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Recovery

Program

ITALY

COUNTRY STUDY

Economic Cooperation Administration
February 1949 • Washington, D. C.

Italy

Country Study

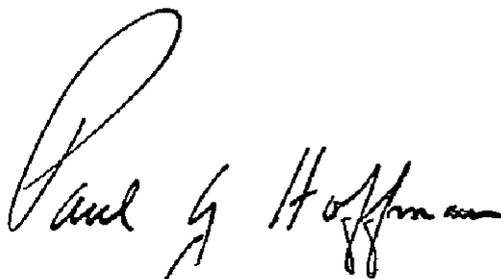


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This document is based on the best information regarding Italy currently available to the Economic Cooperation Administration, and the views expressed herein are the considered judgment of the Administration. Both the text and the figures for 1949-50 are still preliminary in character; participating countries will therefore understand that this report cannot be used to support any request, either to the Organization for European Economic Cooperation or to the Economic Cooperation Administration, for aid in any particular amount for any country or for any particular purchase or payment.

A handwritten signature in cursive script, reading "Paul G. Hoffman". The signature is written in black ink and is positioned to the right of the date.

Administrator.

FEBRUARY 14, 1949.

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CHAPTER I

Summary and Conclusions

Since the beginning of ERP, Italy has made remarkable progress in achieving financial stability, and in increasing its exports and thus in closing the gap in its balance of payments. Less progress has, however, been made toward the solution of the most basic problem of Italian economic life—the problem of too many people for the number of jobs.

The Italian economy is characterized by the poverty of its endowment of natural resources and by a rapid rate of population growth, particularly in the rural south. Italy's industrialization began later than that of other major western European countries, and its pace has been slow. Italian industry, abnormally dependent from the start on foreign trade because of the small domestic market and the lack of domestic coal and other natural resources, developed in a world in which the barriers of economic nationalism were already beginning to rise. As a result, despite very considerable industrial development in the northern provinces, for the country as a whole the increase of non-agricultural employment over the last generation has been far smaller than the increase in the number of persons seeking employment. Thus, nearly half the population still remains dependent on agriculture, and the ratio of employed population to total population is critically low.

During the first years of this century and until 1913, mass emigration was the essential economic safety valve for Italy. During this period, net emigration exceeded by a wide margin the increase in the number of persons seeking employment and at times equaled or exceeded the total rate of population growth. But, after the First World War, this outlet was greatly narrowed, primarily as a result of restrictions on immigration imposed by many countries. It was not long before large-scale, chronic urban unemployment began to appear; by 1937-38 it had reached a figure of 842,000 (nearly 5 percent of the total working population), although these were years of record industrial activity and full utilization of industrial capacity. War damage, the natural increase in the population, and the disruption of the Italian economy during World War II have aggravated the unemployment

problem. In October 1948 urban unemployment was 1,482,000, or almost twice the level of the immediate prewar years.

The problem of Italian economic recovery during the period of the European Recovery Program should be seen in two parts. There is first the short-run problem of achieving, with ERP aid, full utilization of such existing industrial plant as can be economically employed and a large expansion of construction activity. Beyond this problem lies a more difficult objective: to expand industrial and other non-agricultural employment rapidly enough to absorb at least the increase in the number of persons seeking employment and, at the same time, to achieve self-support at a reasonable standard of living.

During 1946 and the first 9 months of 1947, industrial output rose fairly rapidly. According to an index prepared by ECA from Italian data, activity in manufacturing and mining reached about 92 percent of 1938 in October of 1947, or somewhat lower if account is taken of the major industries not covered by this index (the machinery and equipment, building materials, and food-processing industries). During this period, the level of output was determined chiefly by the limited supply of imported coal and other materials. It was accelerated by strong inflationary pressure, which was reflected in a rapid rise in prices, and in production for inventory on a very large scale. By September-October 1947, very large inventories of finished goods had been built up. Then, in large part as a result of the effective anti-inflation measures taken by the Italian Government, the inflation was broken. There was a sharp drop in prices; at the same time the production index fell off to a little over 70 percent of 1938 in January-February 1948. Once the downward movement of prices and production began, it was reinforced by extensive liquidation of inventories. Since the Spring of 1948, industrial activity has been slowly rising again, and in September 1948 it again reached the peak level of the year before, although it is still considerably lower than prewar production and well below the present capacity of Italian industry. Activity in the capital goods sectors of the economy, however, which are not adequately reflected by this index, is considerably lower in relation to prewar.

The full utilization of Italy's industrial plant depends essentially on aggressive action by the Italian Government, in particular the launching of a coordinated public investment program. Under present political conditions in Italy, and in the world, business confidence is weak, and private investment cannot be counted on to expand industrial plants rapidly or to build even the minimum of low-rent housing. Hence the need for whole-hearted Government action in this direction. Such action has been impeded by an exaggerated lack of confidence in some official Italian circles that any new inflationary pressures generated by such a program can be controlled. While this fear is under-

standable in the light of past experience, industrial output is no longer limited, as in 1947, by shortages of imported fuel and materials and can be expected to expand quickly to meet any increase in purchasing power. Doubtless, as demand rises under the impact of an enlarged Government investment program and full utilization of existing facilities is approached, the danger of price inflation will increase. This could, however, be controlled by effective and discriminating use of bank credit restrictions to check inventory accumulation and by other administrative measures to control and if required to reduce the rate of public and private investment expenditures. If necessary, a part of the small foreign exchange reserve built up during 1948 might be used on a temporary basis to increase imports of consumers' goods in order to dampen inflationary pressure.

Throughout the postwar period effective action by the Italian Government in the field of investment and in some other fields of economic policy has been impeded by the weaknesses of existing administrative machinery. In particular there are needed means of developing integrated economic programs, and particularly a national investment program and of bringing the activities of the various economic ministries into line with such programs.

The present Italian Government, headed by the Christian Democratic leader, De Gasperi, has a working majority in Parliament. This party is considerably more powerful than any other in Italy, and its alignment with minor political groups to the right and left of its own central position gives it a highly representative character. The Communist Party along with the Left-Wing Socialists form the opposition. The opposition's tactical strength lies principally in its control over labor, which it exercises through the Italian General Confederation of Labor (CGIL). This control, however, has lately been weakened by the formation of a new labor organization, the Free Italian General Confederation of Workers (LCGIL) made up largely of Democratic Christian Party supporters and free of Communist control. The Communist Party avows complete opposition to the European Recovery Program and through its strength in labor it has been able to impede recovery to some degree by strikes and recently by slow-down strikes. It may be assumed that as the LCGIL grows stronger the amount of damage that the Communists can accomplish will be less.

Despite production difficulties, Italy has made remarkable progress in closing the gap in its balance of payments. Taking 1938 at 100, the volume of exports has risen from 39 in 1946 to 57 in 1947 and, in the first 10 months of 1948, to 80-85. If prewar exports to the former colonies are excluded from the comparison, the volume of Italian exports is already substantially above the 1938 level. This remarkable rate of improvement has been due principally to: (1) ex-

change rate and exchange control policies adopted by the Italian Government which provided a strong incentive to export and, in general, kept Italian export prices competitive in world markets, (2) the deflation which in 1948 helped reduce Italian costs and export prices, and (3) the exploitation by enterprising Italian exporters of a number of favorable though frequently temporary market opportunities which developed during 1947 and 1948. Principally as a result of this rapid improvement in exports, Italy's need for dollar assistance has fallen considerably since 1947.

There is, however, another side to this picture. The deficit in calendar year 1948 and in fiscal year 1948-49 was lower than it would have been had industrial output and national income, and therefore imports of industrial raw materials and some essential foodstuffs, been higher. In fact, total imports in fiscal 1948-49 will be no larger in volume than in 1947, when food imports and a number of industrial imports were still limited by availability. In this sense, it can be said that the Italian economy has not taken sufficient advantage of the available foreign aid to maintain the high rate of industrial output and investment which are the essential means for maintaining political stability and for ultimately achieving self-support.

Beyond these immediate problems, the Italian economy must find the means of absorbing into industrial and other non-agricultural employment, in addition to those now unemployed, at least the annual increase in the number of persons seeking employment, and at the same time of achieving self-support. The Italian long-term program states as its principal objective the creation of about 1,200,000 new jobs by 1952-53. Most of this increase, however, will result from the reactivation of existing industrial capacity and from increased employment in construction and public works, rather than from an expansion in industrial capacity. Once present capacity is fully utilized and employment in construction and public works has reached its effective limit, the prewar situation may again obtain. Opportunities for non-agricultural employment may still increase less rapidly than will the number of job seekers.

It is essential, therefore, to accelerate expansion of industrial capacity in Italy at a rate well above prewar, if Italy is to become independent of extraordinary external aid by 1952-53. Because private initiative in this direction is not now sufficient, vigorous public action is needed to expand production in the directions indicated by foreign and domestic demand. But Italy's efforts alone will not be enough; the markets of the world, and more particularly those of western Europe, must expand and must be open to the products of Italian industry and to Italian agricultural specialties. Given a wide foreign market, Italian industry will be able to expand rapidly enough to absorb the increasing labor force and Italian agriculture will be able to specialize

and to improve its techniques. Since the increase in the number of job seekers during the next 3½ years will be considerable, emigration on a very substantial scale will be required in order to effect a major reduction in unemployment during the ERP period. A concerted international effort is needed to facilitate Italian emigration on a mass scale over the next few years.

Italy was allotted 158 million dollars in the second calendar quarter of 1948, of which 25 million was a loan and 133 million direct grant. To date, of the programmed amount of 555.5 million dollars for 1948-49, Italy has been allotted 422.7 million, of which 42 million is a loan, 345.3 million direct grant, and 35.4 million conditional aid. An additional allotment of 132.8 million dollars is, therefore, necessary to complete the 1948-49 program.

As shown below, the Italian request for aid for 1949-50 was 610 million dollars. A careful review of the Italian request shows that the targets of the 1949-50 program can probably be reached with aid of about 555 million dollars.

[In millions of dollars]

	1948-49	1949-50
Italian estimate of gross dollar aid required.....	799.5	610.0
OEEC recommendation of gross dollar aid.....	601.0	(1)
ECA estimate of gross dollar aid.....	555.5	555.0

¹ National program for 1949-50 not yet reviewed by the OEEC.

As will be explained below, Italian industrial activity appears to have passed a turning point in the last months of 1948 and now shows a fairly clear upward trend. ECA's estimate for 1949-50 is designed to make it possible for that upward trend to continue; it is hoped that a target for industrial activity of 15-20 percent above the level of the last months of 1948 can be reached in 1949-50. This target is well within the physical means of the Italian economy and its achievement is essential to attainment of the goals of the long-term program on schedule.

The 1949-50 program aims to increase total availabilities for consumption in 1949-50 to 91 percent of 1938, on a per capita basis, as compared with 78 percent in 1947 and a target of 84 percent in 1948-49. Food consumption in 1949-50 is to increase only very moderately: in terms of calories, from a national average of 2,430 calories per person per day in 1948-49 to approximately 2,500 calories in 1949-50. Pre-war food consumption was approximately 2,550 calories.

The 1949-50 program requires an increase of imports above the 1948 and 1948-49 levels. The increase in imports in 1949-50 consists of larger imports of coal, petroleum, cotton, and other industrial materials and equipment above the low 1948 levels in order to make

possible the projected sharp increase in industrial activity. The 1949-50 program also provides the food imports necessary to prevent serious inflationary pressure on food prices as employment and incomes rise. Exports, on the other hand, are not expected to continue during 1949-50 their spectacular rise during 1948. Some of the factors responsible for this steep increase are believed to be of a nonrecurring character and should operate with much diminished force, if at all, during 1949-50.

On this basis, the minimum aid required by the Italian economy in 1949-50 to achieve these targets has been estimated at 555 million dollars. With aid in approximately this amount, it is considered probable that the Italian economy has the means to move forward at a satisfactory rate toward the goals of the long-term program, although the projected level of imports and therefore of dollar aid may have to be revised if the rate of improvement in economic activity proves greater than now anticipated.

CHAPTER II

Analysis of the Current Situation

A. INTRODUCTION

A cursory survey of Italy's economic development over the last 70 years brings out certain basic features which are the key to the present situation and immediate prospects of the country.

First, the rate of growth of the working population has far exceeded the expansion in employment.

Second, although much of Italy is not naturally suited for intensive agricultural production, agriculture has remained the major source of employment and income. Efforts to expand the agricultural plant (through irrigation, reclamation, etc.) and technological improvements have merely resulted in keeping agricultural employment at the level prevailing some 70 years ago. The pressure of population and the low level of per capita income in the country have retarded mechanization and diversification of agricultural production and have tended to maintain the productivity of agricultural labor at relatively low levels. It is clear that Italian agriculture cannot absorb any appreciably larger number of people at tolerable standards of living.

Third, the rate of expansion of industry and other nonagricultural activities has been too slow to absorb the annual net increase in the population of working age seeking employment. As a result, prewar per capita income in Italy was only half of that in France and Germany, one third of that in the United Kingdom, and one-quarter of that in the United States. Moreover, within Italy, the degree of economic development and industrialization of the north and the south has been very unequal. It has been estimated that in 1938, per capita income in the northern provinces was double that of the southern provinces and the islands (Sicily and Sardinia).

Two factors seem to have played a major role in retarding Italy's economic development: (1) the poverty of the natural economic endowment of the country, not only in such mineral resources as coal, petroleum, and iron ore, but also in arable land, in relation to population; (2) the lateness of Italy's political unification which delayed development of service industries and the creation of a national market, thus hindering the formation of capital and the growth of a trained labor force.

Given the poverty of natural resources, the increasing density of population and the low per capita income, Italian industry grew up strongly oriented toward, and dependent on, foreign markets and sources of supply. But because of a late start, Italian industry, which is largely concentrated in the northern provinces, was just reaching maturity when entry into the markets of the world, particularly those of Europe, began to be restricted by the gradual growth of protectionism and economic nationalism (1900-1913). After the First World War, the pace of industrialization was forced by un-economic, autarchic policies, and emigration was drastically reduced, while the attention of the Italian people was diverted from poverty, unemployment, and a difficult economic future by Fascist dreams of empire.

The slow rate of Italian industrialization in relation to the rate of population growth, and the inherent inability of agriculture to absorb any greater share of the working population, have long been reflected in a low ratio of active population to total population.¹ Thus the Italian population of working age (15-64) has been growing at the rate of 200,000 to 250,000 per year, while total employment (excluding the years of the First World War) was growing at the average rate of only 50,000 per year, and never exceeded 80 to 90,000. Before 1913, however, large scale emigration provided a safety valve for the resulting economic and political pressures.²

During the period between the two wars, large-scale urban unemployment made its appearance and persisted even during the late 1930's, which were for Italy years of record economic activity. Unemployment in 1937-38 averaged 842,000 or 4.6 percent of the active population. Unemployment of industrial workers in 1938 reached 13 percent. There was also before the war a large and growing degree of under-employment in Italian agriculture.

From the foregoing it is clear that this prewar unemployment was "chronic" rather than "cyclical" in character—i. e., it represented an outcropping of the fundamental disproportion between the rate of industrialization and the rate of growth of the population of working age, a disproportion which will last throughout the period under consideration.

The Second World War shattered the Fascist make-believe-empire, but it also damaged the Italian economy most severely. Although, thanks to the resistance movement, nearly all the industrial capacity in the north was saved from Nazi demolition squads at the time of

¹ In 1931 the ratio of active to total population in Italy was only 40.6 percent as compared with 51.4 percent in France and 49.2 percent in Germany. In 1936, the ratio was 43.2 percent for the country as a whole; the ratio for Piedmont was 52.8 percent. The ratios for other regions in northern Italy were between 45 percent and 50 percent. Ratios in South Italy and in the Islands were as low as 33.9 percent in Sicily, 36 percent in Apulia and Sardinia.

² See Appendix A, Table III.

surrender, there had already been extensive damage to the transport system, to housing, and to agricultural plant. Less apparent but equally important was the damage to economic institutions inflicted by the inflation, the severance of vital trading relations, and the total disruption of the machinery of government and administration. The growth of all industry was not, however, stopped by the war. In fact, through 1943, there was extensive investment, particularly in the machinery and equipment industry. Other sectors (e. g., textiles), were forced to operate with inadequate maintenance. On the whole, however, Italian industrial capacity was considerably expanded between 1939 and 1943.

Since the liberation of northern Italy in 1945, recovery has been rather slow. Italian gross national product (GNP) in real terms in 1947 was about 83 percent of 1938; on a per capita basis it was only 78 percent owing to the increase in population, as the following table shows.

TABLE 1.—*Italy, national accounts, 1938, 1947, 1948-49*

[In billions of 1948 dollars]

	1938	1947	1948-49 (est.)
Gross national product.....	11.57	9.68	10.52
Import surplus ¹27	.80	.50
Gross availability.....	11.84	10.48	11.02
Goods and services for tourists.....	.12	.02	.07
Maintenance.....	1.15	1.10	1.10
Net investment.....	1.05	1.31	1.31
Consumption.....	9.52	8.05	8.54
Total uses.....	11.84	10.48	11.02
Per capita gross product ²	265.00	207.00	226.00
Per capita consumption ²	213.00	173.00	184.00

¹ This is the excess of imports (visible and invisible) over exports.

² In 1948 dollars.

Source: Figures are official Italian estimates with the exception of the items for balance of trade and maintenance in 1947 and 1948-49. These have been somewhat modified from the Italian estimates to what seemed more reasonable levels. In general, Italian national accounts estimates must be used only with the greatest caution because the underlying statistical data are inadequate.

Total gross investment, i. e., net investment plus maintenance, in 1947 represented a higher proportion of total (gross) national availabilities than in 1938, 23.0 percent in 1947 as against 18.5 percent in 1938. As will be seen below, however, the structure of this investment in 1947 was markedly different from that in 1938.

