licenses increased by 186 percent, the number of cars by 368 percent, motorcycles and motorbikes by 500 percent, and telephone subscribers by 185 percent. During this same period total consumption of electric power rose from 72,600 KWH per 1,000 inhabitants to 159,600 KWH, reflecting an increase of 120 percent; the consumption of electricity for lighting purposes increased from 20.8 KWH to 36.7 KWH per 1,000 inhabitants, an increase equal to 76 percent. Deposit accounts at banks increased by 272 percent, Post Office Bank Book Deposits by 227 percent, and interest bearing savings certificates by 110 percent.

In Southern Italy a large portion of the labor force is employed in agriculture. In 1961 it was estimated that about 43 percent of the total number of Southern workers were employed in agriculture, with 29 percent in industry, transportation and communications, and 28 percent in services (trade, credit, insurance, profession and domestic) and government.⁵⁷ However, many persons listed as employed in

⁵⁷Schachter, p. 88.

nonagricultural sectors are dependent upon the framework of the agricultural economy. Thus, the bulk of nonagricultural labor is engaged in the processing and transportation of wines, olives, vegetables, and fruits and in the servicing of the agricultural population (with the exception of some centers such as Naples, Bari, Palermo, Brindisi, and Taranto).

While the agricultural sector employs almost half of the Southern labor force, it accounts for only about one-third of the regional product. The nonagricultural sectors (including government) employ the remainder of the labor force but are responsible for two-thirds of the regional product. Since a small number of people produce a large share of the regional product, it seems as though the non-agricultural activities of Southern Italy are extremely efficient. However, this is not so since net product per nonagricultural worker was estimated at only \$1,000 in 1961.⁵⁸

In Southern Italy business establishments are conducted on a small scale, and use of mechanization is rare. Table 19 shows that in 1961, in the nonagricultural sector, there were over 603,000 establishments in Southern Italy, employing about 1.8 million people. Only 20 percent of the more than 200,000 industrial establishments used mechanical energy. These establishments employed more than 850,000 workers, or about four workers per plant or shop. Just

⁵⁸Gustav Schachter pointed out that this was only a little more than 10 percent of the annual output averaged by the American nonagricultural worker.

TABLE 19

NUMBER OF ESTABLISHMENT AND EMPLOYEES IN THE
NONAGRICULTURAL SECTOR IN SOUTHERN ITALY
1961

Sector ^a	Number of Establish- ments (Thousands)	Number of Employees (Thousands)	Employees per Establish- ment	Percent- age of Total Employment
Total ^a	603.8	1,798	3	100.0
Industries	201.5	851	4	47.4
Mines	2.2	39	18	4.6
Manufacturing	181.5	618	3	72.0
Food and kindred products & tobacco	25.9	141	4	22.7
Textiles	7.8	28	4	4.6
Apparel & leather products	65.2	120	2	19.5
Lumber and wood products	33.9	78	2	12.6
Primary metal	.2	15	75	2.5
Mechanical	35.6	120	3	19.4
Nonmetallic minerals	5.5	62	11	10.1
Chemical & allied	1.9	28	14	4.5
Others	5.2	26	5	4.1
Construction	15.6	168	12	18.3
Utilities	2.2	26	12	3.1
Services	402.2	947	2	52.6
Commerce	328.8	617	2	65.6
Transportation & Communica- tions	25.2	188	7	19.2
Credit, insur- ance, finance	8.9	47	5	5.1
Others	39.4	95	2	10.1

^aGovernment not included.

Source: Gustav Schachter, The Italian South: Economic Development in Mediterranean Europe (New York: Random House, 1965), p. 134.

slightly more than 12 percent of all industrial establishments (excluding mining) employed more than ten workers each. This was mainly concentrated in the primary metal, nonmetallic minerals, chemical and allied products, construction, and utilities industries. Employment in industries accounted for more than 47 percent of all nonagricultural employment in Southern Italy.

In 1961, as indicated in Table 19, there were more than 400,000 service establishments in the South with a total employment of almost 950,000 workers accounting for almost 53 percent of total nonagricultural employment in that area. More than 600,000 of these workers were employed in the 329,000 establishments engaged in distribution and services (an average of two people per firm). Transportation and communications services employed almost 190,000 workers in 25,000 establishments, or an average of seven workers per firm. The remaining service establishments employed a little more than 140,000 people.

