Economic Development of Southern Italy

Pasquale Saraceno

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This kind of economic unification is a necessary counterpart to the political unification, the first centenary of which we celebrated in 1961, and it simply cannot be postponed any longer.

What we have at present is a situation in which the growth mechanisms of the North and of the South are entirely different, largely because of the different position of industry in the two parts of the country.

In the North, industry has enjoyed, ever since the end of the last War, a phase of expansion which can no longer be regarded simply as a cyclical upswing. Clearly, we have to do with a much more long-term trend.

In the South, by contrast, we find quite a different mechanism at work. Insufficient industrialization still deprives the economy of any kind of autonomous growth mechanism, such as would enable the region to raise its own income significantly without public intervention.

The Italian economy today is divided into two very unequal parts: in one of them, the market is an element of impulse and growth; in the other, the market as such provides no expansionary stimulus and always needs fairly large-scale public support.

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DURING the whole of the nineteen-fifties Southern Italy was the scene of considerable economic development, which brought in its wake profound structural changes.

According to the best available estimates, the percentage of the South Italian labour force which makes its living in agriculture dropped from 52 to 44 during that period. The part of the rural population which found employment in other sectors or emigrated either to other parts of the country or abroad, is estimated at 900,000 persons which means that the annual rate of outflow was some 2.5 per cent.

During the same period, the rate of increase of income in the Mezzogiorno was more than 5 per cent. This is a very high rate, not only in comparison with the expansion achieved during any other period of Italian history, but especially so in the structural context of the Southern economy, where industrialization has still not gone nearly far enough.

Yet, in spite of these impressive figures the economic gap between the South and the remaining parts of the country, expressed in terms of absolute income or of the rate of increase of income, seems to have widened rather than narrowed. The Southern economy is still backward.

More forcefully than by mere statistics, this is shown by an analysis of the growth mechanism as it operates in this region. If Southern Italy, with its scant industrialization and hence low levels of income and saving, was able to achieve such significant income increases during the recent past, this was due to the aid the region received from the rest of Italy and, to a smaller extent, from foreign countries. This aid took the three forms of transfers of public and private investment capital, income redistribution through public spending, and remittances from emigrant workers; its weight can be gauged by the fact that the surplus of Southern imports over Southern exports amounted to 21 per cent of the region’s disposable resources. Furthermore, since this percentage is higher — though only by a little — than investment during the same period, it follows that outside funds financed not only the whole of capital formation, but some part of consumption as well.

These figures show that investment in Southern Italy to all intents and purposes still draws only on outside resources. It is this circumstance which has enabled an essentially still underdeveloped economy to expand both investment and consumption at the same time — an investment at the yearly rate of 9.2 per cent and consumption at the also rather considerable rate of 4.8 per cent.

The Economic Problem of Mezzogiorno

In the light of these observations, the problem of the economic development of the Mezzogiorno should perhaps more appropriately be defined as the problem of the economic unification of Italy. It is a problem which can be solved only by bringing the whole country together in one single growth mechanism such that all workers seeking employment can be readily absorbed at current wage rates in the areas and in the skills in which they may legitimately wish to be employed. This kind of economic
unification is a necessary counterpart to the political unification, the first century of which we celebrated in 1961, and it simply cannot he postponed any longer.

What we have at present is a situation in which the growth mechanisms of the North and of the South are entirely different, largely because of the different position of industry in the two parts of the country. In the North, industry had enjoyed, ever since the end of the last war, a phase of expansion which can no longer, as at first, be regarded simply as a cyclical upsweep due, sooner or later, to reach a turning point. Clearly, we have to do with a situation in which the growth of domestic consumption. Export markets and, on the other hand, a conspicuous rise in the level of consumer demand have certain reasons underlying this impetuous expansion are, on the one hand, our industry's ability to conquer new export markets and, on the other hand, a conspicuous rise in the level of domestic consumption. Export and consumer demand have certainly been the most dynamic components of total effective demand so far as North Italian industry is concerned. This type of development has quite clearly conferred upon the industrialized parts of Italy the character of an affluent society, to use a fashionable phrase — that is, a society in which consumption is the impelling expansionary factor.