For the year 1948-49, GNP is projected at 90 percent, per capita availabilities for consumption at 84 percent, and gross investment at 109 percent of 1938. The volume of net investment in 1948-49, however, is projected at a level no higher than in 1947, and the ratio of gross investment to total (gross) availabilities is projected at 20.7

percent, markedly less than in 1947. The significance of these changes

Between 1936 and 1948 the Italian population of working age (15-64) increased by approximately 2 million persons, or 7.5 percent. The absence of work opportunities resulted in a considerable proportion of the potential labor force remaining on the land without full employment. This secular economic phenomenon in Italy has, of course, been aggravated by the fact that the war reduced capital formation in many industrial sectors and in the services. Thus agricultural employment in 1948 was actually higher than it was in 1936 by some 3 percent, while nonagricultural employment remained virtually unchanged. Table 2 below summarizes the major shifts in distribution of the labor force between 1936 and 1948 and makes clear the retrograde character of those changes. Within the industry and services categories, the figures are also interesting. They illustrate the present low level of construction activity and of investment in new machinery and equipment, which is discussed below. They appear also to indicate an uneconomic increase of employment in commerce, transportation, and other services.

TABLE 2.—*Italy, distribution of labor force, 1936 and 1948*

[In thousands]

	1936		1948		Change
Population.....	42,919		46,300		+3,381
Total labor force.....	19,701		20,708		+1,007
Less: Unemployed ¹	700		1,482		+776
Armed forces.....	650	1,356	300	1,782	+428
	18,345		18,926		+581
Productive employment: ²					
Agriculture.....	8,756		9,040		+284
Fish and forestry.....	86		88		+2
Mining and quarrying.....	128		124		-4
Manufacturing: ³					
Consumers goods.....	2,333		2,343		-40
Capital goods.....	1,607	3,990	1,398	3,741	-249
Construction.....	979		415		-564
Public utilities.....	190		184		-6
Transportation.....	612		763		+151
Trade.....	1,504		1,910		+406
Other services.....	1,291		1,302		+11
Government services.....	809		1,147		+338
Total.....	18,345		18,714		+369

¹ This includes data for October 1948.

² This distribution of employment does not include October 1948 data.

³ Includes handicraft employment.

Source: Appendix A, table III.

Latest official estimates indicate that unemployment in October 1948 stood at 1.48 million, not including roughly 100,000 surplus workers on industrial payrolls. In addition, under-employment of agricultural laborers and sharecroppers is probably the equivalent of 600,000 more unemployed, and there is certainly extensive if unmeasurable under-employment among farm-owners and their families.

In the following pages are discussed some of the immediate and longer range problems of Italian recovery under ERP. For the near future the problems center around the present under-utilization of a considerable part of Italy's industrial and construction capacity and the necessity of facilitating Italian emigration in order to help relieve the pressure of population on the Italian economy. For the longer run, the problem is how to accelerate the expansion of non-agricultural employment in Italy to the point where it can at the least absorb the annual increase in the number of job seekers. The emphasis of this study, as of the ERP program for Italy, is therefore upon the problems of capital formation and the expansion of productive, non-agricultural employment. It is in such terms that Italy's recovery program should be written and her progress under ERP assessed.

B. USE OF RESOURCES

1. Consumption

Output of consumers goods in Italy rose steadily from the very low postliberation level; by 1947 the total availability of goods for consumption rose to about four-fifths of 1938 and over one-third above 1946. Total per capita availability for consumption is estimated at about \$184 (1948 dollars) for 1948-49, as compared with \$173 in 1947 and \$218 in 1938.

Food.—The following table presents estimates of per capita availability of major foodstuffs in 1947-48 and 1948-49 as compared with prewar:

TABLE 3.—Italy, estimated per capita consumption of major foodstuffs, prewar, 1947-48, 1948-49

[Kilograms per capita]

	1933-37	1947-48	1948-49 ¹
Grains (flour basis).....	171.1	159.5	174.5
Potatoes.....	37.6	39.6	44.6
Fresh vegetables.....	67.2	75.9	75.4
Pulses.....	13.5	9.8	9.3
Fruits.....	33.8	46.2	35.0
Tree nuts and chestnuts.....	10.1	6.5	5.7
Fats and oils (fat content).....	10.5	9.5	9.1
Meat and fish.....	26.4	20.2	22.0
Milk.....	38.5	36.4	34.5
Cheese.....	5.0	4.3	4.7
Sugar.....	7.0	6.7	7.5
Eggs.....	7.4	5.6	5.9
Calories per person per day.....	2,550	2,275	2,430

¹ Preliminary estimates.

Source: Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

Other consumer goods.—Apart from food, there are no adequate data on the per capita consumption of other products in Italy. However, something can be said concerning consumption and current sales of textiles, shoes, soap, and household furnishings.

During 1948, consumption of textiles fell sharply from 1947 levels and is now variously estimated at between 60 and 75 percent of prewar. The last few months have witnessed some sharp increases in the volume of sales, which may be in part the result of retailers' and consumers' accumulation of stocks, and sharp rises are reported in domestic sales of cotton goods, hosiery, and knitted goods. In woolen yarn and cloth, the consumption of luxury items is increasing, whereas the sale of utility goods is falling sharply. Perhaps prices are still too high. Sales of ready-made items of apparel, which fell sharply beginning in September 1947, showed some recovery in the spring of 1948 but are still well below prewar levels.

Textile consumption in Italy is below prewar because real per capita income is below prewar and a larger than prewar share of the consumer's income is spent for food. Considerable capacity in the textile industry remains idle, and the level of output is excessively dependent on export demand. Under these circumstances, it would seem that means should be found to produce lower-priced utility goods, using this idle capacity. Such action would have the additional important advantage of lowering production costs in the industry through better utilization of capacity.³

The shoe industry has been in difficulty: footwear sales, which, in 1947, reached some 75 percent of prewar, fell in 1948 to roughly 65 percent of the 1938 level. However, the last quarter of the year has brought some signs of recovery. Current sales of toilet soap, while somewhat higher than in 1947, are still only 60 percent of prewar. Sales of new furniture in 1948 are reported at some 50 percent of prewar, with signs of recovery during the last few months.

2. Investment

In 1946 and 1947, the volume of gross investment in the Italian economy was very high in relation to total availabilities, as much as 23 percent in 1947, according to the rough estimates shown in table 1 above. The direction of this abnormally high rate of investment, however, reflects the weaknesses in the structure of Italian production and demand during the 1946-47 inflation. Inventory accumulation, a large part of which was speculative in character, accounted for a disproportionate part of the total. In the first six months of 1947, before the break in the inflation, inventory increases are said to have accounted for more than a third of total net investment.

Fixed investment in industry and in public services during this period was very largely for reconstruction and rehabilitation. The

³ A possible pattern for such a program has been provided by the UNRRA *Tessile* program which made possible the production and distribution of low-cost textile products manufactured with UNRRA-imported raw materials. The Italian Government controlled the entire operation through a special agency (UNRRA *Tessile*), which was financed with UNRRA local currency funds.

general lack of confidence in the future on the part of the business community seriously inhibited industrial expansion and modernization investments. Investment in housing was, in the light of the country's needs, appallingly low. This picture is summarized in the following table:

TABLE 4.—*Italy, direction of net investments, 1938, 1946, 1947*

[Percent of total investment]

	1938	1946	1947
Industrial plant ¹	27.0	18.7	20.6
Reconstruction.....		(14.5)	(13.6)
New plant.....		(4.2)	(7.0)
Increase in inventories.....		29.2	25.2
Agriculture.....	11.0	12.1	7.6
Housing.....	19.0	6.3	7.0
Transport and commerce.....	14.0	26.3	21.6
Merchant marine.....	5.0	1.7	7.0
Public works.....	±19.0	6.6	8.5
Other.....	5.0	2.1	2.5
Total.....	100.0	100.0	100.0

¹ Including mines, electric power, and utilities.

² Includes colonial development.

NOTE.—These data were obtained from different sources and vary in certain respects. Nevertheless, they are believed adequate to permit broad conclusions to be drawn.

Data on investments by sectors are not yet available for 1948. It seems clear, however, that the volume of investment was well below the 1947 level and that its composition was somewhat different. There were probably net reductions of inventories in the first 5 to 6 months of the year. The volume of fixed investment in new plant and in housing appears to have been even less satisfactory than in 1947, as shown by the capital goods production figures.

As for fiscal year 1948-49, gross and net domestic investments have been projected at a rate no higher than in 1947, although the gross national product in fiscal 1948-49 is projected at a level 10 percent above 1947. This unambitious target appears to reflect fears on the part of the Italian Government that a higher rate may generate a renewed inflation. Presumably a repetition of the excessive concentration on inventory accumulation in 1947 should and can be prevented if inflation is avoided, but there is no doubt that the forecast rate of investment for 1948-49 in new industrial plant and in housing is inadequate.

C. SOURCE OF RESOURCES

1. Industrial Production

General level.—The close of the war in Italy found industrial production at a very low ebb. Shortly after the liberation of the Northern industrial areas, however, industrial production showed a definite upward trend. Levels rose steadily as the flow of imported raw ma-

terials increased, as plants were restored to working order and service industries began again to function. The actual level of production followed the general upward trend except for (a) shortages of necessary raw materials resulting from limited world supply or from interruptions in imports caused, for example, by strikes in the United States, and (b) seasonal variations reflecting principally the shortage of electric power during the winter months.

By the early summer of 1947, taking into account wartime expansion and postwar reconstruction, total industrial capacity exceeded 1938 levels by at least 25 percent, and the effect of war damage was felt only in a few sectors, such as in pig-iron production. The availability of raw materials, coal, and electric power improved substantially; industrial production was approaching prewar levels. However, the steady upward trend in production levels, fostered by pent-up demand both at home and abroad, as well as by large public investments in reconstruction, was also accelerated by inflationary developments, particularly the accumulation of very large speculative inventories. The inflation had increasingly adverse effects upon production costs and upon the volume of exports.

In September 1947 the Government revised its credit and fiscal policies in order to arrest the inflationary trend. These measures were notably successful in stabilizing prices and averting the more serious dangers of an inflationary spiral. However, the impact upon business policy and expectations provoked a sharp decline in activity. This decline was intensified by a slump in the domestic demand for Italian manufactured goods and by the normal tendency for a seasonal decline at the onset of winter. Levels of production in manufacturing and mining fell sharply from October 1947 to January 1948, in spite of a relatively large availability of electric power. Since then, in spite of a very favorable power situation, production levels rose slowly and irregularly until the fall of 1948. Consequently, for the first few months of the European Recovery Program, it was difficult to discern in the industrial production figures a single clear trend.

Table 5 below illustrates the changes in the level of activity in manufacturing and mining from January 1947 to September 1948.

Beginning in September and October 1948, however, there were clearer indications that a sustained recovery of Italian industry was underway. The production figures available for September and October provided a strong basis for concluding that the underlying trend of recovery in the preceding months had been moving steadily toward higher levels. The manufacturing and mining index for September was 91 (1938=100), just short of the October 1947 peak. The index for November showed a decline substantially less than the seasonal

TABLE 5.—Italy, monthly indices of activity in manufacturing and mining, 1947 and 1948

[1938=100]

	1947	1948		1947	1948
January.....	61.7	74.6	August.....	79.1	77.9
February.....	58.4	73.7	September.....	87.1	91.3
March.....	72.8	81.7	October.....	91.8	89.4
April.....	80.6	83.1	November.....	81.6	87.8
May.....	88.3	82.1	December.....	76.2	-----
June.....	88.2	83.5	Average.....	79.9	182.8
July.....	94.0	86.2			

NOTE.—In view of the serious limitations of official general indices of industrial activity discussed in appendix B, there has been computed a combined special index of certain manufacturing and mining industries, on the basis of the segment indices computed by the Central Institute of Statistics.

In using these figures, it must be kept in mind that they do not include the machinery and equipment industry, which is the largest industry in terms of employment, the food processing industry and most of the building materials industries. This tends to give the indices an upward bias, since both the building materials and machinery and equipment industries have lagged considerably behind the rest of manufacturing.

¹ Average January through November.

decline normal for this period. The following table shows the levels of activity for those industries for which such data are available.

TABLE 6.—Italy: Summary of production levels by industries, 1947-48

[1938=100]

	Mining	Metal- lurgical	Non- metal ores	Lum- ber	Chem- icals	Textiles	Paper	Electric power
1947 (monthly average).....	86	71	82	67	85	83	68	136
1948 ^a								
Average first 7 months.....	88	85	86	55	94	77	69	148
January.....	80	66	90	50	78	76	58	135
September.....	94	98	90	55	106	88	86	163

A more detailed examination of the major sectors follows:⁴

Italy's power generating capacity, which rose from 5.6 million kilowatts in 1938 to 6.5 million in 1942, was reduced to some 4.6 million by war damage, destruction and sabotage. Reconstruction proceeded at a rapid pace, and by the end of 1946 generating capacity returned to prewar levels. Present-day capacity is roughly equal to the peak reached in 1942. Demand for electric power has shown a steady upward trend, owing in part to the steadily increasing use of energy in the chemical and metallurgical industries and by the railroads and in small part to the limitations on the use of other sources of heat which have tended to increase household and other uses of electricity. The output of electric energy in 1948 is estimated at over 22 billion kilowatt-hours, an all-time peak, and 40 percent above 1938. This level was in part made possible by an unusually favorable supply of water. The problem of achieving a more even distribution of power production throughout the year has not yet approached solution.

⁴ Table III in appendix B shows the relative importance of the various Italian industries taking into account manpower employed, motive power used and capital invested.

The metallurgical industry shows remarkable gains over low 1947 levels. Unfortunately, the increased production of primary metals has not yet been attended by a comparable increase in processing activities.

The mechanical and engineering industry ranks first in Italian manufacturing. This industry was expanded considerably during the 5-year period 1938-43, and repair of war damage has rapidly brought its capacity approximately to 1943 levels—i. e., to some 60 to 80 percent above the 1938 capacity. Even before the war, utilization of theoretical capacity was extremely low in certain sectors (e. g., 54 percent in the shipbuilding industry over the 12-year period 1928-39) and relatively low for the industry as a whole (80 percent in 1938). It probably does not exceed 50-55 percent today. Although the situation varies widely from sector to sector, the total level of capital goods production is far lower than would be possible with present supplies of raw materials, power, and labor, or than would be required to support a sustained domestic investment effort. Relatively high levels of production are attained only in those sectors where particular (and frequently temporary) circumstances tend to create and maintain a favorable market, in spite of very high production costs and prices. For example, the automobile industry shows a steady increase in the output of cars and a declining trend in the output of trucks and other motor vehicles. While the internal and export demand for automobiles continues at a high level, domestic demand for trucks and other freight-bearing vehicles is low due principally to acquisition of American surplus vehicles, and the immediate outlook for production depends upon the possibility of continuing exports to Poland, Argentine, and India.⁵

With a greatly expanded capacity and a great need for replacements on Italian farms, the farm machinery industry should thrive. Instead, lack of effective domestic demand and the high prices and poor quality of many of the products are responsible for the fact that production has been declining while inventories at factories and dealers remain very high. Similar difficulties beset the tractor industry; here, however, demand in other countries provides at least a temporary export outlet. Tractor production in 1948 (estimated at over 3,000 units) will exceed 1947 levels and be three times higher than in 1938. Yet, gauged against annual production capacity (over 12,000 units) and the great need for modernizing Italy's agricultural plant, both production levels and domestic sales (estimated at only 1,500 units in 1948) are unsatisfactory.

The machine-tool industry is operating at some 70 percent of capacity; in spite of increasing exports, production in 1948 was low. Italian industry, with some 300,000 machine tools installed, should absorb

⁵ See appendix B, table VI.

roughly 20,000 machine tools annually merely for normal replacement purposes. But domestic sales of machine tools in 1948 were only about 2,000 units, while producers' inventories have risen sharply.

Some progress has been made in the field of electrical machinery and equipment. In the case of textile machinery, rising production results from steadily increasing exports, as well as a domestic demand that is reasonably well sustained although still well below prewar. Temporarily favorable export conditions are reflected in the steady progress achieved in the field of antifriction bearings and precision instruments.

Thus, in spite of the progress made in certain sectors which benefit from particularly favorable circumstances, the outlook for a large increase in production in the machinery and equipment industry as a whole is none too favorable, unless there develops soon a large increase in domestic demand resulting from extensive industrial investments. It is upon this industry that Italy must largely depend for an increase in industrial employment.

With a capacity which, in many sectors, is significantly greater than prewar and a plentiful supply of electric power, the chemical industry as a whole exceeds prewar levels of production. In particular, the output of basic chemicals, such as caustic soda and sulphuric acid, and of certain fertilizers exceeds prewar levels. The production of caustic soda during the first 9 months of 1948 was about 25 percent higher than that for the comparable period of 1938. Yet, because exports of caustic soda have declined, 1948 production was significantly smaller than in 1947. In the case of nitrogen fertilizer, output for 1948 was about 110 percent of prewar; approximately one quarter of this was exported. Nitrogen production could reach much higher levels if domestic demand were increased by an attempt to rebuild the fertility of the Italian soil, which was badly depleted during the war years. Instead, domestic demand for nitrogenous as well as for other types of fertilizer remains below prewar levels, thus creating exportable surpluses while part of the production capacity remains idle. For this reason during the summer and fall of 1948, Italy has been able to supply Austria and the Bizone with sizable amounts of super-phosphate. The output of miscellaneous chemicals which flow into virtually all sectors of Italian industry, particularly the consumers' goods sectors, is rising steadily, thus yielding additional evidence of industrial recovery outside the capital goods field.

In the immediate postwar period, the recovery of the textile industries, which suffered only negligible war damage, was hindered by shortages of power, fuel, and raw materials. Later, the two major branches, cotton and wool, benefited from high levels of foreign demand and from sustained domestic demand, which was encouraged by Government-sponsored programs for distribution of low-cost products. During 1948, production of cotton yarn and cotton

fabric is estimated at 90 and 95 percent, respectively, of 1938, and about equal to 1947 levels. Reasonably satisfactory levels of production are also being maintained in the wool industry. Conversely, the hemp and linen industries, which represent important outlets for the only vegetable fibers produced in Italy, are undergoing a most serious depression, while the jute industry continues to operate at very low levels. The total output of artificial fibers is declining.