These small industrial and service establishments are scattered all over Southern Italy. However, as a result of the more recent development in the South, larger industries (firms employing over ten workers) have been established in a few industrial centers such as Naples, Palermo, Bari, Brindisi, and Taranto.⁵⁹

Part of the growth in Southern Italy has been

⁵⁹"A Place in the Sun for Italy's South," Newsweek, March 22, 1965, p. 77.

stimulated by the fact that Gross National Product in Italy as a whole has been increasing at 3.6 percent per annum (in constant dollars) from 1951 to 1960 as shown in Table 20. Gross product in the South increased at an average annual rate of 2.0 percent as compared to 4.1 percent in the North during the same period. In 1960 the South accounted for about 20 percent of Italy's Gross National Product whereas the North made up the remaining 80 percent. These factors producing the high rate of growth in Italy affect the South differently from the North and on balance cause it to lag behind.

The rapid growth of the Italian economy has been due to a number of factors. It has a relatively high rate of savings and investment,⁶⁰ an initial existence of unused capacity in a number of sectors, and an unexpectedly rapid growth of exports of goods and services.

Factors determining the growth of the South are quite different. Its share of national production in the sectors that have contributed the bulk of the increase in exports (metals and metal products, chemicals, and tourism) is relatively small. However, it does benefit indirectly from the income growth in the North. But the South's

⁶⁰Sheperd B. Clough, The Economic History of Modern Italy (New York: Columbia University Press, 1964), p. 330. Italy has been able to save increasing amounts out of national income, and the percentage of national income placed in capital investments has steadily increased from 18.7 percent in 1949 to 23.2 percent in 1957 and to 25.2 percent in 1960.

TABLE 20
SOURCES AND USES OF REGIONAL RESOURCES
IN ITALY: 1951 AND 1960
(Millions of Dollars)

	Current Prices			1953 Constant Prices ^a		
	1951	1960	Average Annual Percent Increase	1951	1960	Average Annual Percent Increase
South						
Gross Product	3,786	5,362	4.0	3,981	4,754	2.0
Net Imports	611	1,925	13.6	703	2,022	12.4
Net Resources	4,397	7,287	5.8	4,684 ^b 4,615 ^b	6,776 ^b 6,612 ^b	4.2 4.1
Consumption	3,675	5,561	4.7	3,885	5,019	2.9
Gross Investment	722	1,726	10.2	730	1,593	9.0
North						
Gross Product	12,832	21,808	6.1	13,493	19,333	4.1
Net Imports	-453	-1,878	17.3	-482	-1,901	16.4
Net Resources	12,379	19,930	5.4	13,011 ^b 12,964 ^b	17,432 ^b 18,099 ^b	3.3 3.7
Consumption	9,378	14,558	4.6	10,294	13,139	2.7
Gross Investment	2,641	5,372	8.2	2,670	4,960	7.1
Italy						
Gross Product	16,618	27,170	5.6	17,474	24,087	3.6
Net Imports	158	47	. .	221	121	. .
Net Resources	16,776	27,217	5.5	17,695 ^b 17,579 ^b	24,208 ^b 24,711 ^b	3.5 3.8
Consumption	13,413	20,119	4.6	14,179	18,158	2.8
Gross Investment	3,363	7,098	8.7	3,400	6,553	7.5

^aPrice Indices of National Product and Expenditure for Gross National Product, Exports of Goods and Services, Imports of Goods and Services, Consumer Expenditures, and Gross Domestic Fixed Asset Formation were used to convert current prices into 1953 constant prices. Regional indices were not available.

^bGross Product and Net Imports do not add to the same total as Consumption and Gross Investment because the indices used were not weighted in such a way as to yield a total in real values consistent with that which would be obtained by

TABLE 20--Continued

using the overall GNP deflator. As an alternative one could use the overall GNP deflator for each item in the table; however, the results would not be as valid as the ones arrived at in the above table.

Sources: Hollis B. Chenery, "Development Policies for Southern Italy," Regional Development and Planning, ed. John Friedmann and William Alonso (Cambridge: M.I.T. Press, 1964), Chapter 35, p. 675.

Organisation for Economic Cooperation and Development, Statistics of National Accounts 1950-1961 (Paris, 1964), p. 133.

exports to other parts of Italy and abroad have not increased as fast as its imports. In this respect Southern Italy resembles the typical underdeveloped country. However, the investment program of the Cassa and increases in other types of government expenditures have stimulated local demand in the South.

