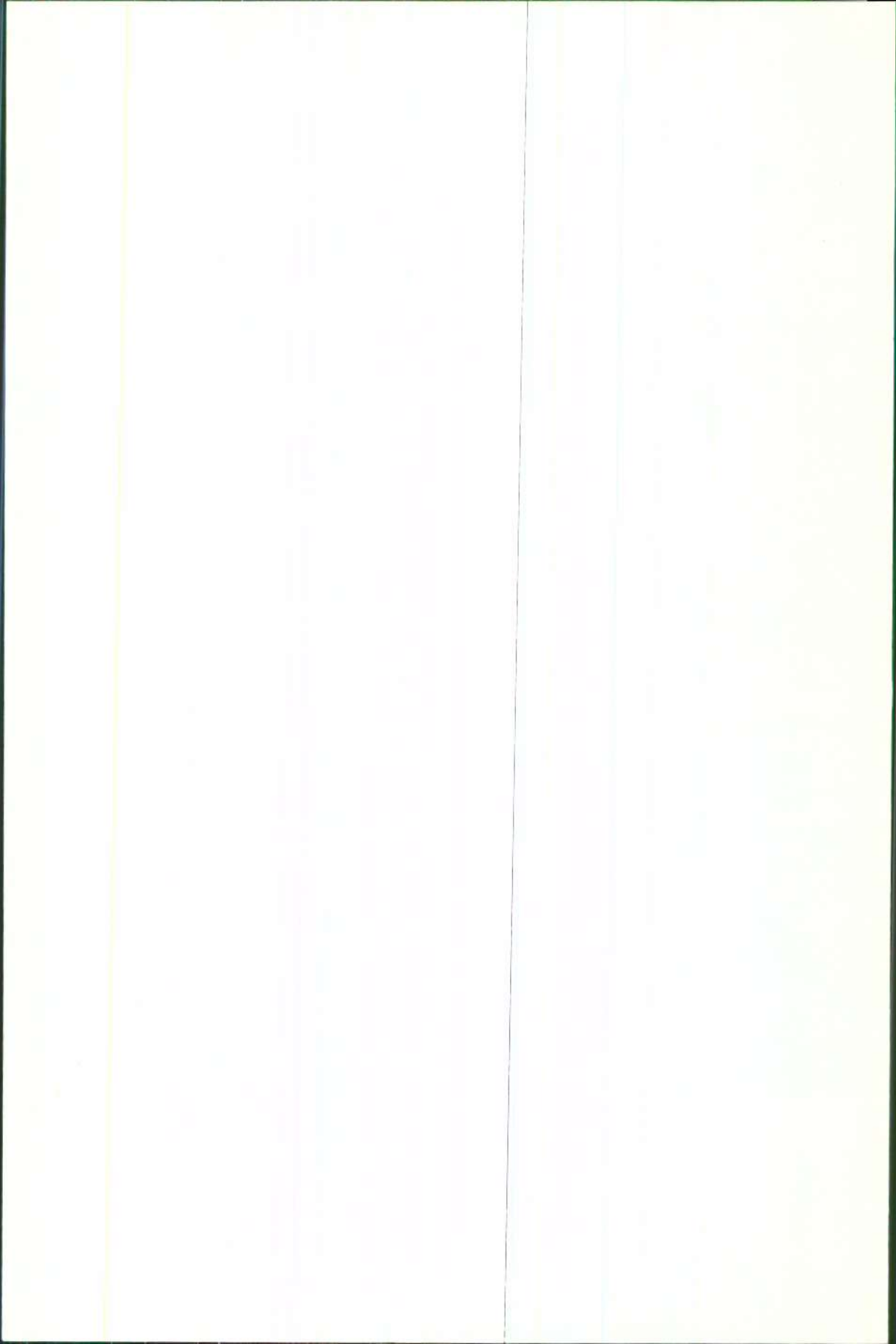


SPECIAL SESSION ON ITALY



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Italy: Experiences, Problems and Development Strategies

Mr. Chairman, ladies and gentlemen, in my introduction to the debate, I am going to examine the problems arising from the split between the North and the South and discuss how our country coped with the problem of developing backward regions which, though in the framework of an economy characterised by highly developed regions, still presented many aspects which are typical of the countries today defined as developing.

Then I shall illustrate a further split which came about between a sector I would define as protected and the non-protected sector of our economy and finally consider the interrelationship between regional imbalances, between the old North-South split and the new split between the protected and the non-protected sectors.

This double split in our economy stems from common origins and we shall try to identify them. As you know, the problem of the South in Italy is a century-old issue which grew increasingly serious after independence, because the country's unification could not bring about a unification of cultures and social conditions. Indeed easiest communications ended up in a cultural as well as economic predominance of the North which hindered rather than favour the development of the South.