Current levels of production and trends are unsatisfactory in those sectors of the economy which are most directly related to the construction industry. The steady decline in state-financed reconstruction has not been offset by the local and sporadic revival in private building activities. Production of bricks and tiles, which reached a post-war peak in 1947 in spite of an often inadequate supply of fuels in the early part of the year, declined by 50 percent in 1948 and has not shared in the recovery of the general production index during the last months of 1948. Lumber processing is unlikely to exceed 55 percent of 1938 for the year 1948.

Levels of production in the food processing industry showed a marked improvement during 1948, because of increased availability of raw materials, fuel and power. The improvement was especially significant in the milling and pasta-making sector. A degree of recovery is also apparent in the canning industry, in spite of excessively high processing costs, while an excellent harvest of sugar beets made possible a high level of activity in the sugar mills. Good progress was also made by the dairy industry and in the processing of oil-bearing materials.

In sum, Italian industry as a whole has weathered the impact of deflation through a process of adjustment which has resulted in a widely varying degree of recovery for individual sectors. The domestic market, particularly in the case of capital goods and construction, has shown but few signs of increased demand. Industries that employ but little manpower (chemicals, electric power) show the sharpest recovery, while those which could make the greatest contribution toward solving Italy's unemployment problem (building materials, construction, machinery and equipment) are, unfortunately, still in a depressed state. Even the textile industry, despite foreign demand, has failed to attain prewar levels of production.

2. Agricultural Production

War damage to Italian agriculture was fairly extensive. By the middle of 1947, however, all major supply limitations on fertilizers, machinery, fuel, and other input factors had been overcome. The stage was set for a sustained recovery of production. However, the deflationary measures adopted by the Italian Government in the fall of 1947, a bumper crop of olive oil and sizable imports of foodstuffs

led to a decline in agricultural prices, while prices of farm supplies, principally fertilizer and machinery, remained high, reflecting the industry's excessive costs of production and lack of effective price competition. Furthermore, owing to uncertainty with regard to land reform measures, landowners were unwilling to make the necessary investments in land improvements and capital equipment. Thus, farmers failed to utilize in full the available quantities of the means of production. As a result of this situation, as well as of adverse weather and insect damage in the case of wheat and olive oil, the 1948 harvests fell somewhat short of possible and expected levels. Total agricultural production in 1948 may be tentatively estimated at 90-95 percent of prewar. The following table compares the production and acreage of major crops in 1947 and 1948 with the 1936-39 average.

TABLE 7.—*Italy: Production and acreage indices of major crops, 1947 and 1948*

[1936-39=100]

	Production		Area	
	1947	1948	1947	1948
Bread Grains †	75	89	91	94
Corn	74	83	89	90
Other cereals	80	97	117	116
Potatoes	103	114	104	99
Sugar beets	67	89	82	84
Olive oil	122	48		

† Includes rice.

Sources: Office of Foreign Agricultural Relations, United States Department of Agriculture. United States Embassy and ECA Mission, Rome, estimate bread grain production at 85 (1936-39=100) for 1948. Prewar data have been adjusted for changes in boundaries made by the peace treaty.

In animal husbandry, steadily rising prices and a plentiful supply of roughage have fostered the recovery of the livestock population, in spite of a continuing relative shortage of feed concentrates. The problem now is to avoid an excessive expansion of livestock numbers and to emphasize qualitative improvement of herds and flocks, while assuring a more adequate current supply of animal products to the Italian consumer. In fact, current production levels of animal fats and of meat and dairy products are still below prewar, partly because of the reduced availability of concentrates, partly because of the age structure of the livestock population and partly because farmers are still striving to increase their herds to the detriment of current availabilities of meat, milk, and slaughter fats for human consumption.

In general, great difficulties are being experienced in raising consumption of all types of farm supplies to prewar levels. This is true for fertilizers, for feed concentrates, for binder twine, and for farm machinery. In consequence, Italian industry is faced with an abnormally small agricultural market at a time when all physical bottlenecks to greater production of farm supplies have disappeared. Concomi-

tantly, the intensity of cultivation and, therefore, the capacity of the land to support an increased farm and urban population falls short of prewar levels.

D. INTERNAL BALANCE OF FINANCE

1. Background

The Italian economy still feels the effects of the adjustments made necessary after September 1947 when credit restrictions and a number of concurrent circumstances halted and suddenly reversed the inflationary process.

During the last 2 years of the war, Italy experienced a violent inflation. The fighting had split the Italian territory and completely disrupted its economy. At the end of 1945, prices stood at more than 30 times and the money supply at approximately 12 times the prewar level. During the first post-liberation year (fiscal 1945-46) the rise in prices was arrested as a result of the reestablishment of contact between north and south, substantial relief shipments and a general expectation of a return to normalcy. Although budgetary revenue covered only one-fourth of expenditures, the deficit was met by a successful post-liberation loan and by largely noninflationary borrowing from the commercial banks, which had built up considerable reserves as a consequence of the previous stagnation of economic activity.

During the second postwar year (fiscal 1946-47) the situation changed radically. Output revived but, as consumer goods came on the market, there was a disproportionate increase in the effective money supply because substantial quantities of money, previously hoarded, were brought back into circulation. The velocity of circulation further increased with a declining confidence in the lira. The credit demands of industry competed with the huge needs of the Treasury, and a large part of the budget deficit in fiscal 1946-47 was financed by inflationary advances from the Bank of Italy. The wage-price spiral came into full swing, its action accelerated by the automatic sliding scale provision (*scala mobile*) in most industrial wage arrangements. In the general inflationary climate accumulation of inventories took place at all stages of production and, with controls largely ineffective, a strong impetus was given to wasteful investment and consumption. During this phase, which lasted from May 1946 until September-October 1947, prices and bank deposits doubled while currency in circulation expanded at a slow pace.

The upward movement in prices was suddenly reversed in October, the immediate cause being the imposition of quantitative bank credit restrictions which created a system of primary and secondary reserve requirements for Italian banks. Between October 1947 and March

1948, Italian wholesale prices declined by 15 to 20 percent and the cost of living decreased by about 12 percent. This decline in prices, which has recently leveled off, was accompanied by many familiar symptoms of depression. Industrial production decreased in spite of constant or increasing supplies of raw materials and energy, the stock market crashed and important firms went through acute financial difficulties and often avoided bankruptcy only by subsidies from the Treasury. Once the downward movement of prices and production had begun, it was reinforced by liquidation of the large speculative inventories acquired during the inflationary period. It was prolonged by the acute uncertainty and consequent unwillingness to invest which characterized the Italian economy during the months immediately preceding the elections of April 1948.

2. The Current Situation

Because the major issues of domestic economic policy in Italy are all in one way or another related to the volume of investment, it is of the greatest importance to understand the current balance of inflationary and deflationary pressures on the money side of the Italian economy. This question has been the subject of interminable debate in Italy since the election. In Government circles there has perhaps been, generally speaking, an exaggerated fear of a new inflation, while a good part of the business community hopes for precisely such an inflation in the expectation that it will postpone difficult cost-price adjustments and permit large speculative profits to be made without serious risks. Neither business nor Government had developed consistent action to reconcile Italy's crying need for investment and for full utilization of industrial capacity with reasonable financial stability.

Present evidence indicates that the internal financial balance of the Italian economy was mildly deflationary through at least the first 10 months of 1948.⁶ In the first and second quarters of 1948, the general wholesale price index fell by 3.8 and 3.3 percent, respectively. In the third quarter it rose by 12.2 percent, but this was merely a result of the abolition of the Government subsidy on bread and pasta. Subsequent to this adjustment the index fell again by 1.1 percent in October. In the first 10 months of the fiscal year, money supply increased by only 8 billion lire per month,⁷ an increase which was proportionately less than the increase in economic activity.

⁶ More recent data are not adequate to permit this generalization to be extended to the end of the year.

⁷ Including, of course, all means of payment. For the same period of 1947, the average monthly increase was 18 billion lire, accompanied, as noted above, by extensive dishoarding of currency and a sharp increase in velocity of circulation.

Changes in the outstanding volume of purchasing power during the first 4 months of fiscal 1948-49 are summarized in the following table:

TABLE 8.—*Italy: Changes in money supply, principal items: July-October 1948*

[Billions of lire]	
Financing export surplus.....	+ 72
Financing crop collections.....	+ 32
Other credit expansion.....	+ 14
Total.....	+118
Reduction of Treasury advances.....	- 22
Increase of deposits by banking system with Bank of Italy.....	- 33
Local currency deposits (net).....	- 12
Total.....	- 67
Net change.....	+ 51

Source: United States Embassy, Rome.

Although this represents an increase in the rate of expansion of purchasing power over the first half of the year, it does not appear to be out of line with the expansion in economic activity. There is also an important seasonal element during this period, evidenced in part by the crop collections credits shown above. Furthermore, the financing of the Government deficit during this period did not result in an increase of the money supply; on the contrary the Treasury reduced Bank of Italy advances.

The outlook for the whole fiscal year 1948-49, as recently estimated by the Italian Government, is shown in the following table:

TABLE 9.—*Italy: Estimate of capital outlays and resources:*

July 1, 1948 to June 30, 1949

[Billions of lire]	
Outlays:	
Public investment.....	535
Private investment.....	220
Government expenditures (excluding investments).....	1,170
Total.....	1,925
Resources:	
Savings.....	834
Public revenue.....	900
Revenue from sale of interim aid and ERP imports.....	250
Total.....	1,984
Surplus of resources.....	59

Source: Italian Treasury estimates as of Jan. 1, 1949. These estimates supersede similar estimates included in the Italian 4-year program.

NOTE.—Estimated use of local currency fund as follows: For public investments, 155 billion lire; for other government expenditures, 69 billion lire; for private investments, 26 billion lire.

Taken even at their face value, these figures indicate a sizeable surplus of financial resources over outlays during the current fiscal year.⁸ The effect can only be deflationary. In fact, it is probable that the public investment expenditures have been overestimated, if one may judge from the very slow rate at which procedures for the use of the ECA counterpart funds have been established by the Italian Government and from the deflationist psychology prevailing in some circles of the Government. Moreover, it is likely that all actual Government expenditures will be less than estimated because of the present practice of the Italian Treasury of allowing the backlog of deferred payments on current budgetary obligations to increase. Private investments are obviously very difficult to forecast; the above estimate, which is some 100 billion (1948) lire less than the 1947 figure,⁹ seems reasonable but is, if anything, on the high side, since the 1947 figure includes very large inventory accumulations whose recurrence is not anticipated.

In brief, the picture that emerges from an examination of the current situation of the money side of the Italian economy, together with the similar results of the examination of the physical side, indicate that the volume and direction of investment is not now adequate to utilize fully the industrial capacity of the economy. Until sufficient private investment in fixed capital can be developed, it will be necessary for the Italian Government to expand its own investment activities sufficiently to take up the slack in the economy as a whole.

E. EXTERNAL ACCOUNTS

I. Balance of Payments

Background.—The Italian balance of payments was traditionally characterized by a deficit on trade account offset by a surplus on service account principally because of the substantial income from tourism, emigrants' remittances, and shipping. In 1938, for example, the merchandise balance showed a deficit of 159 million dollars, resulting from imports of 582 million dollars and exports of 423 million dollars. The net invisible receipts amounted to 83 million dollars, of which tourism

⁸ It must be noted that the estimated yield of direct taxes in 1948-49 is equal to only 2% of the national income of Italy as compared to 4.8% in 1938-39. This points up the inadequacy of the Italian tax system which relies in the main on indirect taxes as a source of revenue and makes it virtually impossible to rely upon the public tax power as an instrument of fiscal policy. A primary contribution which the Italian Government has agreed to make under the terms of the Foreign Assistance Act and the Bilateral Agreement is the overhaul of its fiscal, budgetary and tax policies. Under this heading is the adoption of sound budget practice and the reform of the tax structure. This requires both a thorough-going legislative overhaul and a vigorous reform of administration in the fiscal agencies of the Government. Of particular importance in this latter connection is the need of the elimination of the widespread tax evasion.

⁹ The most recent Italian Government estimate of net private investment in 1947 is 320 billion (1948) lire. A break-down by categories is shown in appendix D, table III.

accounted for 69 million dollars and emigrants' remittances 38 million dollars. Thus, the total current account deficit in 1938 was 76 million dollars.

Prior to World War I, the income from services was sufficient to offset the commodity trade deficit and provide a small surplus which made possible a gradual repatriation and amortization of Italy's foreign debt, as well as some investment of Italian capital abroad. After World War I, there was a downward trend in Italian receipts from services, with a consequent deficit on aggregate current account. This was offset in the first decade following World War I by substantial capital imports and reparations receipts. But these windfalls came to an end in 1927, after which the current account deficit, in conjunction with repeated flights of capital, resulted in a reduction of the central bank's gold and exchange holdings from 1,184 million dollars in 1927 to 181 million dollars in 1939.

During the first 2 years after liberation, Italy was dependent on Allied financial assistance to finance minimum import requirements. In 1946, Italy had a surplus of imports over exports of 436 million dollars and made various noncommercial payments of about 20 million dollars. Invisible receipts in that year amounted to 74 million dollars, leaving a current account deficit of 582 million dollars. This deficit was more than covered by contributions and loans amounting to 675 million dollars, leaving a surplus in the balance of payments of about 293 million dollars, which resulted in a much needed rebuilding of Italy's foreign exchange reserves, approximately 125 million dollars of which was in sterling and most of the balance in dollars.

At the beginning of 1947, Italy held 367 million dollars in gold and foreign exchange, of which 233 million dollars was in gold and dollars and 135 million dollars in other currencies, chiefly sterling. During 1947, imports and other current payments amounted to an estimated 1.5 billion dollars, of which nearly 60 percent was covered by exports, emigrants' remittances, shipping earnings, and other receipts. The remainder was covered by United States foreign relief funds, the so-called suspense account dollars, partial utilization of Export-Import Bank loans, and a reduction in Italy's foreign exchange holdings by over 200 million dollars.

Balance of payments in 1948-49.—Early in the Summer of 1948 the Italian Government submitted to the OEEC a balance of payments projection for 1948-49. After review by the OEEC, this estimate showed imports in all currencies at 1,402 million dollars (f. o. b. basis),

exports at 849 million dollars and the need for ECA financing at 601 million dollars.

The experience of the first 6 months of the fiscal year now indicates the need for substantial modifications in these projections, with the probability that the need for ECA financing will be reduced to approximately 555 million dollars for the fiscal year. The following table summarizes ECA's present estimates, based on experience during the first half of the 1948-49 period.

TABLE 10.—Italy: Summary balance of payments, 1948-49, ECA Estimate

[Millions of dollars]

	Dollar account ¹			Nondollar account	Grand total
	United States	Other	Total		
Imports.....	499.2	2 191.1	2 690.3	3 636.6	3 1,326.9
Exports.....	85.0	146.4	231.4	718.6	950.0
Merchandise balance.....	-414.2	-44.7	-458.9	+82.0	-376.9
Invisibles (net).....	-76.3	-11.8	-88.1	-60.7	-148.8
Current account balance.....	-490.5	-57.5	-547.0	+21.3	-525.7
Settlements.....					
Capital transactions:					
a. Non-ECA financing.....	4 +50.0		+50.0		
b. Repayments.....	-20.1		-20.1		
c. Other.....	+22.0		+22.0		
Net position.....	-437.6	-56.5	-495.1		
Estimated requirements for United States aid.....			555.5		
Increase of dollar reserves.....			60.4		

¹ Includes all transactions with Western Hemisphere, except 17.0 million dollars Argentine imports financed with a peso loan, and all other dollar transactions.

² Excludes 17 million dollar imports financed with Argentine peso loan.

³ Includes 17 million dollar imports financed with Argentine peso loan.

⁴ Utilization of Export-Import Bank credit.

It is apparent that the original estimates substantially underestimated exports, particularly to nondollar areas, and overestimated imports. The result of these changes and of certain nonrecurring capital transactions, some of which do not appear in the above balance of payments, has been to bring about a considerable increase in dollar holdings during the first half of fiscal 1948-49. These holdings are expected to be drawn on in part during the second half of fiscal 1948-49, in order to finance a rising level of imports.¹⁰

The principal reasons for the rapid expansion of Italian exports are outlined in Section III, below. While this increase is definitely a favorable development, the same cannot be said for the apparent failure of imports, including dollar imports, to come up to the earlier forecasts. This reduction is not evidence of Italian recovery; rather it reflects the reduced level of consumer demand and of industrial activity, and the drawing down of industrial stocks.

¹⁰ Italian gold and dollar reserves are still well below the amount regarded as the minimum necessary for working balances and monetary reserve purposes.

2. Imports

As the following table shows, total Italian imports during the period 1947-49 have been approximately 30 to 35 percent, by volume, above 1938:

TABLE 11.—*Italy: Estimated total imports: 1938, 1947, 1948-49*

[Millions of 1948 dollars, f. o. b. basis]	
1938-----	1,075
1947-----	1,400
1948-----	1,300
1948-49 ¹ -----	1,327

¹ ECA estimate.

The increase above prewar is accounted for primarily by the fact that food imports, and particularly bread grains, have been well above the prewar levels, as a result of reduced domestic production and the increase of population. It should also be recalled that prewar imports of industrial materials were considerably restricted by the autarchic policies of the Fascist Government. In 1948, imports of fuel and industrial materials fell well below the 1947 level under the impact of deflation; but this decline was partially offset by an increase in food imports as world food availabilities increased. As explained further below, a level of imports of 1,300 to 1,350 million dollars is too low to support a level of industrial activity consistent with reasonably full utilization of capacity, a high level of investment, and a reasonable standard of living. Imports for 1949-50 are accordingly projected at 1,444 million dollars. For 1952-53, the Italian long-term program shows imports of 1,774 million dollars.