The existing differences between the North and the South are shown quite clearly in the pattern of investments over the period 1951 to 1959. They are summarized in Table 21. In the distribution of investments by sector the South has a higher than average proportion in overhead facilities (public works and transportation and trade) as compared to the North. This difference (34 percent in the South compared to 22 percent in the North) is a reflection of the lack of transportation, communication and other public facilities in the South and the need to improve them before commodity production can be increased. In the sectors of commodity production (agriculture and industry) a much

TABLE 21

TOTAL GROSS FIXED INVESTMENTS AND PERCENTAGE OF TOTAL
INVESTMENTS BY ECONOMIC SECTOR FOR ITALY AND
THE NORTH AND SOUTH: 1951 TO 1959
(Millions of Current Dollars)

Gross Fixed Investments							
	Commodity Production		Overhead Facilities		Housing	Other	Total
	Agriculture	Industry	Transport. and Trade	Public Works			
North	2,851	10,234	4,459	2,042	8,045	1,800	29,431
South	2,054	1,987	1,642	1,581	1,666	496	9,426
Italy	4,905	12,221	6,101	3,623	9,711	2,296	38,857
Percentage of Total Investments							
North	9.7	34.8	15.2	6.9	27.3	6.1	100.0
South	21.8	21.0	17.4	16.8	17.7	5.3	100.0
Italy	12.6	31.5	15.7	9.3	25.0	5.9	100.0

Source: Hollis B. Chenery, "Development Policies for Southern Italy," Regional Development and Planning, ed. John Friedmann and William Alonso (Cambridge: M.I.T. Press, 1964), Chapter 35, p. 677.

higher proportion goes to agriculture (21.8 percent) and a lower proportion to industry (21.0 percent) in the South as compared to the North where 9.7 percent goes to agriculture and 34.8 percent to industry. In addition the South receives a lower return on investments in both agriculture and industry.⁶¹ Thus, the large share of overhead facilities, the lower proportion of investments in industry, and the lower return on investment combine to give a lower increase in output per unit of investment in the South as compared to the rest of Italy.

With a distinct historical tradition, Southern Italy can almost be considered a separate economic entity from the North. Its cultural heritage, social and economic structure, and resistance to institutional change make it different from the North. The new policy initiated in 1950, therefore, constituted the first attempt by the Italian government to make the country economically similar, at least in regards to the basic factors on which economic expansion and progress are dependent.

After examining the Cassa's plan and the stages in which it was implemented, it may be concluded that the plan was designed to eliminate some, if not most, of the deficiencies of the South's economic structure. It is apparent that some progress has been achieved; even so, there is a certain

⁶¹Hollis B. Chenery, "Development Policies for Southern Italy," Regional Development and Planning, ed. John Friedmann and William Alonso (Cambridge: M.I.T. Press, 1964), Chapter 35, p. 678.

disillusionment with the results obtained in Southern Italy. It seems that all the efforts served only to prevent the gap between the North and the South from widening still further; however, the economic disparity between these two areas would certainly have increased had the economic forces been left uncontrolled.

CHAPTER V

CONCLUSIONS AND SOME RECOMMENDATIONS

It had been apparent for a long time that spontaneous economic forces were not alone capable of eliminating economic dualism in the Italian economy, caused partially by the unification of the country. The case of Italy might prove that economic integration, in a country which puts its resources in common through political unification, cannot be carried out only by the abolition of customs barriers and the unification of its laws and practices. Even sporadic assistance from public funds to the backward Southern regions did not speed up economic integration. Thus the establishment of La Cassa per il Mezzogiorno constituted the government's first large scale attempt to develop Southern Italy.

After examining the Cassa's plan and the stages in which it was implemented, it may be concluded that the program was originally envisaged as a public works program to eliminate at least most of the serious deficiencies in the infrastructure of the South. It was also intended that the Cassa stimulate private initiative in both agriculture and industry. At the time of its establishment it was assumed that substantial progress could be made towards this objective within a ten-year period. However, as time has passed without any significant gain in the growth rate of the South

over the rest of the country, official statements on development policy have shifted this goal to 1980 (by extending the life of the Cassa to that time) and stressed the establishment of a self-sustaining process of growth as the main objective. The reduction of the differences in the consumption and income levels between the South and the North, with the integration of the South into the national economy, remains the ultimate goal, however.

Southern Italy provides a unique case in which one can see the results of a deliberate policy of emphasis on infrastructure and the reliance on this to stimulate commodity production. Although the expectations as to the outcome of the program were never formulated in precise terms, it is clear that this approach to development has certain weaknesses when it is carried out in such a degree as it has been in Southern Italy. First of all, the capital required per unit of increase in output has proven to be very high as compared to the rest of Italy. Also a large part of the funds were invested in sectors in which a long time passes before the investment reaches full utilization (agriculture, public works, and transportation and communications). This causes domestic production and savings to increase more slowly, and increasing dependence is placed on outside assistance in order to maintain growth in income. Obviously since a large part of the investment went into these sectors, it was probably assumed that the other structural changes necessary in the economy would take place automatically.