Beyond the Statistical Figures

In the Mezzogiorno, by contrast, we find quite a different mechanism at work. Insufficient industrialization still deprives the economy of any kind of autonomous growth mechanism, such as would enable the region to raise its own income significantly without public intervention. The Italian economy today is divided into two very unequal parts: in one of them, the market is an element of impulse and growth, in the other, the market as such provides no expansionary stimulus and always needs fairly large-scale public support. In this respect no appreciable progress at all was made in recent years; on the contrary, it may well be argued that the divergence between the two growth mechanisms in the North and in the South has in fact been aggravated by the very advances made by the North's industrial system.

Along this line of thought, we may go well beyond mere statistical figures and comparisons in assessing the real aspects of Southern backwardness. It is quite obvious that the problem of the Mezzogiorno would be no less serious even if the South had achieved a still higher rate of development and had thus managed to narrow the gap which divides it from the North so long as the two growth mechanisms remained the same as they are today. As a corollary, it may he said that the South's position would have been better, even with lesser income increments, if we had succeeded in calling forth a vigorous and autonomous flow of local investment, which alone could entitle us to hope, reasonably soon, for that economic unification of our country towards which we have, in all truth, not progressed very much in the hundred years of political unity.

Linking Up with National Market

Three Pronged Attack in 50's

What needs to be done, then, is to link up the Southern economy with the national market. Let us see briefly along what lines this objective has so far been pursued and what results have been achieved.

By and large, we can distinguish three lines of approach, and three corresponding types of results, as follows:

(a) In some areas of the Mezzogiorno industrial ventures of some considerable scope have been started up, and this, apart from directly generating an increase in employment, has also helped, and will help in the near future, to create far-reaching and highly promising environmental changes. On the one hand, there are all the numerous induced economic effects which always accompany the establishment of large industrial plants, and, on the other hand, the introduction of a definitely non-agricultural type of activity in the South means a new departure in Southern society and faces the people with hitherto unknown prospects.

(b) In the land reform areas we have at last made a breach in a principle which the history of the Mezzogiorno had made to appear almost inviolable: the principle, that is, of the immutability of the structure of land ownership. This has helped to create a new and heightened awareness of their own function among the rural populations, if only because their efforts can now be directed to concrete objectives.

(c) Finally, public investment under Government auspices has created some of the indispensable premises for the development of more diversified and more productive activities than were traditional in the South.

No Bridge between Two Worlds

This three-pronged attack on the problems of the South was conducted throughout the fifties by means of institutions and methods which evolved gradually, as old problems came to a head and new ones made their appearance, and which owed much, also, to new currents of thought in other countries. In this connection it may be said that we have learned to make a clear distinction between the forces of progress in poor and in rich countries. In poor countries and this was the ride also in the whole Western world up to the early decades of this century progress is seen in terms of the individual as a worker, or at any rate as a person habitually working and producing in the society to which he belongs. In mature or, as we say today, in affluent societies, progress is seen in terms of the individual as a consumer, it being taken for granted that each person is firmly established in a productive job. The difference between these two types of stimuli to progress is very great indeed, and the opposition between them, which defies resolution on the world scale, is evident also within the Italian economy. For this reason, development in the Mezzogiorno encounters, among many other obstacles, also the particular difficulty of having to avoid lines of approach which, while growth-promoting in the North, are growth-retarding in the South.

This is perhaps the thorniest problem in the whole Southern question. There just seems to be no
bridge of communication between the two worlds of thought and experience: the world which went through the industrial revolution of the nineteenth century up to the first world war, and that which was by-passed by this revolution. The latter world seems to have been able to start on the road of social and economic progress only after making a complete break; we witnessed, first, the secession of the communist countries and later that attendant upon the process of decolonization. Nothing so radical is, obviously, conceivable within the economy of Italy; but some pattern reflecting the above-mentioned distinction must be found if progress in the South is to become an integral part of national progress as a whole and not: just to remain a by-product — however important it may be — of progress in Central and Northern Italy. The terms and conditions of Southern progress must be integrated into one unitary system of economic growth throughout the whole country. What the region needs, therefore, is not so much new institutions and new investment, as new attitudes, such as are absent from its traditional behaviour patterns because they derive from a whole class of experience alien to an underdeveloped economy. The problem of the creation of these attitudes must, perforce, be resolved within Southern society itself.