As for the area pattern of Italian imports, figures for 1948 indicate that the proportion of Italian imports from the dollar area, particularly the United States, is below that for the same period of 1947, though well above 1938.¹¹ As for the United States, the proportion of imports in 1948 was, in volume terms, roughly three times that of 1938. In 1948 the sterling area furnished the same proportion of Italy's imports as in 1947, approximately 11 percent, with Australia and the United Kingdom furnishing about one-fourth each of the sterling area total. It will be noted that, while the United Kingdom supplied 6.4 percent of the total Italian imports in 1938, at present the percentage figure is 2.9. Argentina, during the period under review, has furnished 16.4 percent of Italy's imports as compared with 2.4 percent in the prewar year.

The largest decline in imports compared with prewar is from Germany, which furnished about 28 percent of total imports in 1938 and slightly less than 2 percent in 1948. Thus Germany, Italy's principal

¹¹ See appendix E, table IV.

supplier in 1938, at present ranks ninth among Italy's suppliers; Argentina has risen from sixth place to second place; and Australia is now in third place, although in 1938 the latter country did not figure among Italy's principal suppliers. Brazil, India, and Iran now rank sixth, seventh, and eighth, as compared to negligible prewar positions as suppliers of Italian imports.

3. Exports

General level.—The surprisingly rapid recovery of Italian exports over the last 3 years may be seen from the following indices of export volume, 1946–48:

TABLE 12.—*Italy: Volume of exports, 1946, 1947, 1948 (1st half)*

[1938=100]

	1946	1947	1948 (1st half) ^a
Total exports.....	39	57	^b 78
Industrial raw materials.....	49	48	79
Semifinished products.....	63	60	116
Finished products.....	38	75	86
Foodstuffs.....	25	35	40

^a At an annual rate.

^b Another index prepared by the Italian Central Institute of Statistics puts the volume of total exports for the first 10 months of 1948 at 85 percent of 1938.

Source: Bank of Italy.

For the year 1948, total exports will exceed 900 million dollars compared with \$1,100,000,000 in 1938 (at 1948 prices). Moreover, in 1948 nearly a quarter of Italian exports were directed to the former Italian colonies, which now take a negligible portion of Italian exports. Thus exports to the rest of the world in 1948 will actually exceed by a sizeable margin the total 1938 volume.¹²

The principal reasons for this rapid recovery are: (1) the exchange rate and exchange control policies adopted by the Italian Government in order to provide a strong incentive to exports; (2) the deflation which reduced Italian costs and export prices, and (3) the exploitation by enterprising Italian exporters of favorable though frequently temporary market opportunities which developed during 1947 and 1948.

The correlation between the course of Italian exports over the last 3 years and the various Government measures of decontrol and devaluation is so marked as to suggest a significant causal relationship. Both the initial freeing of a list of export items from license control early in

¹² Italian exports in 1938 other than exports to the colonies, at 1948 prices, were \$850,000,000.

1946 and the institution of the "franco valuta" system²³ gave an impetus to the export boom although it made the evasion of exchange controls more profitable. Further impetus was given by successive devaluations of the lira: institution of the 125 percent bonus in January of 1946; the 50 percent system in March of 1946; the devaluation to 350 lire to the dollar in August of 1947; the institution, in November 1947, of the new flexible exchange rate. The months of February 1946, April 1946, October 1947, and December 1947 each showed substantial increases in exports over the months immediately preceding. The favorable effect on exports of the November 1947 devaluation was strongly reenforced by the decline in domestic prices and demand accompanying the internal deflation which ensued shortly thereafter. Italian exports were also favored by the over-valuation of some other European currencies.

An important part of the growth in export volume over the last 3 years can be traced to temporary markets which arose as a result of changes in prewar trade patterns. The case of raw silk provides an interesting example. In 1946, United States importers, hungry for a commodity which had been excluded during the war, were quite willing to pay Italian exporters 9 dollars a pound for silk. Two million pounds of Italian raw silk, valued at 19,000,000 dollars were imported into the United States during that year. When Japanese silk again came on the market, Italian exports dropped and less than 500,000 pounds of Italian raw silk were imported by the United States in 1947.

There are other examples. Until recent months, caustic soda was in world short supply, with the result that Italian producers were able to export more of the commodity than they can reasonably expect to sell in the near future. The same is true for certain other chemical products. Abnormal world deficiencies have made possible the export of certain Italian mechanical products, such as tractors, trucks, and automobiles, which under more normal conditions might be too high priced for many markets. Even in the field of textiles, Italy's ability to deliver more quickly than other suppliers (e. g., the United Kingdom and France) has gained orders that might otherwise have gone to lower bidders.

Commodity pattern.—The commodity pattern of Italy's postwar exports has changed substantially from prewar. As shown in table

²³ "Franco valuta" imports were those for which no foreign exchange was requested from the Government Exchange Control Office by the importer. Purchases were made with foreign currency accumulated abroad mostly as the result, either of under-invoicing of exports, or of similar past evasions of the exchange control regulations. In fact, "franco valuta" imports were used for the repatriation in the form of commodities of Italian assets held abroad.

12 above, the greatest changes have occurred in the case of foodstuffs, which are running very much below their prewar volume; and in semifinished products, which have not only gained relative to other types of exports, but are already above prewar levels. Exports of industrial raw materials have approximately recovered their relative prewar position, while the relative importance of finished products has somewhat increased.

A comparison of prewar and present levels of exports for individual commodities gives some idea of the causes of these changes. Among food items, cheeses, olive oil, wines, in particular, are below prewar levels; tomato paste, citrus fruits, and potatoes have also lagged. The reasons differ for the various products. In the case of cheeses and olive oil the reduction is mostly due to insufficient production and failure to import sufficient quantities of substitutes for domestic consumption. In the case of citrus fruit and wines, the present austerity import programs of the United Kingdom and Germany are the chief limiting factors, although the Swiss market for bulk wines has also declined. In the case of tomato paste, the difficulty is a combined one: a reduced United States market and United Kingdom import policy. An apparent though probably temporary recovery has taken place in exports of noncitrus fruits and nuts, chiefly as a result of the new Italy-Bizone trade agreement.

The textile field is characterized by a trend away from fabrics to yarn. Exports of wool yarn are twice prewar; cotton yarn, one and three-quarter times. Cotton and wool fabrics, on the other hand, are running at less than one-third of their prewar levels. This shifting emphasis is apparently due to the current exchange-saving policies of Italy's customers.

A remarkable expansion in exports of iron and steel tubes might not be an indication of a permanent trend, but merely a reflection of a temporary world shortage of this item. Similarly, the expansion in zinc and particularly copper exports is probably a reflection of current nonferrous metal shortages and of the reduced level of activity in the Italian machinery and equipment industry and in construction.

The expansion in exports of the capital goods industries is largely made possible by the heavy postwar demand of many countries for equipment. Although present rates of exports of certain items (e. g., automobiles and tractors) may not continue, this industry provides the most promising opportunities for future exports provided present costs can be substantially lowered.

Area pattern.—The country and area pattern of postwar Italian exports also shows marked changes as compared with 1938 in the following table:

TABLE 13.—Italy: Area pattern of Italian exports: 1938, 1947, 1948 (1st half) ¹

	1938	1947	1948 (1st half)
Nonparticipating countries:			
United States.....	9.7	6.3	10.0
Other Western Hemisphere ²	7.1	11.5	12.3
Sterling area ³	7.2	9.8	11.3
Other.....	24.6	26.3	25.3
Total.....	48.6	54.4	58.9
Participating countries:			
Sterling area ⁴	7.3	9.1	5.7
Other ⁵	44.1	38.5	35.4
Total.....	51.4	45.6	41.1

¹ Percentages exclude colonial exports.

² Argentina, Brazil, and Chile only.

³ Egypt, British India, Union of South Africa, and Australia only.

⁴ United Kingdom only.

⁵ Excludes Iceland, Denmark, Ireland, and Portugal.

⁶ Includes Egypt, although this country no longer belonged to sterling bloc in 1948. The inclusion was made to preserve comparability.

Source: *Commercio di Importazione e di Esportazione*, 1938, vol. 1, pp. 633 ff; December 1947, pp. 103-104; June 1948, pp. 103-109.

Before the war, Germany was Italy's chief export outlet, taking (together with Austria, for which separate statistics for 1938 are not available) 19 percent of the total; today it takes only 3 percent (with Austria, about 5 percent). The former colonies have virtually dropped out of the picture. The United States and the United Kingdom have gained slightly over their relative prewar position; Switzerland is now twice as important; and Argentina has about tripled its Italian imports to become Italy's largest customer. India has also become an important customer.

Eastern Europe represents an important outlet for Italy's manufactures and an important nondollar source of fuel, food, and raw materials. Italian exports to eastern Europe are, at the present time, about half of prewar in volume.¹⁴ The greatest drop has been in fruit exports. On a combined basis Yugoslavia, Poland, and Czechoslovakia have virtually recovered their prewar import volume from Italy, while Hungary, Rumania, and Albania are considerably below prewar. Neither the USSR nor Bulgaria were ever significant markets for Italian exports, but it is possible that under the new Soviet-Italian trade agreement Russia may now develop into a market of some importance.

Despite the favorable statistical picture presented by Italian exports over the last 3 years, the outlook for the future is somewhat less reassuring. The causes of the rapid postwar recovery of exports are to some extent of a nonrecurring nature. A continuation of this favorable trend will require a number of serious obstacles to be overcome; these are discussed in section III below.

¹⁴ See appendix E, table VIII.

F. POLITICAL SITUATION

Politically, the present Italian Government is considered to be stable, moderate, and oriented both economically and ideologically toward the West. The Christian Democratic Party of Prime Minister De Gasperi is considerably more powerful than any other in Italy, and its alignment with minor political groups to the right and left of its own central position gives it a broadly representative character.

Opposition to the Government centers around the Italian Communist party to which is allied the Left-wing Socialist Party. The opposition follows the declared policy of the Cominform to wreck the European Recovery Program. Its chief weapon against ERP lies in its control over certain labor unions. The principal labor organization in Italy at present is the Italian General Confederation of Labor (CGIL), which is under Communist and Left-wing Socialist control. As a result, the opposition has been in a position to foment political strikes and create other disturbances which have as their principal objective the slowing down of economic activity and of recovery.

The CGIL was considerably weakened by the withdrawal in July 1948 of a large group of workers under Christian Democratic leadership. The new group formally organized itself into the Free Italian General Federation of Workers (LCGIL), and this organization has generally supported the ERP and followed a policy favorable to the Government. Although it is not so strong as the Communist-dominated CGIL, there are indications that increasing numbers of workers are joining the LCGIL. At the end of 1948, CGIL and LCGIL membership claims were, respectively, 6 million and 1.5 million.

The Communist-dominated unions have been able to gain support for their strikes partly because of the often unfavorable circumstances in which the Italian worker finds himself. Although the Government has been able to check inflation over the last year, prices remain high relative to wages (especially in the white collar and in the skilled workers groups) and, as already noted, there is extensive unemployment, which continues to represent a threat to social and political stability. Nevertheless, it has been possible to establish the new labor organization because of an awakening realization on the part of the workers of the benefits of ERP and of the motivation of the Communist leadership.

Besides outside opposition from the Communists, the Government has problems within its own ranks. The Government party, the Christian Democrats, is a heterogeneous one whose members fall into left, center, and right groups. The Government has further to take into account the opinions of supporting parties, principally the Liberals to the right and the Right-wing Socialists to the left, with the result

that effective action on a number of important problems tends to be delayed by the need for resolving disagreements within the administration parties themselves. As a result, it has been difficult for the Government, especially during the period preceding the 1948 election, to develop and pursue consistent and effective economic recovery policies.

Chapter III. Basic Problems

The principal problems of Italian recovery may conveniently be grouped around several fundamental questions:

A. What investment program is desirable, and, in particular:

(1) How can the Italian Government assure a volume of investment which will be sufficient to ensure reasonably full utilization of industrial capacity and at the same time to avoid serious inflation—i. e., the joint problem of investment and economic stability?

(2) What are the factors and considerations determining the proper direction of investments in the Italian economy?

B. What are the major impediments to the increase in exports necessary to the achievement of self-support and the continuation of industrial growth along the most economic lines?

C. To what extent can Italy count on large scale emigration to alleviate its economic and political problems as it did in the years before World War I?

D. What modifications in the Italian Government's economic administration and policy-making machinery appear to be necessary in order effectively to cope with Italy's major recovery problems?

A. THE PROBLEM OF INVESTMENT

I. Investment and Financial Stability

The immediate solution for the investment-stability problem in Italy requires a more aggressive public investment policy. In the absence of such a policy, it is difficult properly to evaluate the long range outlook because of the very preliminary character of Italian Government forecasts in the field of national accounts, which are indications of lines of thinking rather than articulate economic policies.

According to the Italian long-term program, as submitted to the OEEC, total net investments over the 4-year ERP period would be 3,842 billion lire. More recent estimates from the Italian Treasury raise this figure to 4,281 billion lire, thus reflecting a growing awareness in the Italian Government of the critical importance of a high

level of investment for the achievement of the ERP goals. The new estimates are tabulated below :

TABLE 14.—*Italy: Estimated resources and outlays for investment and Government expenditures*

[In billions of 1948 lire]

	1948-49	1949-50	1950-51	1951-52	Total
Resources:					
Savings.....	834	900	1,008	1,100	3,840
Revenue from taxation.....	900	1,100	1,250	1,400	4,650
Revenue from sale of ERP goods (local currency fund) ¹	250	280	250	220	1,000
	1,984	2,280	2,506	2,720	9,490
Outlays:					
Public investment.....	535	450	390	280	1,655
Private investment.....	220	680	806	920	2,626
Government (noninvestment) expenditures.....	1,170	1,150	1,310	1,520	5,150
	1,925	2,280	2,506	2,720	9,431
Inflationary gap (-) or deflationary surplus (+).....	+59	0	0	0	+69

¹ The Italian Government assumes an approximately constant rate of ECA aid throughout the ERP period. The inclusion in this table of the corresponding figures for local currency accruals does not of course imply ECA endorsement of this assumption.

Source: Italian Treasury estimate, Jan. 1, 1949.

The original Italian Government plans would have implied inactivity for a portion of Italy's productive capacity which, if utilized, could have increased substantially the insufficiently large investment program; the new estimates indicate the intention fully to utilize the capacity of the economy. However, this apparent equilibrium is achieved only by assuming a quite unrealistic increase in the volume of private investment after 1948-49, a considerable increase in governmental noninvestment expenditure, and a large continuing deficit in over-all Government budget. If adjustments are made for these factors, the estimates would indicate a substantial deflationary surplus not only in fiscal 1948-49 but also in the following years of the ERP period.

The initiation of a public investment program large enough to utilize fully the capacity of the Italian economy, inevitably involves some danger of inflation. How much danger can only be determined by trial and error; it cannot be calculated precisely in advance. In the near future, the absence of important physical limitations on an increase in industrial production makes development of strong inflationary pressure unlikely; an increase in money demand can be expected to increase output rapidly as well as to raise the level of imports. In this respect, the present situation is not comparable to that of 1947, when shortages of fuel and other imported materials limited very substantially the physical ability of industrial output to increase. Only as full utilization of existing facilities is approached will the danger of price inflation increase. In that event, it

will probably be necessary to exercise effective and discriminating control of bank credit and thus to prevent a recurrence of the excessive speculative inventory accumulation of 1947. Administrative preparations to reduce the rate of public and private investment expenditures, if prices appear to be rising dangerously, will also be needed. Further, a part of the foreign exchange reserves accumulated during 1948 could be used on an emergency basis to increase imports of food and other consumer goods in order to check inflationary pressures.

It would appear that the Italian Government has little to fear and much to gain from an aggressive public investment program provided it plans carefully and in advance for possible contingencies. Clearly, the continued under-utilization of a considerable part of industrial capacity is inconsistent with the objectives of the recovery program and will not contribute to a solution of Italy's fundamental employment problem.

2. The Direction of Investment in the Italian Economy

In addition to the problem of realizing the maximum volume of investment which is compatible with financial stability, there is the more difficult problem of determining the correct direction of that investment and of allocating investment resources among competing claims. Because of the timidity of private investment in Italy and the need for extensive public works as well as the degree of state ownership of industrial facilities, a large proportion of investment must necessarily be public investment. This was true before the war and is ever truer today. As noted below, this presents the Italian Government with the administrative necessity of preparing and carrying out a national investment budget which will be, not merely the sum of projects which the various agencies happen to have ready to hand, but rather the result of careful analysis of the directions in which Italy's capital plant should be expanded.

With these general considerations in mind, it would appear that the preparation of a national investment budget might appropriately be guided by the following criteria:

- (1) The creation of the maximum volume of employment in the process of capital formation itself;
- (2) The creation of the maximum volume of employment in the continued utilization of the new capital;
- (3) Investments with a high and rapid yield are to be preferred;
- (4) In the industrial field, and particularly in the export industries, international cost comparisons must be closely watched and the cost-reducing aspect of industrial investment will need to be borne in mind. However, in a country like Italy with a large skilled labor force, relatively low real wages and restricted domestic and foreign markets, labor saving investments will not necessarily or even usually result in decreased costs.

(5) Autarchic policies should be avoided. There is a strong tendency in some Italian thinking to consider any investment which reduces imports as economic and desirable. For a country with such a narrow domestic market and limited endowment of natural resources, this seems a counsel of despair. The direction of Italian development is of necessity toward increasing rather than reducing the specialization of Italy's economy and therefore her dependence on foreign trade.¹

With these criteria in mind, it may be useful tentatively to consider some of the major fields of investment in the Italian economy.²

(1) Hydroelectric power: From 1922 to 1935 electric power production increased at the average rate of 9 percent per annum. To meet the increasing requirements of other industries, it is probable that output could appropriately be increased during the ERP period from present levels (22 billion kilowatt hours per annum) to some 28 billion kilowatt hours. Such investment has an immediate advantage in terms of employment since the construction of hydroelectric installations absorbs a large amount of labor.

(2) Housing: Investment in housing would make a significant contribution to the solution of the unemployment problem and would begin to relieve the worse than austere level of Italian living standards. Although neither in the immediate future nor in the long run would such a housing program appreciably add to or improve Italy's productive plant and enhance the viability of the Italian economy, there could be some beneficial effect on labor mobility. Moreover, and of paramount importance, social and political factors, as well as consumption and employment considerations, dictate the high priority of a large housing program which can within a reasonable time meet the most urgent requirements, especially in the low-rent field.