The new obstacles raised by unification finally materialised in a drain of the most qualified population which found better job oppor-

tunities in the North, and a worsening of Southern industries' competitive power as against the North, where industries could count on better entrepreneurial capacities. Thus Southern Italy instead of carrying on the development which had already taken place in some areas (e.g. around Naples in Campania) came to a stalemate as compared to the North, all of which gave rise to the so-called problem of the South.

An insufficient industrial development is only one facet of the problem, the other being the peculiar characteristics of Southern agriculture. Also in this field, the policies implemented after unification shackled development, and especially the protectionist policy in favour of the most backward sectors of Southern agriculture which were moreover dominated by the very peculiar and well known structure representing a sort of independent juridical order within the state. These structures are linked to this very type of agricultural organisation which was favoured by the government's protectionist policy to the detriment of specialised agricultural areas, whose development might have been spurred by an export-oriented policy and whose perspectives were on the contrary narrowed by the current government's policy. This is how the problem of the South arose.

But how it was tackled in the post-war period and why it couldn't be solved and goes on existing in the framework of our economy, which is today even more thrown off balance by the new split, I mentioned before.

In my opinion, the Italian experience may be helpful because of our mistakes rather than our achievements. And I think mistakes are as interesting and meaningful as achievements. I feel sympathetic with Hopper who says that a scientist's task is not to prove truth, which is well known, but rather to look for mistakes. Therefore I shall try to examine the faults of the Italian policy in the South, because I believe that it may be a good start for discussion for those who are interested in our experience in connection with other countries' problems. I think that a fundamental mistake was to think that the economic take-off is bound to industrial development, that the latter

alone can ensure the passage from backwardness to a state of economic welfare. To the extent that industrial activities grow, no matter how, exploiting export promotion opportunities, to the extent that industry develops, the social and cultural texture of a country changes, the new urban industrial culture takes over the old and a backward country turns into a developed one.

This is the assumption, but in my opinion this approach is wrong: I do not mean that industrial development is not necessary, since it still remains the most significant indicator of a backward economy progress, but if it is an isolated phenomenon in the framework of an economy which for the rest maintains the characteristics of the past, it turns into a source of deep imbalance which hinders economic development as a whole.

Such imbalance materialises in excessive job expectations which cannot actually be met by the newly created productive sectors, and therefore a shift of workers from the traditional sector towards the industrial one.

In Italy this phenomenon undermined the social texture of the South. After independence, the Northern economy was thriving and could absorb large amounts of Southern workers, but now the new type of development disturbs the old traditional context when workers looked for new jobs and found them in the North of Italy. You all know in fact that elsewhere, and especially in Africa, the population leaving the traditional sector and finding no jobs in the industrial sector ends up in the areas of underdevelopment surrounding large towns, where they live a degraded and poorer life as compared to the country-side.

Then one of the mistakes we made was to adopt the classical development approach and concentrate on industrial development. Was there any alternative? Were we to focus on agricultural development? In my opinion, the policy which is best suited to these countries is what I would define as a "double track policy", the policy which up to now has seemingly proved successful in China. It consists in an industrial-development-policy implemented with the most

modern techniques and aiming at winning a position in the world's economy, and a contemporary development of the traditional sector potentials as identified from within the traditional sector itself. In fact, the latter too affords good development opportunities: a gradual modification of cultivations, a shift from extensive to intensive methods, the extension of irrigation, the development of industrial activities connected to agriculture, the development of tourism in connection with industrial and agricultural activities. But it is essential to focus on its own peculiar development possibilities, without following in the footsteps of more developed countries' experiences.

It is an approach which might sound schizophrenic, since it is at the same time ultramodern and traditional. But this is the reason why I defined it as a "double track policy" and anyhow I think it is the best way to tackle the problem. Thus, while the industrial sector progresses, a certain stability is maintained in the traditional sector which gradually increases its productivity, and the most serious repercussions determined by industrial development alone on other sectors may be avoided.

I might here dwell on the various theories on disguised unemployment, but time is short. I shall only say that the Italian case shows that if we had also given our attention to agricultural development and modified the relationship between agriculture and the food industry, between the latter and distribution, if we had faced the problem of industrial development together with the problem of strengthening certain agricultural areas, if we had considered the problems of agricultural areas and industrial development as closely linked to the development of tourism, the question of the South might not be as serious as it is today.

The crisis currently affecting the Italian industrial sector has in fact hit the only dynamic sector in the South and the instability in this newly-created sector in the South added to the shortcomings already impairing the traditional sector thus making of the South a dangerous powder magazine.