Future Lines of Approach: Southern Agriculture

It is in this light, too, that we should assess the true functions of the "Fund for Extraordinary Projects of Public Interest in Southern Italy" (for short, Cassa per il Mezzogiorno) and of other institutions specially concerned with the South. They act, among other things, as a sort of catalyst introduced into Southern society to bring to the surface urgent and often insufficiently appreciated problems and so to stimulate the emergence of a coherent body of thought and a new spirit of vigorous action, both commensurate with the problems which call for solution.

In the light of these considerations and of past experience, we can now define the necessary future lines of approach to Southern development.

It will be best to discuss the position of agriculture and of industry separately.

Southern agriculture, like the agriculture of Italy as a whole and of other countries, suffers, of course, from a general disability due to the existing gap between agricultural and industrial progress. But, apart from this general cause of distress, the Mezzogiorno's agriculture suffers also from an excessive fragmentation of farm enterprises, and often of land ownership, which is a great hindrance to any improvement in productivity levels. Furthermore, there is a serious shortage of various forms of technical assistance on which modern farming can normally count in our days.

Both these problems can be tackled rationally only in some limited areas of the Mezzogiorno. For the simple reason that, in the almost unanimous judgment of agricultural economists, the crop patterns in large part of the territory are simply not capable of development and because any rapid conversion of land to more profitable uses and crop..., is precluded by the existing excess labour forces in the agricultural sector.

In Central and Northern Italy the further progress of industrialization promises to liberate agriculture fairly soon from its dominant problem of excess labour supply. Once the productivity of labour in agriculture and outside it has reached some sort of equilibrium, the problems of agricultural policy will, as is the rule in highly developed countries, be reduced to making sure that prices and outlets are stable enough to keep farming profitable. In Southern Italy, by contrast, the existence of excess labour supply will, for a long time yet, remain the predominant problem, even if it may be expected to become less acute and less widespread than in the past.

Network of Medium and Small Industries

Now, demographic pressure in rural areas cannot be relieved at all quickly without adequate industrial development. This is why industrialization is the essential condition of any general improvement in the Mezzogiorno's standard of living, not only through the creation of new sources of income in addition to agricultural income, but also because this is the only way of enabling agriculture itself to adopt more rational patterns and so to increase its own income.

As regards industry, it is true that some conspicuous new ventures have been started up in the South, but they were invariably undertaken by large private or public groups. There is still hardly any sign of the formation of any network of small and medium-sized modern industrial undertakings, which alone could impart a truly expansive character to the Southern market. By the same token, we could also say that what the South still lacks is a class of entrepreneurs capable of ensuring cumulative development by its own forces.

New important measures and interesting new approaches have recently been introduced with a view to helping in the creation of this element which is truly decisive for the success of any Southern policy. In assessing these measures, we should look not so much for their immediate practical effects, as for the significance of the overall scheme of which they form part.

Entrepreneurial Character of Government Action

First of all the variety and technical nature of the new provisions underline the entrepreneurial character which Government action necessarily tends to assume entrepreneurial in the sense that public intervention requires and implies decisions to be taken almost from day to day in relation to current economic conditions and to the results of past activities, which may call either for further intensification and improvement along the same lines or for entirely new measures.

This is exactly the same setting, of course, in which any private entrepreneur operates, who must, with what has rightly been called a creative spirit, continuously adapt his decisions both to changes in external circumstances and to his firm's own capacity.
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We are in the presence of a radical departure from the typical pattern of Government intervention during almost the whole century of Italy’s life as a unified nation. Instead of simply putting our faith in the automatic effects to be expected from the working of the legislative machine, we now realize that the dynamics of development require day-to-day action by public authorities and a rapid flow of current decisions, in response both to the conditions of the market and to new aspects of the region’s situation as a result of successive measures.