(3) Public works: The lowest ratio of capital investment to employment can be attained in the field of public works such as repair and construction of roads, public health projects and public utilities. These undertakings provide a field of investment which readily utilizes unskilled labor and therefore brings immediate relief to unemployment. However, even where their need is greatest in terms of employment and pressing political considerations, as is the case in southern Italy, investments in public works do not normally improve materially the international competitive position of the economy or provide for a lasting expansion in employment. Nevertheless, a moderate priority is indicated on political grounds for this type of investment.

(4) Industry: In considering the industries to which primary

¹ One consideration will perhaps be sufficient to demonstrate why this is so. As per capita income rises so will the effective demand for food. Because good land is so limited in Italy, this will mean a rising import demand for food which will create the necessity and the incentive for increased industrial production for export.

² A preliminary discussion of the 4-year investment estimates of the Italian long-range program is contained in sec. IV below.

attention might be directed, it is clear that those which will provide the greatest increase in the utilization of manpower after the investment is completed are those which call for the greatest emphasis. In addition, in view of Italy's wealth of manpower and relative poverty of raw material resources, it is evident that the development of those industries in which the ratio of labor input to raw materials input would be high also deserves a priority. In some of these industries Italy's cost advantage in international trade can be expected to continue. On both counts, therefore, the textile and machinery and equipment industries should play a major role in the development of the Italian economy. Each of these industries already gives direct employment to over 600,000 workers and is characterized by a relatively high proportion of earnings of skilled manpower compared with raw material costs.

The major impediment to a continued expansion of employment in the textile industry is the tendency in many foreign markets to restrict imports of consumer goods and to protect the domestic textile industry. Specialization might overcome some of these difficulties. In the field of synthetic fibers, for example, Italy might perhaps decide to continue producing more high quality rayon, instead of persisting in the autarchic and uneconomic policy of seeking to replace cotton with filament yarn.

The machinery and equipment industry, with a capacity which is 50 percent greater than prewar (when one-fourth of the total output consisted of material and equipment for the Italian armed forces), poses a number of basic problems which can be grouped under the headings of (a) present high production costs; and (b) the problem of entry into foreign markets.

Present high costs in the Italian mechanical and engineering industries result primarily from low utilization of capacity and from a number of serious structural maladjustments inherited from the war and the prewar economic policy. The problem is one of reorganization, rationalization, and full employment of capacity rather than of extensive labor-saving investment which is in some cases uneconomic under Italian conditions. In Italy at present competition cannot be counted on to accomplish this result, as the domestic market is small and the Italian Government, through the IRI organizations, owns outright or has control over a very large part of this industry.³

The reorganization of the machinery and equipment industry seems required by a number of circumstances. The prewar capacity, which in 1938 was utilized only to the extent of 80 percent, has now been in-

³ IRI (Institute for Industrial Reconstruction), a public holding company dating from prewar, has direct ownership control over roughly one-third of the entire mechanical industry and exercises indirect influence through share participations of varying degrees in almost all other sectors of machinery and equipment production.

creased by at least 50 percent as a result of wartime expansion. A considerable part of the new capacity consists now of plants hastily or inadequately converted from military production and is, therefore, highly inefficient. Other branches suffer from bad plant location, disproportionate development of some processes or branches as compared with others, excess capacity in some lines, and so on. Hence the immediate need for reorganization, concentration, reduction of capacity in certain sectors and modernization in others. Shipbuilding, farm machinery, precision tools, miscellaneous industrial equipment and electrical appliances are among the sectors where reorganization (including a limited amount of net investment) is likely to yield the best and most immediate results. Somewhat later, these industries should provide the opportunity for greatly expanded capacity and employment when domestic demand for mechanical products has improved and when lowered costs made possible by adequate reorganization and greater cooperation among the participating countries have opened up larger foreign markets.

A limited amount of increased employment can be expected from the reorganization of the food processing industry, which could increase the efficiency of its operations and reduce excess capacity by the elimination of marginal plants.

Some expansion in capacity might be forecast for the chemical industry both to keep up with the general industrial development of the country and to maintain and expand postwar markets. In the field of fertilizers, caustic soda, plastics, dyestuffs, etc., production expansion is perhaps most clearly indicated.

A quantitative rather than a qualitative problem arises in connection with the petroleum refineries. Italy has already reached a level of capacity greater than in prewar years, and there is undoubtedly room for some further expansion which would cover domestic needs for specified products while leaving small exportable surpluses of gasoline, kerosene, diesel oil, etc. But the low ratio of manpower absorbed to capital invested argues against further rapid expansion, as do also the extensive development plans for refining facilities and exports envisaged by other participating countries. The rationalized expansion of refining capacity throughout western Europe is a problem which merits the early attention of the OEEC.⁴

The purpose of the foregoing discussion has been to show the complexity of the problem of directing industrial investment in Italy. The difficulties faced by the Italian Government in this field are greatly increased by certain institutional features of Italian industry, which are both a sad inheritance from the past and a hindrance to a better future. During the 1920's and 1930's, Italian industry grew under the haphaz-

⁴ The problem of investment in the iron and steel industry is discussed briefly in chapter IV, below.

ard direction of the Fascist State without the healthy selection imposed by competition. Autarchic Fascist policies prevented foreign competition and the small size of the domestic market tended to make much of industry highly monopolistic. Heavy industries, such as the armament industry and shipbuilding, grew rapidly and uneconomically during World War I and were protected during the inter-war years from competition which might have stimulated needed reorganization and rationalization. In its search for self-sufficiency, Fascism developed a number of new industries, which could not have survived in a competitive economy. Perhaps the best examples lie in the field of mining in which the uneconomic production of copper, tin and other nonferrous metals was encouraged; other examples are to be found in the development of such products as casein and wool.

A second feature of the Italian economy is the degree of State participation in many key sectors, either through direct ownership of certain industries or through parastatal holding companies (IRI, etc.). State control of certain basic service industries, such as the major railroads and telegraphs, dates back to the nineteenth century. But in the period between the two world wars, the participation of the state in industrial activities was greatly expanded both to support industries which for one reason or another found themselves in financial difficulties and to foster new investments in fields dictated by the autarchic program of Italian Fascism. Today the state is in a position, directly or indirectly, to control the bulk of the rail transport facilities and a sizable share of road transport, passenger shipping, and other service industries such as radio and telephones. The State controls 23 percent of the national power output, virtually all of the output of hard coal, two-thirds of the iron ore and mercury production and an important share of the production of other nonferrous metals. All of Italy's blast furnaces and about half of the steel-mill capacity are controlled by the Government. In the machinery and equipment industry, State-controlled plants comprise one-third of the productive capacity for airplane and Diesel engines and for electric machinery. On the whole, state-controlled mechanical and engineering industries employ 100,000 workers and comprise one-third of the output of medium and large plants in this field. Over 70 percent of private savings institutions are controlled by the State either directly or through State-controlled institutions.

The term "state control" used in connection with Italian industry must not be understood in the sense of "nationalized industry." For a very large part of such enterprises, the Italian Government merely provides a certain amount of financial backing and risk-taking while participating passively or scarcely at all in managerial decisions. In a large number of such enterprises little effort is being made by the Government to achieve greater efficiency through modernization and reor-

ganization. Quasi-nationalized industries are not used as pace-setters for privately owned establishments in the same field. The state-controlled enterprises are by no means used as tools of governmental economic policy but now serve rather to aggravate the rigidities which plague the Italian economy; in some cases marginal production units which would have disappeared in a normal competitive situation continue to exist because of financial support from the Italian state. Lacking the incentive of private enterprise and free competition, for which the present passive managerial role of the state provides no substitute, certain segments of these state-controlled industries have ceased to develop or now improve at only a snail's pace.

The overcoming of these institutional impediments would seem to require vigorous Government action through new or existing state machinery, coordinated through an adequate governmental planning mechanism. For example, a reduction in the prices of farm machinery, and especially of tractors, could be effected by rationalizing, improving and expanding the existing plants. Likewise state-controlled facilities might be used to produce low-cost nitrogenous fertilizer with a view to stimulating fertilizer consumption and fostering agricultural production. The granting of future credits to individual engineering plants might be designed not to support marginal or uneconomic enterprises but to foster rationalization and reorganization.

B. EXPORT MARKETS

The extent of the dependence of Italian recovery on an expansion of exports has already been noted. To achieve viability by 1952-53, Italy will have to reach an export level of close to 1.5 billion (1948) dollars. This represents an increase over current levels of more than 50 percent, or an average improvement of approximately 13 percent per annum during the ERP period. Compared with the rate of increase achieved from 1946 to 1948, this may not seem ambitious, but market conditions are likely to be increasingly less favorable to the achievement of this goal. This target is about one-third greater in volume than exports in 1938, including exports to the former colonies. If the latter are excluded, the target is 176 percent of 1938 volume.

Some of the immediate obstacles to the expansion of major pre-war exports, particularly foodstuffs and textile fabrics, have been indicated above. The general problem of export markets may also be viewed more broadly: (a) can Italy meet price competition in those markets which are now open to its products, and (b) to what extent will potential markets be open to Italian exports?

In the short run, Italian export industries, particularly textiles and machinery and equipment, have high costs primarily because of the under-utilization of plant and because the prices of some of

their materials are frequently established in noncompetitive domestic markets. Specific institutional rigidities of the types already analyzed are also important, particularly in the machinery and equipment field. The uneconomic turn-over tax and the surplus workers on industrial pay rolls are also factors which maintain some costs at high levels. These are all difficulties which can in the main be remedied by the Italians themselves. An expansion of domestic demand and fuller utilization of facilities would take care of a large part of them. Vigorous Government action to guide investment in the capital goods sector, as outlined above, also appears essential. Progress in fiscal reform will permit modification or abolition of the turn-over tax. Provided the proper steps are taken, there is no reason why Italian industry, with its skilled industrial labor force and relatively low real wages, cannot compete successfully in any foreign market in those lines of activity where the ratio of labor costs to the cost of raw materials and fixed plant is high.⁵

Far more difficult and doubtful is the answer to the second question: Can potential foreign markets be developed which will be large enough to absorb an expanding volume of Italian agricultural and industrial exports? A serious question is here raised by the austerity policies of certain participating countries, and by their own development plans which threaten permanently to close a large potential market for Italian textiles and mechanical products. There are also the special problems of reviving trade with Germany and with eastern Europe. In the case of western Germany, the principal question is how many years it will take that country to reach a level of per capita income which will permit heavy imports of Italian agricultural specialties. Some idea of the importance of this question for Italian recovery is indicated by the fact that Italy's exports to Germany in 1938 were at an annual rate of at least 150 million (1948) dollars higher than the current rate.

As for eastern Europe, the current volume of Italian exports to that area is only about half the prewar level. Whether this natural market for Italian exports, particularly for machinery and equipment, can be expanded above prewar levels depends primarily upon political factors and upon eastern Europe's willingness and ability to expand exports of the basic products Italy needs, particularly grain, coal, and lumber.

The rapid expansion of Italy's overseas exports to date (facilitated by the tariff reductions negotiated in 1948 in Geneva) has tended to hide the difficulties of continued expansion in the future, and particularly the problems created by lagging exports to European markets. As the production of other countries increases and competition in

⁵ Italy's important economic advantages for invisible exports—shipping and tourism—should also be remembered.

overseas markets becomes more keen, the further expansion of Italian exports to overseas markets is likely to encounter increasing difficulties.⁶ At that time the seriousness of the impediments to Italian exports to other European countries will become visible in correct perspective as the critical limitation on Italian industrial growth and on the achievement of self-support.

C. EMIGRATION

Before World War I, Italy's growing population found an outlet in permanent overseas emigration and in temporary migration for seasonal work in northern and western Europe. Between the wars, emigration was curtailed both by foreign immigration quotas and by the Fascist Government, and unemployment in Italy grew despite Fascist programs of industrialization and colonization and maintenance of a large army and navy. The outlook for emigration is somewhat better at the present moment than at any time since World War I, owing largely to the willingness of some countries to admit more Italian immigrants. There are, however, two principal obstacles to the realization of large-scale emigration. Many of the countries, which have resources waiting to be developed and are willing to admit substantial numbers of Italians, lack the capital necessary to carry through such development. Further, neither the Italian Government nor most of the overseas countries of destination now have sufficient shipping space available for emigrants.

The seasonal employment of Italians by other participating countries helps the Italian economy temporarily but does not make so effective a contribution to the solution of the overpopulation problem. The largest importer of Italian labor in 1947 was Switzerland, which took 118,000, almost all temporary emigrants. In 1947, other large migrations of Italians in Europe were: 38,000 to Belgium, mostly miners; 36,000 to France, for agriculture, building, mining, and metallurgical work. France, however, would be a good outlet for permanent settlement for farmers, miners, and industrial workers, but large scale permanent migration to France cannot be expected during the recovery period unless present French thinking on this subject is considerably modified. This appears to be a subject for consideration by the OEEC.

The largest present and potential destination for Italian emigrants is South America. In 1946, Argentina inaugurated a 5-year plan for the encouragement of immigration, calling for the admission of at least 50,000 immigrants yearly. In 1947, Italian emigration to

⁶ Even if next spring tariff reductions are obtained by the Italian Government at the multilateral negotiations which will take place at Annecy, France, in connection with the adherence of Italy and twelve other countries to the General Agreement on Tariffs and Trade.

Argentina totaled 25,000. In January 1948, Italy and Argentina agreed that 100,000 Italians would emigrate to Argentina in that year. Some of those who migrated to Argentina were reported to have been unable to locate suitable work there and to have requested repatriation. Late in 1948 Argentina specified a quota permitting the entry of 61,000 Italian immigrants during the first 9 months of 1949.

Venezuela, with a 10-year program intended to double the country's present population of 3.85 million, has sent commissions to recruit settlers in Italy, France, and Germany (DP's). Italy is attempting to reach an agreement with Brazil on a program which may involve as many as 41,000 Italians annually. Other Latin American countries which have manifested interest in receiving Italian emigrants are Peru, Mexico, and Uruguay.

On the basis of existing agreements, Italian Government sources estimate the overseas emigration possibilities for calendar 1949 at 210,000. It appears at the present time that there will be a deficiency in shipping space for at least 40,000 persons. If passage could be obtained for these, the total emigration would be not far short of the year's natural additions to the population of working age. While these estimates are probably optimistic, they do indicate the possibility that with energy and coordinated action on the part of the Italian Government, and with outside assistance, particularly in the form of ocean shipping, large scale emigration of Italians may be feasible during the ERP period.

To facilitate emigration the following lines of action should be investigated:

- (1) Loans to receiving countries in Latin America and other under-developed areas might be made in order to develop large areas suitable for settlement by Italian immigrants. Such loans could appropriately be related to specific immigration programs.

- (2) Funds from the Italian lira counterpart or the technical assistance fund could be used to supplement the Italian Government's efforts at large scale labor training. Most countries wanting Italian immigrants prefer or insist upon trained workers. An effective labor training program is vital both for the internal development of Italy and for a successful emigration program. The program might well be carried out in cooperation with the International Labor Organization, which has a labor training program of its own.

- (3) Additional ships will be required if anything like the number of emigrants to overseas countries now contemplated is to reach their destination. As mentioned above, shipping space is now lacking for some 40,000 expected emigrants to South America in calendar 1949. If agreement is reached with Brazil, the shortage will be even more pronounced since Brazil has no ships for the purpose.

(4) The present United States immigration quota for Italy is only 5,800 annually. During the war much of the Italian quota was not used. Recently a bill was introduced into Congress proposing that the unused wartime quota be made available to Italy now.

D. ECONOMIC POLICY AND ADMINISTRATION

Finally, a major impediment to Italian recovery and to the achievement of the goals of the ERP in Italy is the absence of effective means for formulating over-all national economic plans and policies for the country and for ensuring that these are carried out. While this weakness is understandable in terms of the difficulties of reconstituting the governmental machinery after the war, its continuation threatens progress toward Italian recovery.

The key areas of Italian economic policy in which coordinated planning⁷ and execution appear essential are:

(1) The preparation of a national investment budget (as part of a national economic budget)⁸ and its implementation by the operating ministries and parastatal organizations, and by the banking system.

(2) The determination of standards for the administration of credit controls and specific controls over private investments.

(3) The programming of imports and coordination of all import licensing and exchange control policy.

The organization of the administrative machinery needed for recovery planning is a matter for the Italian Government to determine. A cursory examination of the existing machinery, although it reveals some progress in the last few months, demonstrates basic weaknesses, particularly the absence of governmental machinery for long-range planning of economic development. Equally, the existing machinery for carrying out such plans and programs requires strengthening. Various aspects of this situation are touched on at other points in this study. One more point may, perhaps, be stressed here: the need for an improvement in the statistical services of the Italian Government and for a far greater degree of cooperation from business organizations in

⁷ Economic planning as applied in a democratic, constitutional state, means no more than the coordinated administration of a relatively few key economic controls, primarily in the field of government finance, bank credit and foreign trade in accordance with a generalized set of production and trade targets and a relatively more detailed national investment budget. Experience in other countries suggests that economic planning necessitates administrative machinery which satisfies three requirements: (1) It should be independent of the principal operating ministries; (2) it needs a professional and technical staff of the highest calibre; and (3) it requires effective authority vis-a-vis the operating ministries in order to be able effectively to coordinate the latter's activities and to ensure that approved and consistent economic policies are followed by all concerned.

⁸ Such as that prepared semiannually by the President's Council of Economic Advisors in the United States or the Commission du Bilan of the French Government's Planning Staff.

supplying up-to-date and accurate data on production, inventories, etc. It is clearly the responsibility and the prerogative of the Italian Government to determine whether changes are needed and, if so, to work out the administrative organization necessary for making the most effective use of ERP aid. The ECA can indicate, as has been done here, the problems which exist, but it does not presume to determine the manner in which they might be solved.