The second mistake lay in our piecemeal approach to the prob-

lem of infrastructures which was conditioned by the pressures of local interests and the myth of industrialisation itself. "Let's build roads and other public works, then industrial development will flare up and continue according to the pre-established pattern". Thus, also from this sector came new elements of disturbance: a concentration in time of labour demand in the sector of construction, draining labour from the traditional sectors which could not reorganise their activity due to the lack of a suitable policy, since only industrialisation was thought to be important, and therefore bore the aftermaths of it, especially the handicraft sector which could have developed fairly.

Then, there is a series of smaller mistakes which I shall only mention briefly, e.g. the timing and type of infrastructures. Many unnecessary infrastructures were built while those which might best forward industrialisation were not. Many industrialists came to the South to set up their factories, but when they realised they could not be ensured that infrastructures would be completed within the 6 or 7 months' delay they had been promised, they packed and looked for other sites where to locate their factories, and in the North they could find plenty.

But these are minor problems, the real core of the matter being how to frame the question of infrastructures into the overall policy.

I shall now speak of a third mistake, viz. considering economic development as a merely technical or financial problem: choose the type of industry, work out projects, find capital and then development will follow. Here the fault lay largely on economists who splitted economic and technical problems from socio-economic ones. Economics is no longer classic. Smith, Ricardo, Marx, they all took heed to the interconnections between the economic and social system problems. If this is true for all economies, it is even more so, if you allow me to quantify truth (somewhat contrary to what happens in formal logic), for developing economies. Which are the problems we should have attended to? The problem of manpower qualification and the promotion and encouragement of entrepreneurial capacities. Obviously, the latter is a difficult problem; for instance, the banking

system can only finance an already existing enterprise, an enterprise already having its own resources, while I was thinking of potential industrialists who may actually be enterprise managers who built up capacities and experience and would run the risk of setting up a business of their own but do not have the capital to do so. Of course the problem cannot be solved as Prudhomme proposed, that is giving money to run a productive business to anybody applying for it. But we must find a way between Prudhomme fiction-policy and our current policy which prevents a potential businessman from putting his capacity and experience to a good use, to solve these problems which were not even tackled.

Now, what were the consequences of all these mistakes? There were many, but I shall just emphasize one, viz. that the initiatives for the development of the South were beneficial for the North above all, because they allowed many Northern industrialists to extend their business by displacing some of their plants in the South. In so doing they availed themselves of a number of facilities granted without a programme, though the financial and credit system was more cautious and put a brake on it (because the official permission had been granted to projects which if implemented thoroughly would have allowed some branches of our chemical industry to meet the needs of the whole European market, a productive target which could not find any justification in a rationally conceived plan). Therefore, by all means, we favoured the Northern industry which had the possibility to expand its settlements, we favoured the Northern industry because it could manufacture the goods which were then, somehow, sent South through this system of transfers in its favour and we favoured the Northern industrial sector because we made the South move and started the migration stream, which allowed our Northern industry to progress with a wage growth rate slower than the productivity increase rate.

But this went on until the South could supply the North with labour which could qualify in industry. Now the Italian labour potential is far from being exhausted, our labour being generally underem-

ployed. This is another perversion of the macroeconomic approach which we, the economists, are responsible for; we consider labour as a homogeneous factor, while it is not. There are sectors of manpower which can directly be employed in industry and others which cannot, and when workers in the former sectors are all employed, though with small areas of unemployment, our country experiences the phenomena pertaining to advanced economies having more or less reached a full employment situation, i.e. a strengthening of trade unions and an acceleration of wage dynamics. This happened in Italy at the beginning of the 1960s for a number of reasons I shall not dwell upon. Trade unions not only succeeded in accelerating wage dynamics, but also won a regulation of working conditions which is among the most advanced. I think indeed that our Workers' Charter has no equivalent in the world, which is a motive of satisfaction but was also one of the reasons of the new split I mentioned.

What was happening at that time in Italy? Now things are different, but at that time and for a number of reasons of which I mentioned only a few, since my time is too short, there were periods when, especially in some sectors, an employer was practically forbidden to move labour inside his factory. At that time heavy pressure was exerted especially on state-owned concerns to create new jobs, to work out new projects no matter whether profitable or not just to increase employment. All this determined a sort of game, if you allow me to use the technical terminology pertaining to the game theory, a game where the winning coalition paradoxically consisted of these very employers and workers. If there are trade-union representatives in the audience, they might be astonished at what I am saying but according to the game theory, coalitions need not be explicit, there may be co-operation without any conscious or signed agreement, there may be what English-speaking authors call unconscious parallelism. In Italy we experienced this unconscious parallelism by which an employer accepted to raise wages; then either he could transfer this labour cost increase on prices (e.g. car manufacturers), and thus could also draw some profit out of it since it increased purchasing

power, and the higher cost due to wage increases in the industry could be made up for through an increase in proceeds. Or, if he was selling abroad determine a devaluation of our currency.