Given the entrepreneurial nature of Government action, the problem of economic development can, of course, not be decisively influenced, let alone resolved, by any one particular measure. On the contrary, the more intensive and diversified Government action becomes, the less is the overall situation susceptible to the influence of any one additional measure.

The success of development action depends, therefore, not so much on the content of particular provisions, as on the observance of the two principles that

(a) the Government should, at all times, be alert and quick to react to any opportunities of intervention which the situation may present, and

(b) that all the separate provisions should fit into the pattern of the economic and social system which it is desired to strengthen or to create, and should be in line with the fundamental forces of progress on which continued reliance is to be placed.

What Should Guide Investment Decisions?

The importance of these two guiding principles will be seen very clearly when we now turn to examine the particular line of Government intervention which was chosen some time ago for the Mezzogiorno and is now generally recognized as correct, namely, the direct operation of industries by public agencies.

By what principles should investment decisions in this field legitimately be guided? Before discussing this matter, we have first to clear our minds as to precisely what choice the country has made between the alternatives of development governed by the market mechanism and development governed by a detailed central consumption and investment plan. If, as Italy has done, a country chooses the first alternative, Government intervention will have to be directed at altering the structure of the market so as to bring it into line with the ultimate purposes of public policy. It follows that public, no less than private, investment in industry must be governed by economic calculation within the framework of a market, in the creation and shaping of which the chosen line of general economic policy plays an important part. Unless this principle were followed, public investment; in industry would, in the absence of an overall plan of the collectivist type, be deprived of any economic rationale. The resulting unsound investment would be doomed to failure, inasmuch as competing economically sound investment would still continue to be made elsewhere, where the market justifies and requires it.

But if the Government’s industrial investment is to follow the indications of a market which fails to call forth private investment, it may be asked: Why invest public money in industry at all? Yet, public investment in industry is important for the success of development policy even in such a setting. A great body of experience no less than theoretical considerations suggest that, by entering directly into industrial production, Government can still do three things:

(a) it can carry out investments which, even though they are profitable within the existing market, exceed the financial capacity of the country’s entrepreneurs;

(b) it can step in more quickly to take advantage of certain investment opportunities which private entrepreneurs are slow to grasp even if funds are available, and which may no longer be profitable later if economic conditions should change;

(c) it may act as a stimulant to subsequent private investment, in which case public investment in industry assumes, in a certain sense, the traditional role of infrastructures.

The Deficiency of Private Investment — The Remedy

It will readily be appreciated that in this system of thought there is no room for the sweeping generalization that Government must step in wherever there is no private enterprise. The absence of private enterprise may be, and often is, a sign of the insufficiency not of private enterprise itself, but of public intervention of the traditional type. In such circumstances it simply makes no sense that private enterprise should continue to make profitable investments in certain areas, while the Government shoulders, in other areas, only unprofitable investment — due, moreover, to remain unprofitable unless the Government succeeds in modifying the market.

The remedy for any deficiency of private investment is not to increase public investment in industry, but to discover in what directions the domestic market needs further modification. Nothing could be more unreasonable than a system in which private enterprise is conducted all on its own and in response to such opportunities as are open to it, while Government enterprise also goes on all on its own, without the benefit either of market indications or of an overall central plan of the collectivist type. In this connection a significant lesson can be learnt from the Italian economy, where private industry is surging ahead vigorously in some parts of the country and is conquering new markets at the four corners of the globe, and yet is so slow to develop in the Mezzogiorno.

The above general considerations, which apply to all situations of economic under-development, gain special relevance in the Mezzogiorno for certain particular reasons. Some 35 to 40 per cent of the country’s total population live in the Southern regions; at the same time, private enterprise is responsible for 95 to 96 out of every 100 jobs in Italian manufacturing industry. In these circumstances it is a hopeless oversimplification to expect the Government to do everything that private investment leaves undone in the South. Whether it is public or private money that is invested, there still remains the problem — which.