Chapter IV. The Italian Long-Term Program

The long-term program presented by the Italian Government to the OEEC¹ is a very tentative expression of views rather than a firm program of goals and of the means to achieve them. It consists chiefly of two types of materials which have not as yet been integrated into a working plan: (1) The results of certain private studies containing statistical projections of the possible lines of Italy's future economic development; and (2) a series of investment plans formulated by the various economic ministries. As such, the Italian Government's memorandum provides some excellent basic material and considerable preliminary thinking, but it should not, in its present form, be considered an action program. Conspicuously absent is any treatment of the administrative means to achieve the targets. The following discussion should be read with these reservations in mind.

A. TARGETS OF THE PROGRAM

The Italian memorandum includes targets for employment, national income, industrial production, agricultural production, and external accounts.

(1) The most critical of these targets is an increase in nonagricultural employment by approximately 1,200,000 during the 4 years of the program. A very rough estimate of the projected changes in Italian employment over the 4 years of the program is shown in table 15 below.

TABLE 15.—*Italy: Contemplated changes in labor force: 1948-49, 1951-52*

[In thousands]	
Labor force:	
Present unemployment.....	¹ 1,482
New labor seeking employment.....	² 640
Total.....	2,122

¹ Figure for October 1948.

² Actual increase in population of working age during the period is estimated at 1,000,000 (250,000 per annum); it is assumed that 64 percent will seek employment. This ratio is based on data of the latest (1936) census. See P. Saraceno, *op. cit.*, p. 87.

³ Italian memorandum on the long-term program, Rome, September 30, 1948.

New employment:

Agriculture	-----	
Industry and handicrafts	-----	500
Public works and construction	-----	300
Other ²	-----	400
		<hr/>
Total	-----	1,200
Emigration of job seekers (net)	-----	⁴ 500
Remaining unemployed at end of program	-----	422

² Trade, Transportation, public administration, and other services.

⁴ This figure refers only to emigration of those who would otherwise seek employment. In practice, total emigration would have to be considerably larger in order to effect this rate of reduction in the number of job seekers.

Source: Unemployment figure from appendix B, table III; other figures from P. Saraceno, *Elements of an Economic Plan, 1949-52* (Rome, September 1948) pp. 186 ff.

A projected increase in non-agricultural employment of 300,000 a year seems optimistic when compared with the prewar annual average of only 50,000.² But there is now substantial unutilized capacity in industry, and employment in construction and capital goods industries in September 1948 was some 800,000 below the 1936 level. The projected increase of 400,000 in employment in trade, transport and public administration, however, seems rather high in view of the fact that these categories are already well above prewar levels.³

After the unutilized capacity which can be economically operated is fully employed, however, it is unlikely that this rate of growth of employment can be continued; unless the rate of industrialization can be increased above prewar, unemployment will continue to grow. On the basis of the data available, it might be estimated that unemployment after 1952-53 would grow at an annual rate of roughly 100,000, assuming no emigration.⁴ If this should be the case, the Italian economy may still be in difficulties at the end of the European Recovery Program, as a result of the need for diverting a very large and increasing part of total investment to nonproductive forms of work relief. This would continue until the principal obstacles to an increased rate of industrialization—particularly lack of business confidence and the limited entry into foreign markets—have been substantially modified.

The Italian memorandum not only assumes a high-rate of emigration during the 4 years of the program; it also seems to imply that the viability of the Italian economy in the longer run depends upon a continuation of mass emigration.

(2) Net national product, according to the Italian memorandum, is to increase to 117-118 percent of 1938 (143 percent of 1947) in 1952-53. On a per capita basis, however, the corresponding figures are

² See table 15 above.

³ See table 2, above.

⁴ This figure is approximately the difference between the prewar rate of growth of non-agricultural employment (50,000 per year) and the annual increment in the number of persons seeking employment. (160,000 per year; see table 14 above.)

only 107 percent. Per capita availability for consumption in 1952-53 is projected at only 103 percent of 1938 and 125 percent of 1947. These per capita figures appear modest; they illustrate once again the pressure of the growing population on the limited productive capacity of the Italian economy.

(3) Industrial production (including energy) is to increase approximately 140 percent of 1938. Since, however, existing capacity is very roughly estimated at 120-130 percent of 1938 capacity, this target is not so difficult to achieve as it seems.

(4) Agricultural production is projected at 115 percent of 1934-38, or 105 percent of a good prewar year (1938), or 130 percent of the average of 1947 and 1948.⁵

(5) The volume of exports in 1952-53 is projected at 136 percent⁶ and the volume of imports at 165 percent of 1938.

B. THE INVESTMENT PROGRAM

Because of the very tentative nature of these generalized targets, more importance should at this time be attached to the 4-year investment program which is given in somewhat greater detail in the original Italian long-term program.

TABLE 16.—Italy: Four-year investment program: 1948-49 through 1951-52, compared with structure of investments in 1938¹

[Millions of 1948 dollars]

Industry.....	1948-49 through 1951-52		1938 ²
	2,008	Percent 29	Percent 27
Manufacturing and mining ³	992	14	(9)
Petroleum refining ³	150	2	(6)
Electric power ⁴	538	8	(4)
Industrial stocks.....	338	5	(9)
Building.....	1,190	18	19
Agriculture.....	1,160	17	11
Public works.....	840	13	19
Transport and commerce.....	770	11	14
Shipping.....	418	6	5
Other.....	372	6	5
Total.....	6,758	100	100

¹ Net investments.

² It is not clear whether or not these figures include investments in the former Italian colonies.

³ Fixed investments.

⁴ Not available.

Source: Italian long-term program.

The total figure of 6.76 billion dollars⁷ (1948), as given in the Long-term Program, is equivalent to the high rate of 15 percent of net avail-

⁵ It is not clear how these percentages are arrived at. Presumably they measure the total gross value of agricultural output valued at constant prices.

⁶ If colonial exports are excluded from the 1938 total, this figure becomes 176 percent.

⁷ As noted in table 14 above, the total has now been raised to 7.5 billion (1948) dollars (4,281 billion 1948 lire @ 575 lire = \$1).

abilities over the 4-year period. Though high, this does not seem, in the light of prewar experience and the present and prospective distribution of income in Italy, to be an unrealizable rate of investment.

More difficult is the question whether the Italian Government can develop the administrative means to guide investments, both public and private, in conformity with the program. A glance at table 16 above in comparison with table 4, above, will indicate the great need for coordinated Government action in this field. In particular, that part (20 percent) of the housing investments which is left to private initiative and the investments in new industrial plant (assumed to be 100 percent privately financed) are most unlikely to materialize or to follow the desired directions unless the Government watches them fairly closely and supplies funds and initiative where these are not forthcoming from private sources. In view of the prevailing condition of business psychology in Italy, this is a most important reservation, particularly as it relates to new industrial plant and equipment.

In addition, the structure of the investment program illustrates once again the great difficulties of framing a program which satisfies the political and social need for large-scale relief of unemployment, while at the same time increasing the productive capacity of industry in the face of limited domestic and foreign markets.

Within the industrial sector, the projected investments are shown in table 17 below. For purposes of comparison, there are shown

TABLE 17.—Italy: Industrial fixed investment program, 1948-49, 1951-52

	Investments, 1948-49 to 1951-52 ¹	Increase in employ- ment pre- war to 1952-53 ²	Production target index, 1952-53 (1938=100)	Fixed capital ³ per em- ployee in 1939
Manufacturing and mining:				
Machinery and equipment.....	233	125	150	1, 880
Metallurgical.....	252	1	130	4, 750
Textile.....	226	47	125	1, 090
Food processing.....	38	22	108	1, 860
Chemical.....	67	28	140	(⁴)
Extractive.....	37	20	125	3, 410
Construction materials.....	20	40	163	2, 040
Other.....	109	75	120-30	4, 590
Total.....	982	354	n. a.	4 2, 230
Other.				
Petroleum refining.....	170	n. a.	375	(⁵)
Electric power.....	518	n. a.	200	n. a.
Total.....	688		n. a.	
Total industry.....	1, 670		140	

¹ In millions of 1948 dollars

² In thousands. "Pre-war" is the industrial census date: usually 1936 or 1937, depending upon the industry. These figures cannot be compared directly with table 2 of this text or with appendix B, table III, because the latter include handicrafts.

³ In 1948 dollars.

⁴ Includes petroleum refining; see footnote 5.

⁵ The combined figure for chemicals and petroleum refining is \$6,750 per employee. This figure is presumably heavily weighted by the capital-intensive refining industry.

Sources: Investment program and production targets from Italian memorandum on the long-term program. Other data derived from P. Saraceno, op. cit.

in parallel columns for each industrial sector: (1) The target index of production for 1952-53, (2) rough projections of the *increase* in industrial employment in 1952-53 as compared with prewar, and (3) the estimated fixed capital per employee in 1939.

While no firm conclusions can be drawn from these data, some of which are of doubtful reliability, a study of the table raises a number of questions which illustrate concretely the critical importance of foreign markets to Italian industrial development and the great difficulty of framing an industrial investment program for Italy under the present conditions of foreign trade.

(1) Can the investment in the steel industry be justified at the proposed level (199 million dollars of the 252 billion dollars for metallurgy)? Though it makes virtually no contribution to the employment problem, it absorbs almost 12 percent of total industrial (fixed) investment in the program. During the war, most of Italy's blast furnaces were destroyed and several of her best steel mills removed. The problem is what direction the reconstruction of this industry should take. The principal issues are: whether an Italian steel industry can market finished steel in the Italian industrial centers at prices competitive with those of imported steel from Germany, France and Belgium; and whether the size of the investment can be justified if it makes so little contribution to employment. In any event, the various Italian plans for the steel industry, and particularly the idea that the Italian machinery-and-equipment industry must depend on greatly increased domestic steel output, will need to be carefully reviewed by the OEEC, in the light of the plans and programs of other participating countries.

(2) Although no sizable increases above present levels of capacity or employment in the textile industry are planned,⁸ a large share of industrial investments (13.5 percent) are scheduled for the textile industry. Apparently this investment is mainly of a cost-saving or modernization character. The question may be raised to what extent this is required to make export costs competitive and to what extent these investible resources might better be used to expand capacity and employment in this or other industries. Here, as so often in this analysis of the Italian economy, the question hinges on the uncertain outlook for foreign demand.

(3) A similar question may be asked concerning a part of the planned investments in the machinery and equipment industry. Capacity was expanded greatly between 1938 and 1943 and is today considerably above 1938, though, as already noted, a good part of it is poorly adjusted to postwar demand. The requirements for reconversion and modernization investments are considerable. However, it

⁸ Italian Long-term Program Memorandum, p. 71.

would seem that the proposed structure of production for this industry should be carefully reviewed in order to determine whether, within the limits of foreseeable foreign and domestic demand for capital goods, more investment could not be used for expansion of capacity rather than to increase output per man. The low ratio of capital to labor and the possibly substantial expansion of export demand makes this industry the most promising from the viewpoint of productive employment.

(4) The program for the petroleum refineries also raises certain doubts. Because the capital-labor ratio is very high, the proposed expansion provides little employment. Moreover, the program counts on a greatly expanded export demand—a doubtful assumption, in view of the refining programs of other participating countries. This issue requires the early attention of the OEEC.

C. THE AGRICULTURAL PROGRAM

The principal agricultural targets shown in the Italian memorandum are summarized in the table below. With the exception of that for wheat, they represent statistical projections. The wheat target, however, assumes specific government implementation by means of price policy, etc. While United States Government agencies do not entirely agree with the Italian Government's estimates of production in 1947 and 1948, the following table is presented to show the development envisaged by the Italian Government.

TABLE 18.—*Italy: Principal agricultural production targets for 1952-53*

	As percent of prewar average	As percent of 1947-48 average
Wheat.....	104	139
Vegetable edible oils.....	111	119
Bacon and lard.....	117	146
Butter.....	114	129
Meat.....	107	147
Milk for human consumption.....	135	138

D. EXTERNAL ACCOUNTS

The Italian Government's plans for closing the present gap in Italy's balance of payments by 1952-53 are summarized in the tables below. It will be noted that, owing to the great dependence of the economy on imported fuel, industrial materials and food, the requirements for which tend to increase at least as fast as the increase in production and per capita income, the attainment of self-support by Italy during the ERP period depends on increasing both imports and exports, the latter more rapidly than the former. Thus Italy's achieve-

ment of self-support depends even more obviously than that of some other participating countries on the opening up of export markets, particularly in Western Europe.

As table 19 below indicates, the Italian memorandum projects total exports in 1952-53 at 176 percent of the 1938 volume. The memorandum is not optimistic regarding the possibility of expanding exports to other participants and sets the export target to this area at only 126 percent of 1938. Conversely, exports to the Western Hemisphere and the nonparticipating sterling area are projected at the exceedingly ambitious level of 258 percent of the 1938 volume. This projected area pattern of exports for 1952-53 reflects anticipated difficulties in increasing exports to other participating countries and to Eastern Europe—difficulties already reflected in the 1948 area pattern of exports.⁹

TABLE 19.—Italy: Area pattern of exports: 1938, 1948, 1952-53

[Millions of 1948 dollars]

	1938	1948 ¹	1952-53		1938	1948 ¹	1952-53
Nonparticipating:				Participating:			
North and Central America.....	93.7	105.2	149.5	Sterling.....	72.3	95.8	231.8
South America.....	77.8	155.3	240.0	Other.....	433.8	336.2	408.6
Sterling.....	23.8	127.4	116.7	Total.....	847.1	940.3	1,489.1
Other.....	143.7	120.4	251.9				

¹ 9 months at annual rate.

Sources: Figures for 1938 and 1952-53 from Italian long-term program. Figures for 1938 corrected by elimination of exports to former colonies. 1948 figures from *Statistica del Commercio con L'Estero*.

The area pattern of Italian imports in 1952-53, as compared with 1938 and 1948, is summarized in the following table:

TABLE 20.—Italy: Area pattern of imports, 1938, 1948, 1952-53

	1938 ¹	1948 ²	1952-53 ¹		1938 ¹	1948 ²	1952-53 ¹
Nonparticipating:				Participating:			
North and Central America.....	148.0	555.2	274.7	Sterling.....	81.0	56.5	192.5
South America.....	51.0	311.3	320.0	Other.....	543.0	232.4	556.4
Sterling.....	65.0	141.1	179.8	Total.....	1,075.0	1,500.4	1,773.7
Other.....	187.0	173.0	244.3				

¹ F. o. b. basis.

² C. i. f. basis. 9 months at annual rate.

³ On an f. o. b. basis this figure is very approximately 1,300 million dollars.

Source: *Statistica del Commercio con L'Estero*, August-September 1948.

In sum, the Italian memorandum contains the first draft of a four-year economic program which, if successfully implemented, would create 1,200,000 new jobs, primarily by bringing into use capacity now

⁹ As table 19 shows, exports to other participating countries (OPC) in 1948 were roughly 85 percent by volume of 1938, although total exports were 111 percent of 1938. As previously noted, 1948 exports to Eastern Europe were about 50 percent by volume of 1938.

idle. It would raise Italian living standards only very moderately. Its success depends on vigorous and coordinated action by the Italian Government, particularly in the field of investment, and on a coordination of the industrial investment program with those of other participating countries. Once the existing capacity which can be economically operated is reasonably fully utilized, Italy's problem is to accelerate the pace of industrialization to the point where, with some assistance from emigration, the growth of employment can keep up with the growth of the labor force. This depends critically on an opening up of export markets, particularly in Europe, to Italian products.

Chapter V. Justification of ECA Aid for 1949-50

The Italian Government has submitted to the OEEC and the ECA a program for 1949-50 which calls for 610 million dollars of ERP aid. A careful review of the Italian request shows that the targets of the 1949-50 program can probably be reached with aid of about 555 million dollars.¹

A. TARGETS OF THE 1949-50 PROGRAM

1. Industrial Production

As already pointed out, Italian industrial activity appears to have passed a turning point in the last months of 1948 and now shows a fairly clear upward trend. ECA's program for 1949-50 is designed to make it possible for that upward trend to continue; it is hoped that a target for industrial activity of 15-20 percent above the last months of 1948²—approximately the 1938 level—can be reached in 1949-50. This target is well within the physical means of the Italian economy; its achievement is essential to attainment of the goals of the long-term program on schedule. It rests on the assumption that the Italian Government will push ahead aggressively with an investment program.

2. Agricultural Production

The Italian program for 1949-50 calls for a general level of agricultural production equal to approximately 92 (1938=100). This compares with 80 in 1947, 87 in 1948-49, and a target of 105 in the long-term program. As 1938 was a relatively good crop year, the target for 1949-50 is slightly higher than the average level of agricultural output for the four years 1934-38. It must be remembered, however, that the population of Italy is now some 7.5 percent above 1938.

Bread-grain production for 1949-50 is estimated by the Office of Foreign Agricultural Relations of the United States Department of Agriculture at 7.130 million metric tons, as compared with 6.925 mil-

¹ A discussion of progress under the 1948-49 program is included in chapter II, above.

² This figure refers to the whole industrial economy, including electric power and those manufacturing industries not covered by the index of activity in manufacturing and mining computed for this study.

lion in 1948-49. Most of the increase over 1948-49, it is expected, will result from higher yields rather than from increased acreage. Bread-grain imports of 2.380 million metric tons are forecast for 1949-50 by the ECA as compared with 2.5 million in 1948-49. With an increased population and relatively inelastic domestic wheat production, Italy cannot hope during the period of ERP to reduce its dependence on imported cereals very much below present levels, certainly not to the 453,000 tons which was the 1933-34-1937-38 average. Indeed, in the longer run, Italy's wheat imports are likely to show an increasing trend, as population rises.³ The magnitude of these bread-grain imports makes clear that there is a very close relation between the size of Italian domestic crops and the size of the balance-of-payments deficit. A bad crop in 1949 could increase Italian wheat import requirements by several hundred thousand tons.

3. Gross National Production

The Italian target for gross national production in 1949-50 is set at approximately 98 percent (1938=100) as compared with an estimated level of 84 in 1947.

4. Consumption

The Italian target for total availabilities for consumption in 1949-50 is somewhat higher than in 1947 when it was roughly 88 percent of 1938 (82 on a per capita basis).