Thus he could in any case rebuild his profit margin by either accelerating inflation in Italy or devaluing the lira. Moreover the two actions were closely interconnected and when neither worked properly, the business recorded losses for years until the government had eventually to intervene. Then, because of this parallelism, in the game both player seemed to be winning. But as we all know there is no such game where everybody is winning. So who was losing, since workers as well as employers were winning? It was the unprotected sector I mentioned at the beginning, consisting of both the businesses which in case of losses could not count on government's financial support, because they were not big enough to have the political power to get it, and non-trade union workers whose bargaining power was too weak to get the steady wage increase which would later become current through wage indexation, i.e. the sector of small-sized enterprises. How did they react to the strengthening of the workers' bargaining position? There were two reaction trends: either a push towards mechanisation and automation (in some sectors we are more advanced than the Germans as far as technological development is concerned and some of our small-sized enterprises are among the most advanced in the world); because of the growing trade-union power small employers were seeking techniques which might allow them to expand production with the smallest number of employees, possibly by reducing their numbers, or by having work done outside their factory.

Our country's economy therefore witnessed this new split between a protected sector, which in the end and on the whole did not overproduce but rather absorbed what was on the whole overproduced by the rest, where workers were ensured a real wage growth, and employers somehow did not go bankrupt, indeed could not go bankrupt, because they either devalued the country's currency or transferred cost increases on prices, or again got government's finan-

cial support. And the other sector which paid for, since when one is getting the biggest slice of the cake somebody else must necessarily be getting the small one. The latter in its turn may be seen as being divided into two subsectors: one reacting technologically — whence the considerable capital-investment expansion — seeking the most advanced techniques, and the other becoming the sector of small subcontractors, of black market work, gathering all the workers who cannot enter the protected sector.

Now, which relationship is there between these two splits, the old and the new one? There is a direct relationship: the protected sector is largely located in the North, the unprotected sector in the South, and the new split made the problem of the South more serious and when all is said and done did not change its terms. In the South you may still easily find people working at home for ten to twelve hours a day who earn one-fourth or one-fifth of an average Northern worker's wage, and these are figures. These figures may also explain why in spite of a steady and remarkable wage increase which in principle should make some of our products non-competitive in the world market, for instance textiles and shoes, Italy goes on exporting textiles and shoes, the actual price and labour cost being in fact a balanced mean of the exceedingly high cost in the protected sector and the exceedingly low cost in the non-protected sector.

I tried to draw a rough, at times incomplete, picture of Italian economy, but I think that the time I was given did not allow me to do otherwise and I am no longer wearying you since I am eager to hear your questions and to fill with my answers the gaps I left in my introduction. Thank you.

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Summary

In colonial times, Europeans saw other continents as places to be civilised by economic progress and by the very gradual introduction of European culture. Colonies had to be safeguarded both from other European powers and from native uprising, by colonial states and garrisons, and by European settlers.

The imperial role rapidly became unsustainable. On the one hand, nationalist movements made the colonies increasingly costly and difficult to govern; on the other, the colonial powers were weakened by the two world wars. The former colonies thus either became independent or politically integrated with the metropolis.

However, the former colonies continued to be economically dependent on foreign technology, manufactures and finance; as political independence has spread, there has been increased co-operation between them in international and regional groupings, essentially to enable independence to become an economic and political reality and to close "the gap".

These aims have been expressed in demands for aid, commodity support and trade concessions. Satisfying these demands would carry of course major implications for Europe's role in the world economy.

The functions of the European social scientists had meanwhile become much more extensive. They explored social and economic problems, advised governments on planning for economic growth, ran courses to train overseas officials in public administration.

Meanwhile, the number of social scientists in the Third World grew rapidly. Some became increasingly involved in national policy, and economic planning, others elaborated theories for their countries' needs.

A number of developments in the 1970s has brought further basic changes in the political context of the social sciences. The sharp rise in the price of oil in 1973-1974 shifted some economic and political powers towards the members of OPEC. It also raised questions about the economic constraints to world growth, and thus about the ability of the countries of the Third World to catch up. At the same time, it contributed to a recession which threw doubts on the capacity of countries lacking their own sources of energy to continue to play an essentially paternalistic role. Indeed, some show economic symptoms such as chronic foreign exchange problems and inflation, previously associated with developing countries, which make them increasingly dependent too.