It is apparent, however, that the South has achieved a great deal of progress in its infrastructure since the initiation of the new policy in 1950. This situation is especially obvious to those Southerners who are able to compare previous conditions to the present ones, and also to observers from other parts of the country and to foreigners who, when traveling through the South, are amazed to find relatively few of the signs of backwardness that originally raised the question of the Southern problem. However, this does not imply that all areas of the South have completely overcome their backwardness.

From this point of view, one must stress the lack of synchronization between the preparation of the infrastructure and the use of other means of intervention designed to act on the human factors in order to speed up the acquisition of more efficient techniques of production. This lack of coordination adds to the cost of the infrastructure and, thus, holds back the expansion of real income. The observation is based on a more comprehensive appreciation of the numerous factors affecting the development of the South in which the use of the resources requires sound practice and entails important decision making.

Although there has been a great deal of political support for increasing the total resources going to the South, there has also been some resistance to the development of industries that would be rational for the South, mainly those which might increase competition with the established plants

in the North. As a result of this reluctance to plan realistically for the South, a large amount of the investment has gone for facilities that would not have a high priority in an integrated economy. Therefore, the channeling of investments into less productive uses has offset to a considerable degree the large capital inflow from the rest of the country. Another reason for not actively promoting industry in the South has been the difficulty for private entrepreneurs in setting up new plants to compete with Northern firms. In addition, the entrepreneurial factor is scarce in the South in some cases because businessmen usually have a personal preference, irrespective of the profit prospects offered by particular industrial locations, for residing in already developed areas. Possibly, then, the entrepreneurship must be provided by the state until the South becomes more developed.

The initial program of the Cassa made no provision for industrial investments, and measures to promote industry are still basically limited to tax incentives and loans at low interest rates offered by the Cassa and the three special institutes, ISVEIMER, IRFIS, and CIS. The principal exception to this general policy has been that the state-owned industrial holding companies (I.R.I. and E.N.I.) should make 40 percent of their total investments in the South. It seems, therefore, that these factors have combined to produce a regional development policy devoted primarily to improving the economic environment.

The drawbacks to the approach that has been followed in Southern Italy are also a result of the lack of an over-all plan for its development and the fact that the area is not politically and economically independent from the rest of the country. The conflict between the left and right-wing elements of the Italian government over Southern development policy has led to a situation of intervention without planning. The Cassa makes no over-all economic analysis against which to judge its past accomplishments and current program. It seems that the government has followed a policy of unplanned growth and one of influencing resource allocation in industry and in agriculture by fiscal instruments rather than by more direct measures. An over-all plan could enable judgment to be made according to the comparative advantages of different types of production, based on the opportunity costs of labor, capital and the available natural resources. Although the rate of growth of regional income has been substantial, it is somewhat less than that of the rest of Italy. The objective of Southern policy to develop as fast as the North has not been met (per capita income in the South is still only about one-half of that in the North). However, it is possible that not enough time has passed to properly evaluate the development policy of the South.

If Southern Italy were a separate entity (or independent from the rest of the country) it could have a more varied choice of subsidies, tariffs, wage policies, and devaluation, than it now has. Thus the means by which the goal of

Southern development is pursued are limited by the general principles guiding national economic policy. Italy's notable economic success over the past fifteen years has been based on policies of fiscal restraint, price stability, and freeing trade with other members of the Common Market and the Organisation for Economic Cooperation and Development. These national policies imply the lessening of protection, and reliance on subsidies and tax incentives where it is desired to promote production and investment. The most common instrument of development policy--the protection of local industry--has not been used in the South.

Although the Cassa per il Mezzogiorno administers the bulk of the government's programs for the South, its policy making functions are limited to the sectors of the economy covered by its appropriations. The general scope of Southern development policy is established by the Committee of Ministers for the South. Since there is no over-all program for Southern development, the Committee tends to formulate policy on an ad hoc basis without being able to judge the total impact of various measures on the regional economy. Gabriele Pescatore, the director of La Cassa per il Mezzogiorno, has recently stressed the need for a more comprehensive program to guide the Cassa.⁶² This procedure may partially explain the very high proportion of government expenditures that are devoted to public works in comparison with the development programs of other underdeveloped countries.

⁶²Chenery, p. 681 (Cf. footnote 9).