Food consumption in 1949-50, as projected by the Office of Foreign Agricultural Relations, United States Department of Agriculture, is to increase only very moderately: from a national average of 2,430 calories per person per day in 1948-49 to 2,500 calories in 1949-50. Prewar consumption was approximately 2,550 calories. Projected changes in the average diet for 1949-50 are shown in the following table.

TABLE 21.—*Italy: Estimated per capita consumption of major foodstuffs, prewar, 1947-48, 1948-49, 1949-50*

[Kilograms per capita]

	1933-37	1947-48	1948-49 ¹	1949-50 ¹
Grains (flour basis).....	171.1	159.5	174.5	180.0
Potatoes.....	37.6	39.6	44.6	45.0
Fresh vegetables.....	67.2	75.9	75.4	75.0
Pulses.....	13.5	9.8	9.3	10.0
Fruits.....	33.8	46.2	36.0	40.0
Tree nuts and chestnuts.....	10.1	6.5	5.7	6.0
Fats and oils (fat content).....	10.5	9.5	9.1	10.0
Meat and fish.....	26.4	20.2	22.0	22.0
Milk.....	36.3	36.4	34.5	36.5
Cheese.....	5.0	4.3	4.7	5.0
Sugar.....	7.0	6.7	7.5	8.0
Eggs.....	7.4	5.6	5.9	6.0
Calories per person per day.....	2,550.0	2,275.0	2,430.0	2,500.0

¹ Preliminary estimates.

Source: Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

² Other agricultural production targets for 1949-50 are given in appendix C, table I.

B. IMPORTS

The 1949-50 program requires an increase of imports above the 1948 and 1948-49 levels. In 1948, Italian industrial imports were low because of deflationary conditions which reduced industrial activity and caused considerable reduction of industrial stocks. The increase in imports in 1949-50 is made necessary by increased imports of coal, petroleum, cotton and other industrial materials and equipment above the low 1948 levels in order to make possible the projected sharp increase in industrial activity. The 1949-50 program also provides the food imports necessary to prevent serious inflationary pressure on food prices as employment and incomes rise.

C. EXPORTS

Exports are not now expected to continue during 1949-50 their spectacular rise during 1948. Exports in 1949-50 are estimated by the ECA at 1,000 million dollars, roughly comparable to the Italian estimate of 993 million dollars. These figures may be compared with estimated exports of 950 million dollars for 1948-49. It appears, as indicated earlier, that the rapid acceleration of exports during 1948 was due in considerable part to the devaluation of November 1947, the deflation and to other circumstances favorable to exports which are not likely to recur during the next 18 months.

D. BALANCE OF PAYMENTS

The following table summarizes ECA's estimated balance of payments of Italy with the Western Hemisphere and with all areas for 1949-50.

TABLE 22.—*Italy: Summary balance of payments, 1949-50 (ECA estimate)*

[Millions of dollars]

	Dollar account			Non-dollar account	Grand total
	United States	Other	Total ¹		
Imports.....	517.1	209.1	726.2	717.5	1,443.7
Exports.....	90.0	153.5	243.5	757.2	1,000.7
Merchandise balance.....	-427.1	-55.6	-482.7	+39.7	-443.0
Invisibles (net).....	-83.7	+3.4	-80.3	+0.8	-79.5
Current account balance.....	-510.8	-52.2	-563.0	+46.5	-516.5
Settlements.....		* -6.1	* -6.1		
Capital transactions.....					
(a) Non-ECA financing.....	² +25.0		² +25.0		
(b) Repayments.....	-11.0		-11.0		
Net position.....	-496.8	-58.3	-555.1		
Estimated requirements for United States aid.....			555.0		

¹ Including all transactions with Western Hemisphere and all other transactions in gold and dollars.

² Includes dollar payments of 4 million dollars to Trieste and 2.1 million dollars to ONPC.

³ Utilization of remainder of Export Import Bank credit.

In conclusion, it is considered probable that with aid in the amount of approximately 555 million dollars, the Italian economy has the means to move forward at a satisfactory rate toward the goal of self-support in 1952-53, although the projected level of imports and therefore estimated aid may have to be revised if the rate of improvement in economic activity proves greater than now anticipated.

APPENDICES

APPENDIX A

Population and Manpower

Table I. Total population.

Table II. Emigration, 1876-1939.

Table III. Disposition of population and labor force by major categories.

Table IV. Total unemployment.

Table V. Distribution of unemployment.

Table VI. Trend of employment in principal industries.

TABLE I.—*Italy: Total population*

Year	Number	Average yearly natural increase	Year	Number	Average yearly natural increase
1936.....	42,919,000	} 413,000	1943.....	44,495,000	} 180,000
1937.....	43,322,000		1944.....	44,677,000	
1938.....	43,695,000		1945.....	44,855,000	} 481,000
1939.....	44,138,000		1946.....	45,462,000	
1940.....	44,592,000		1947.....	45,943,000	
1941.....	44,975,000	} 356,000	1948 ¹	46,300,000	357,000
1942.....	45,305,000				

¹ Italian Central Institute of Statistics assumes for 1948 a monthly increase of 31,600 or 379,200 for the year.

Source: Compiled by ECA special mission to Italy.

TABLE II.—*Italy: Emigration, 1876-1939*

	1876-1900	1901-14	1915-18	1919-27	1928-39
Total emigration.....	210,316	615,980	90,797	320,746	206,675
of which:					
Overseas emigration ¹	105,188	355,253	39,420	159,243	41,538

¹ Mostly to Western Hemisphere.

Source: Italian Central Institute of Statistics.

TABLE III.—Italy: Disposition of population and labor force by major categories
(estimates)

[In thousands]

	1936 ¹			1947 ²			1948 ³		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Population, total.....	42,919	21,073	21,846	45,943	22,558	23,385	46,300	22,732	23,568
Population of working age (15 to 64 years).....	26,630	12,934	13,696	28,500	13,500	15,000	28,700	13,700	15,000
Labor force, total.....	19,701	14,285	5,416	20,531	14,383	6,148	20,708	14,468	6,240
Armed forces.....	650	650		300	300		300	300	
Labor force, civilian by sex.....	19,051	13,635	5,416	20,231	14,083	6,148	20,408	14,168	6,240
Employed, total.....	18,345	13,100	5,245	18,611	12,955	5,656	18,714	13,054	5,660
Agriculture.....	8,756	6,329	2,427	8,909	6,308	2,601	9,040	6,438	2,602
Forestry and fishing.....	86	83	3	88	87	1	88	87	1
Mining and quarrying.....	128	126	2	115	113	2	124	122	2
Manufacturing.....	3,900	2,050	1,850	3,696	2,517	1,179	3,741	2,539	1,202
Consumers' goods.....	2,383	1,189	1,194	2,303	1,262	1,041	2,343	1,279	1,065
Producers' goods.....	1,607	1,461	146	1,393	1,255	138	1,398	1,261	137
Construction.....	979	974	5	500	488	12	415	410	5
Public utilities.....	190	66	34	167	139	28	184	164	30
Government service (ex- cluding nationalized in- dustries).....	809	576	233	1,147	817	330	1,147	817	330
Other industries and serv- ices (transportation, com- merce).....	3,407	2,205	1,202	3,989	2,486	1,503	3,950	2,462	1,488
Unemployed.....	706	535	171	1,620	1,128	492	1,694	1,114	580

¹ Mainly official data from population census Apr. 21, 1936.

² Mainly official data from final report of the Italo-French Custom Union Joint Commission.

³ Adjusted data on the basis of up-to-date estimates of Central Institute of Statistics, Ministry of Labor and Italian Confederation of Industrialists.

⁴ Total of 1,482 unemployed reported by Italian Government for October 1948.

Sources: Compiled by ECA special mission to Italy.

TABLE IV (a).—Italy: Total unemployment

[In thousands]

	Registered with the employment offices ¹			Effectively unemployed ²		Index numbers, 1938=100	
	Total, both sexes	Females	Percent of females	Total, both sexes	Females	Registered with employment offices	Effectively unemployed
1936.....	706			706		100	100
1937.....	874			874		103	103
1938.....	810			810		100	100
1939.....	706	171	24.2	706		87	87
1946.....	1,655	503	30.4	1,324	402	204	163
1947.....	2,025	616	30.4	1,620	492	250	200
1948 ⁴	2,178	745	34.2	1,742	596	268	215

TABLE IV (b)

	Registered with the employment offices			Effectively unemployed		
	1946	1947	1948	1946	1947	1948
January.....	1,428	2,228	1,156	1,142	1,782	1,565
February.....	1,193	2,279	2,133	953	1,823	1,706
March.....	1,334	2,177	2,253	1,067	1,742	1,802
April.....	1,468	2,169	2,390	1,147	1,735	1,913
May.....	1,546	2,163	2,422	1,237	1,722	1,938
June.....	1,531	1,095	2,284	1,225	1,596	1,827
July.....	1,683	2,031		1,316	1,625	(⁴)
August.....	1,770	1,913		1,416	1,530	(⁴)
September.....	1,858	1,870	2,117	1,486	1,496	1,694
October.....	1,946	1,855		1,557	1,484	⁵ 1,482
November.....	1,998	1,852		1,593	1,482	
December.....	2,098	1,779		1,673	1,423	

¹ Source Italian Government, Ministry of Labor.

² According to the competent Office of the Ministry of Labor approximately 20 percent of the registered with the employment offices are not effectively unemployed, but people belonging to the following categories: (a) pension holders or actual employees seeking new jobs, and (b) housewives seeking employment.

³ Latest estimates released by the Italian Ministry of Labor.

⁴ Not available.

⁵ Estimate based on data available as of December, 1948

Source: Compiled by ECA special mission to Italy.

TABLE V.—Italy: Distribution of unemployment

A. BY AREAS

	Estimated levels and regional distribution of total unemployment									
	Northern Italy		Central Italy		Southern Italy		Insular Italy		Total	
	Men	Per-cent	Men	Per-cent	Men	Per-cent	Men	Per-cent	Men	Per-cent
December 1939.....	463,000	65.6	106,000	15.1	87,000	12.2	50,000	7.1	766,000	100
December 1947.....	726,000	50.9	232,000	16.4	372,000	26.3	93,000	6.5	1,423,000	100
October 1948.....	857,000	50.6	276,000	16.3	437,000	25.8	124,000	7.3	1,694,000	100

B. INDEX NUMBERS

December 1939.....	100	100	100	100	100
December 1947.....	157	215	429	185	201
October 1948.....	185	260	504	256	239

C. TREND OF UNEMPLOYMENT BY ECONOMIC SECTORS

	Estimated levels and percentages of total unemployment ¹					
	December 1939		December 1947		May 1948	
	Men	Percent	Men	Percent	Men	Percent
Agriculture.....	150,000	21.2	292,000	20.6	377,000	19.4
Fishing.....			3,000	.21	4,000	.2
Construction.....	220,000	31.1	316,000	22.2	440,000	22.7
Mining.....	19,000	2.7	23,000	1.6	36,000	1.9
Industry: Total.....	198,000	28.0	388,000	27.3	542,000	28.0
Textile and apparel.....	61,000		110,000		155,000	
Metallurgical and mechanical.....	63,000		156,000		207,000	
Lumber and furnishing.....	30,000		41,000		64,000	
Food.....	17,000		34,000		47,000	
Chemical and glass.....	16,000		23,000		36,000	
Paper and printing.....	7,000		11,000		17,000	
Electricity and gas.....	4,000		13,000		16,000	
Trade and finance.....	64,000	9.1	51,000	3.6	66,000	3.4
Miscellaneous (employees, theater, communications, sailors, etc.).....	55,000	7.9	350,000	24.6	473,000	24.4
Total.....	706,000	100.0	1,423,000	100.0	1,938,000	100.0

D. INDEX NUMBERS

Agriculture.....	100.0	194.6	251.3
Fishing.....		n. s.	n. s.
Construction.....	100.0	143.6	200.0
Mining.....	100.0	121.0	189.0
Industry: Total.....	100.0	195.9	273.7
Textile and apparel.....	100.0	180.0	254.0
Metallurgical and mechanical.....	100.0	217.0	328.0
Lumber and furnishing.....	100.0	137.0	213.0
Food.....	100.0	200.0	276.0
Chemical and glass.....	100.0	144.0	225.0
Paper and printing.....	100.0	187.0	242.0
Electricity and gas.....	100.0	325.0	400.0
Trade and finance.....	100.0	79.6	103.1
Miscellaneous (employees, theater, communications, sailors, etc.).....	100.0	n. s.	n. s.
Total.....	100.0	201.0	274.0

¹ Last month for which break-down is available.

Sources: Italian Government, Ministry of Labor and The Confederation of Industry.

TABLE VI.—*Italy: Trend of employment in principal industries*

Category of employment and main industrial segments	Total employment			Index numbers ¹		
	1938	1947	1948	1938	1947	1948
I. Workers:						
Textile, mill products and manufactures.....	654,600	748,200	761,900	100	114.3	116.6
Metallurgical and mechanical.....	778,500	920,200	937,400	100	118.2	120.5
Other selected segments:						
Paper and pulp, leather, glass and glassware, cement, rubber, pasta.....	205,700	244,000	248,000	100	118.6	120.0
Mining.....	137,400	142,900	148,100	100	104.0	107.8
Constructions.....	461,800	500,000	400,000	100	108.2	86.6
Miscellaneous: Other manufacturing, public utilities.....	648,900	433,600	438,300	100	66.8	67.5
Total	2,886,900	2,988,900	2,932,600	100	103.5	101.7
II. Artisans.....	1,330,600	1,220,400	1,300,700	100	91.7	97.7
III. Employees.....	252,000	276,700	286,700	100	109.8	113.7
Grand total	4,469,500	4,486,000	4,520,000	100	100.3	101.1

¹ Index numbers are not adjusted for changes in total population.

Source: Italian Central Institute of Statistics, Italo-French Customs Union Joint Commission, and the Italian Confederation of Industry.

APPENDIX B

Industrial Statistics

Table

- I. Production indices for mining, manufacturing, and electric power.
- I (a). Note on indices of industrial production.
- II. Weights of components of the general index of ISTAT and of this study.
- III. Relative importance of industries.
- IV. Prewar pattern of industry.
- V. Mining production, 1947 and 1948.
- VI. Production of iron and steel.
- VII. Production of automobiles and other motor vehicles.
- VIII. Production of artificial fibers.
- IX. Production of gas, coke, tar, and benzol.
- X. Production of mineral oil refineries.
- XI. Production of basic chemicals.
- XII. Textile production.
- XIII. Consumption of selected industrial items.

TABLE I.—*Italy: Production indices for mining, manufacturing, and electric power*
[1938=100]

	Mining	Metal- lurgical	Non- metallic minerals	Lumber	Chem- icals	Textiles	Paper	Power
<i>1947</i>								
January.....	66	47	66	56	56	71	51	104
February.....	68	45	60	53	52	68	55	95
March.....	82	62	68	65	70	80	64	120
April.....	79	74	78	80	80	86	68	137
May.....	86	85	84	80	95	92	74	160
June.....	90	82	84	77	100	89	72	159
July.....	101	87	89	78	99	98	81	169
August.....	89	75	91	64	98	71	65	152
September.....	98	72	75	74	93	94	75	136
October.....	102	80	103	68	95	96	83	136
November.....	88	75	97	58	93	80	67	128
December.....	83	69	91	52	90	74	61	135
Monthly average.....	86	71	82	67	85	83	68	136
<i>1948</i>								
January.....	80	66	90	50	78	76	58	135
February.....	83	73	78	50	79	74	64	132
March.....	89	86	81	58	88	78	71	135
April.....	90	85	88	74	88	81	71	130
May.....	86	91	86	53	102	74	65	151
June.....	89	98	84	60	94	77	69	159
July.....	90	94	89	54	103	81	71	162
August.....	87	77	89	42	108	67	62	156
September.....	94	98	90	55	100	88	86	163

Source: Italian Central Institute of Statistics.

IA.—*Italy: Note on indices of industrial production*

The question of industrial production indices in Italy has become so controversial that it seems advisable to summarize our views on this matter.

The "Confindustria" (Confederazione Generale dell' Industria Italiana) index,

which was widely used until the middle of 1948 because it was the only one based on a prewar year (1939), is believed to be definitely unreliable. Indices for such basic sectors as mining and chemicals, where accurate information is available from other sources, appear to be based on inadequate data. No specific index is available for textiles. Moreover, month-to-month changes often fail to reflect firmly established variations, such as the drop in production in August 1948. Finally, it is impossible to gain access to the raw data from which the indices are computed and, therefore, to check the method of computation. It is also worth noting that the 1948 report of Confindustria makes no reference to general or sector production indices.

The ISTAT (Istituto Centrale di Statistica) index, which henceforth will be available on a 1938 base, comprises three basic indices: mining, manufacturing, and utilities. Its major weaknesses are: failure to include the mechanical engineering and building industries, which were included in prewar production indices, and the food-processing industry. Within its present limited coverage the general index is heavily weighted by electric power, which, with a weight of 13.44, ranks as the third major single industry covered by the index, following textiles and chemicals. It is questionable whether in Italy electric power should be considered a component of the industrial index because the output of electric power is growing rapidly in relation to other industrial sectors. Moreover, in the Italian prewar index its weight was only 35 percent of the total. The inclusion of electric power as one of the major components, with a weight of 13.4, would therefore appear to give the over-all index a significant upward bias.

In view of the limitations of official and unofficial indices, it has been felt advisable to compute an index of mining and manufacturing, viz., an aggregate index of mining and also six manufacturing industries for which there are sector indices, as well as raw data compiled by the Central Institute of Statistics. The index of manufacturing and mining thus comprises all of the sectors included in the general index of the institute except for (a) electric power and gas; (b) rubber, and (c) petroleum products. The weights used in calculating the new index are computed by converting the original weights used by the institute into percentages of the sum of the weights of the sectors considered.¹ This index has the obvious disadvantage of not including the mechanical industries, which already in 1938 had a weight of 31 percent in the over-all index, and now should probably have a higher weight in view of their present increased potential contribution to the Italian economy. It must be explicitly stated that the index adopted in this report may be subject to criticism. It is believed, however, to represent an improvement over the indices used in previous reports. Its limitations should be always kept in mind, and extrapolations should not be made beyond the narrow limits of reliability.