Since 1950 there has been a substantial transfer of resources to Southern Italy, devoted mainly to making up the deficit in public facilities of all types and to increasing private consumption. It was expected that the increase in local demand resulting from these expenditures would lead to the development of local industry without the need for more direct intervention. However, until now this policy has not produced a significant change in the economic structure of the South, and there has been a tendency to use more direct measures to promote industrialization.

Hollis B. Chenery analyzed the need for structural change in Southern Italy.⁶³ He maintained that there are three principal policies of structural change which should be considered, and felt that the best development policy consists of a combination of the three. The first one relates to agricultural development where the growth of agricultural production should be large enough to permit the South to supply a large share of total Italian internal and external demand. The second policy is one of industrial development where the growth of industrial production should be sufficient to permit the South to supply a large part of the total market of the country, and in some sectors this implies supplying a larger proportion of the regional market. The third policy stresses increasing emigration in an amount large enough to make up for any shortfall in the growth of production. Although other possible development policies

⁶³Chenery, p. 693.

might be used, such as price support for Southern agriculture, they are not as vigorous and would probably conflict with the national policy of freer trade and economic integration with the rest of Europe. The development policy for the South has been primarily one of agricultural and infrastructure development with increasing emphasis on industrial development toward the end of the 1950's. However, the results since then have fallen short of what was expected. Chenery feels that one way to study the situation is to see how much additional output (or reduced population) would have been required to achieve a higher growth rate. Although it is unlikely that any one of these three results could have been achieved by itself within the existing institutional framework, a combination of the three would probably have been feasible with the resources available.

Southern Italy's development problems stem mainly from an adverse physical environment, inefficient use of resources, and overpopulation. Some of the problems also arise from a backward social structure (related to lack of education and widespread illiteracy) and a poor economic organization caused by a shortage of entrepreneurs, a lack of capital formation, and insufficient technical knowledge. It soon became apparent that government action was necessary to accelerate economic development in Southern Italy and to provide an environment in which private enterprise could make notable contributions. However, it has been pointed out that success was limited because a well-coordinated overall approach to the problem of development was lacking. The

case of Southern Italy is also unique since this area is part of a country in which the North is at a higher level of development. The South's relationship to the North is an important consideration, and it is necessary to find ways to close the economic gap between these two areas which could benefit the nation as a whole. Although the South derives resources from the more advanced North, Northern Italy finds a ready market for its expanding economy in the South.

Most of the economic problems that have plagued the South for so long remain unsolved. There are still nearly 1,000,000 people unemployed, and many of the people still live in abject poverty. It seems that some of the causes of Southern Italy's backwardness lie in an archaic social structure that is not easily changed; however, it has not remained completely closed to the forces of change. But a more comprehensive program for Southern Italy's development must first be formulated in order to set into motion the forces of social and economic change.

Underemployment, a low income per capita, a low rate of capital formation, and a large part of the population living on the fringe of the money economy, are all obstacles to economic growth in Southern Italy. It is generally recognized that the productivity of one factor of production depends on the quality and quantity of other factors used in the production of a commodity. However, in Southern Italy natural resources are limited and of poor quality, and although human resources are plentiful, they are underdeveloped,

and capital funds are not sufficient. It appears then that Southern Italy's economic development depends on improving the resources it possesses and increasing the resources it lacks, which in turn depends on resource allocation among the economic sectors. Some emigration is necessary; however, mass emigration as an alternative policy for economic development in the South could possibly have adverse effects on its economy if most of the emigrants are of working age; this would deplete the area of potential productive human resources. If human resources (labor) are provided with adequate preparation and training their contribution to development can be large, and people are generally capable of producing more than they consume. Therefore, if human resources are utilized more adequately in the agricultural and industrial sectors, their contribution to the development of the South could be significant.

The experience of Southern Italy since 1950 points out the seriousness of the obstacles that must be overcome in order to change the economic structure of a region. Despite the large transfer of resources to the South, the investment in overhead facilities, the rapid growth of consumption and investment, the various incentives offered to private investors, and the substantial use of Northern technicians, the economic structure has changed relatively little since 1950. However, if the large income transfers were to be cut off at some time in the near future, it is probable that the South would revert to a considerably lower growth rate than its

present 4 percent because of the relatively limited demand for the commodities which it produces. Whatever judgment may be passed on the Cassa per il Mezzogiorno at a later time, it is clear that until now production has been concentrated in sectors that offer relatively little possibility of rapid growth. This is one of the most basic economic problems of Southern Italy.

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