TABLE II.—Italy: Weights of components of the general index of ISTAT and of this study.

Sector	ISTAT	ECA	Sector	ISTAT	ECA
Mining.....	6 7000	8 41	Metallurgical.....	12.0582	15.13
Textiles.....	30 0872	37.74	Processing of nonmetallic minerals.....	5 8725	7.38
Lumber.....	5 7159	7.17			
Paper.....	3 6018	4.52	Subtotal.....	79.6756	100.00
Chemicals.....	15.6600	19 05			

¹The Italian over-all indices were computed on the basis of a geometric weighted average of the components. The index adopted in this report uses the arithmetic weighted average. The reasons for this change is not relevant to this discussion.

TABLE III.—Italy: Relative importance of industries

[Percent weight]¹

Engineering.....	18.8	Mining.....	4.3
Textiles and clothing.....	16.0	Wood.....	3.8
Food.....	12.8	Hides and leather.....	2.6
Utilities.....	9.4	Paper.....	2.1
Metallurgical.....	8.4	Printing.....	.9
Chemicals.....	7.8	Other.....	2.6
Construction.....	5.4		
Buildings materials.....	5.1		100.0

¹ Weights based on employment, horsepower installed, and capital investment according to the industrial census of 1936-37.

Source: Italian Confederation of Industry.

TABLE IV.—Italy: Prewar pattern of industry

Industry	Enterprises			Persons employed			Power installed h. p.		
	Total number	Industrial	Artisan	Total number	Industry	Artisan	Total number	Industry	Artisan
Fishing.....	49,248		49,248	93,891		93,891	102,230		102,230
Mining.....	11,056	10,610	446	137,404	137,404		200,371	200,371	
Wood processing.....	123,162	7,658	115,504	283,576	103,472	180,104	209,994	136,878	73,106
Food processing.....	292,906	133,771	159,135	574,473	453,712	120,761	948,249	938,982	9,247
Metallurgical.....	549	549		103,581	103,581		983,993	983,993	
Engineering.....	100,398	5,184	95,214	846,750	674,967	171,783	1,201,611	1,137,137	64,474
Building materials.....	19,417	6,092	13,325	206,762	177,443	29,319	388,992	379,845	9,147
Building.....	64,055	14,802	49,253	558,544	479,929	78,615	159,149	158,767	382
Chemicals ¹	6,981	6,981		127,884	127,884		548,329	548,329	
Paper.....	1,992	1,907	85	56,127	55,696	531	219,346	219,233	113
Printing.....	11,510	4,792	6,718	70,130	59,020	11,110	42,516	42,078	438
Hides and leather.....	123,804	2,746	121,058	215,528	69,223	146,305	60,130	64,359	1,771
Textiles.....	38,789	9,162	27,627	628,557	592,059	36,498	869,255	867,173	2,082
Clothing.....	168,451	2,570	165,881	308,723	62,521	246,202	30,276	21,878	8,398
Motion picture and phonograph.....	64	64		2,140	2,140		5,361	5,361	
Miscellaneous ²	3,401	2,249	1,152	117,361	113,244	4,117	121,177	119,053	2,124
Electric power.....	8,736	8,736		42,221	42,221		158,003	158,003	
Total.....	1,022,539	217,893	804,646	4,373,652	3,254,416	1,119,236	6,254,981	5,981,440	273,541

¹ Including coal carbonization.

² Including rubber, electrical conductors and cables, tobacco, etc.

Source: Italian Industrial Census 1937-40.

TABLE V.—Italy: Mining production, 1947 and 1948

Ores	1947 ¹ (metric tons)	1948 ¹ (metric tons)	Percent change
Bauxite.....	118,837	123,228	+3.69
Iron ore.....	150,035	335,180	+123.4
Lead.....	26,619	34,043	+27.88
Asbestos.....	7,463	8,807	+18.0
Fluorine.....	14,670	30,587	+108.60
Sardinian coal.....	920,040	729,654	-20.70
Anthracite.....	83,419	67,720	-18.82
High-grade lignite.....	340,230	173,108	-49.42
Low-grade lignite.....	1,052,016	495,738	-52.88

¹ January through September.

Source: Italian Central Institute of Statistics.

TABLE VI.—Italy: Production of iron and steel

	1938		1939		1947		1948 ¹		1948 as percentage of		
	1,000 tons	Per cent	1,000 tons	Per tons	1,000 tons	Per cent	1,000 tons	Per cent	1938	1939	1947
PIG IRON											
Blast furnaces.....	782.2	90.7	688.8	86.2	156.9	49.3	257.2	54.9	32.9	29.6	163.9
Electric furnaces.....	80.6	9.3	139.6	13.8	161.1	50.7	211.3	45.1	262.0	151.4	131.2
Total.....	862.8	100.0	1,008.4	100.0	318.0	100.0	468.5	100.0	54.3	46.5	147.3
STEEL											
Martin.....	1,684.3	72.5	1,573.4	68.8	1,025.9	60.7	1,292.1	61.0	76.7	82.2	125.9
Electric furnace.....	627.9	27.0	703.1	30.8	663.6	39.2	791.9	38.0	126.1	112.6	119.3
Converters.....	10.6	.5	8.9	.4	1.9	.1	.7	.1	66.0	78.6	30.8
Total.....	2,322.8	100.0	2,285.4	100.0	1,691.4	100.0	2,084.7	100.0	89.7	91.3	123.2
Rolled steel.....	1,734.5		1,692.2		1,284.3		1,500.0		86.5	88.6	116.8

¹ Preliminary estimate.

Source: Italian Confederation of Industry.

TABLE VII.—Italy: Production of automobiles and other motor vehicles

	Automobiles		Other motor vehicles		Total	
	Number	Metric tons	Number	Metric tons	Number	Metric tons
1938.....	58,974	41,666.4	10,144	41,307	69,118	82,973
1947 (12 months).....	30,440	23,006.2	12,008	58,927	43,048	81,933
1947 (first 9 months).....	20,514	15,325.8	9,642	45,164	30,150	60,489
1948 (first 9 months).....	36,423	29,434.2	5,311	23,490	41,734	52,924

Source: Interministerial Committee for Reconstruction.

TABLE VIII.—Italy: Production of artificial fibres

[Metric tons]

	Rayon	Staple	Waste	Total
1938.....	45,962	73,458	5,920	125,340
1947.....	52,357	21,600	5,720	79,677
January-October 1947.....	44,607	18,900	5,000	68,507
January-October 1948.....	39,138	14,377	3,662	57,077

Source: Interministerial Committee for Reconstruction.

TABLE IX.—Italy: Production of gas, coke, tar, and benzol

Period	Total				Of which: Coke plants			
	Gas (1,000 cubic meters)	Coke (tons)	Tar (tons)	Benzol (tons)	Gas (1,000 cubic meters)	Coke (tons)	Tar (tons)	Benzol (tons)
1938.....	1,289,563	2,375,135	116,978	23,068	613,639	1,739,417	51,922	17,080
1947.....	1,268,193	1,746,639	68,356	10,136	438,382	960,696	31,025	7,767
1948: January.....	125,048	183,818	7,900	1,258	43,987	98,335	3,393	929
February.....	118,812	166,656	7,402	1,000	39,823	88,026	2,993	742
March.....	129,651	188,856	8,157	1,084	43,600	101,430	3,310	780
April.....	125,990	188,748	8,024	937	46,896	104,696	3,540	884
May.....	132,997	198,792	8,098	1,145	49,220	109,439	3,479	874
June.....	126,967	181,722	7,700	1,149	46,823	101,567	3,388	876
July.....	124,114	192,536	8,266	1,116	49,261	648	3,803	890
August.....	120,848	188,808	7,594	1,319	52,526	110,665	3,684	1,042
September.....	125,367	190,696	7,733	1,157	51,644	115,649	3,652	928
1947 January-September.....	874,835	1,143,735	42,915	6,373	283,650	606,358	18,188	4,735
1948 January-September.....	1,129,794	1,630,632	70,934	10,165	423,780	953,455	31,247	7,945

Source: Interministerial Committee for Reconstruction.

TABLE X.—Italy: Production of mineral oil refineries¹

[Metric tons]

Period	Gasoline	Kerosene	Gas oil	Fuel oil	Petroleum coke	Asphalt	Other products ⁽²⁾	Total
1938.....	415,165	150,235	260,813	450,241	35,408	76,009	95,407	1,403,368
1947.....	300,776	124,080	308,991	466,215	19,023	39,324	25,956	1,284,370
1948: January.....	25,195	8,616	28,251	38,298	1,581	1,904	1,190	105,125
February.....	37,410	10,758	42,468	67,467	1,234	2,128	1,056	162,519
March.....	36,488	15,205	40,811	62,476	2,314	2,892	1,707	261,983
April.....	27,285	12,055	37,124	52,002	1,549	454	539	131,008
May.....	27,248	14,850	34,177	59,449	2,909	3,955	1,859	144,537
June.....	33,562	14,846	40,255	77,662	1,991	4,305	2,349	180,970
July.....								
August.....	51,867	24,933	67,435	121,471	2,456	10,769	4,779	283,710
September.....	44,431	23,224	52,686	95,450	2,304	10,435	5,496	234,026
January-September 1947.....	198,231	87,748	206,819	305,269	12,137	28,312	15,737	854,253
January-September 1948.....	233,486	124,577	349,205	574,275	10,398	36,962	18,975	1,403,878

¹ Covers only the processing of imported crudes. Domestic output of crude is insignificant.

² Lubricants, solvents, etc.

Source: Interministerial Committee for Reconstruction.

TABLE XI.—Italy: Production of basic chemicals

Period	Sulphuric acid	Synthetic ammonia	Caustic soda	Soda-ash
1938.....	1,721,268	132,430	165,010	351,730
1947.....	1,361,090	99,022	222,075	393,205
1948: January.....	120,021	7,804	17,919	33,119
February.....	115,357	7,905	14,610	29,527
March.....	123,467	9,129	10,273	27,951
April.....	122,836	10,483	14,868	24,627
May.....	127,931	12,765	15,399	22,003
June.....	125,754	11,705	10,426	15,829
July.....	134,648	10,909	19,429	32,169
August.....	143,882	13,032	22,134	36,102
September.....	130,102	11,611	23,032	37,925
Total January-September 1947.....	959,878	80,614	162,011	317,636
Total January-September 1948.....	1,152,998	95,343	154,090	259,252

Source: ECA Special Mission to Italy.

TABLE XII.—Italy: Textile production (estimated production)

[Metric tons]

Period	Cotton industry		Wool industry					
	Yarns	Fabrics	Yarns			Fabrics		
			Carded	Combed	Total	Carded	Combed	Total
1938.....	203,056	139,155			70,612			48,752
1947.....	187,463	119,450	45,024	38,048	83,972	27,866	12,030	30,896
1948: January.....	14,915	9,787	2,801	2,387	5,188	2,302	1,013	3,315
February.....	15,380	10,289	3,166	3,460	6,626	2,218	988	3,206
March.....	16,118	10,801	3,441	3,523	6,964	2,239	1,051	3,290
April.....	16,930	11,609	3,587	3,756	7,343	2,371	1,081	3,452
May.....	15,153	10,322	3,521	3,309	6,830	2,327	959	3,286
June.....	15,710	10,539	4,022	3,485	7,507	2,057	1,058	3,715
July.....	16,568	11,078	4,209	3,547	7,846	2,853	1,148	4,001
August.....	10,806	7,212	3,610	2,412	6,022	2,164	9,030	3,094
September.....	15,087	10,500	4,268	3,539	7,807	2,945	1,197	4,142
Total, January-September 1947.....	140,347	87,404			62,283			29,287
Total, January-September 1948.....	136,667	92,137	32,715	20,418	62,133	22,076	9,425	31,501

Source: ECA Special Mission to Italy.

TABLE XIII.—Italy: Consumption of selected industrial items¹

(A)	Consumption (1,000 metric tons)			
	Prewar		1947	1948 ²
	Year (B)	Amount (C)		
I. Coal, imported:				
(a) Italian State railways ³	1938-39 ²	1,736	1,674	1,560
(b) Gas works ⁴	1939 ²	1,381	1,110	1,400
(c) Coke plants ⁴	1938-39	2,880	1,192	1,600
(d) Other consumers.....	1938-39 ²	6,000	4,524	4,400
Total (a, b, c, d).....		11,097	8,500	9,000
II. Coal and lignite, domestic (in terms of imported coal)⁴:				
Total (I, II).....	1938-39	1,500	1,700	900
III. Petroleum products:				
(a) Crude oil (processed).....	1938	1,600	1,680	2,000
(b) Gasoline (50-65 Octane).....	1938	430	350	350
(c) Kerosene.....	1938	180	160	105
(d) Gas oil.....	1938	260	440	431
(e) Fuel oil.....	1938	1,580	1,600	1,100
(f) Other finished products.....	1938	250	300	214
Total (b, c, d, e, f).....		2,700	2,850	2,200
IV. Coal gas (gas works) (million cubic meters)⁵:				
Total.....	1938	7 612	6 730	800
V. Electricity (millions of kilowatt-hours):				
(a) Lighting (domestic and public).....	1938	1,013	1,670	1,900
(b) Miscellaneous appliances (domestic, etc.).....	1938	675	1,250	1,300
(c) Traction.....	1938	1,480	2,100	2,600
(d) Electrochemical and electrometallurgical uses.....	1938	4,070	3,650	4,000
(e) Other industrial uses.....	1938	6,101	8,000	8,200
(f) Losses.....	1938	2,328	3,900	4,000
Total (a, b, c, d, e, f).....		15,067	20,570	22,000
VI. Steel⁶:				
Finished steel.....	1938	2,500	n. a.	n. a.
Pig iron.....	1938	1,800	1,500	1,600
VII. Scrap.....				
Iron ores.....	1938	850	470	550
Pyrite ashes.....	1938	1,700	1,570	1,720
Copper, primary.....	1938	1,300	350	530
Nickel.....	1938	350	280	220
Aluminum, primary.....	1938	78	55	60
Lead, primary.....	1938	2.5	1.2	1.5
Zinc, primary.....	1938	24	25	25
Lumber (thousand cubic meters).....	1938	46	25	30
Mechanical and chemical pulp.....	1938	29	27	25
Rubber.....	1938	5,000	4,000	4,800
Raw cotton.....	1938	450	330	330
Cotton yarn.....	1938	23	38	35
Raw wool.....	1938	170	190	190
Raw jute.....	1938	158	142	140
Artificial fibers.....	1938	34	81	n. a.
	1938	41	n. a.	n. a.
	1938	71	58	50

¹ With the exception of the statistics on lines Ia, Ib, Ic, and IV under columns C and D, all consumption figures have been estimated by the ECA Mission, Rome.

² Fiscal year.

³ Source: Italian State Railways.

⁴ Source: Interministerial coal committee.

⁵ Practically none consumed by categories a, b, and c.

⁶ Practically all for domestic uses. In 1938 the calorific value of the gas was about 4,000 cal/cub. meter; after the war it has been around 3,000-3,100 cal/cub. meter.

⁷ Source: Association of Coal Gas Producers.

⁸ Estimate refers to equivalent in crude steel and is based on production, imports and exports of steel and imports and exports of machinery.

Compiled by ECA Special Mission to Italy.

APPENDIX C

Agricultural Production

Table I. Production of major crops: prewar and 1947-48.

Table II. Area harvested—major crops: prewar and 1947-48.

Table III. Livestock population: 1941 and 1948.

TABLE I.—*Production of major crops, prewar, 1947 and 1948*

[Thousands of metric tons]

	1936-39 (average)	1947	1948		1936-39 (average)	1947	1948
Wheat.....	7,554	5,500	6,800	Pulses.....	978	700	650
Rye.....	139	110	125	Sugar beets.....	3,272	2,231	1,300
Corn.....	2,953	2,200	2,600	Hemp.....	110	61	73
Barley.....	222	180	240	Oilseeds.....	9	48	41
Oats.....	560	450	525	Olive oil (edible only).....	231	250	110
Rice (rough).....	744	700	650	Grapes.....	6,140	5,342	5,786
Potatoes.....	2,723	2,805	3,056				

¹ Preliminary.

Source: Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

TABLE II.—*Area harvested—major crops, prewar, 1947 and 1948*

[Thousands of hectares]

	1936-39	1947	1948		1936-39	1947	1948
Wheat.....	5,117	4,650	4,800	Rice.....	149	132	135
Rye.....	102	100	105	Potatoes.....	403	418	408
Barley.....	192	247	252	Sugar beets.....	135	111	113
Oats.....	431	480	475	Tobacco.....	33	60	61
Corn.....	1,450	1,300	1,310				

Source: Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

TABLE III.—*Livestock population, 1941 and 1948*

[1,000 head]

	1941	1948
Cattle.....	8,488	8,400
of which.....		
Cows.....	3,916	3,800
Sheep and goats.....	11,599	10,700
Pigs.....	3,645	3,700
Horses.....	743	670
Asses.....	679	580
Mules.....	319	300
Poultry.....	70,000	60,000

Source: For 1941 Central Institute of Statistics figures. Data for 1948 are preliminary estimates of the ECA mission, still to be confirmed by the U. S. Embassy and ECA. In the absence of reliable prewar data, the census of 1941 is considered the best indication of the livestock population in the late 1930's.

APPENDIX D

Internal Accounts

Table I. Changes in Italian national accounts: 1938—1952-53.

Table II. Net investments by sectors: 1946 and 1947.

Table III. Idem., by source of financing: 1946 and 1947.

TABLE I.—*Changes in Italian National Accounts: 1938—1952-53*

[Million 1948 dollars]

	1938	1947	1948-49	1949-50	1950-51	1951-52	1952-53
National product:							
(a) Agriculture, forestry, fishery.....	3.43	2.75	2.97	3.13	3.28	3.44	-----
(b) Industry.....	3.16	2.54	3.06	3.40	3.75	4.09	-----
(c) Handicrafts.....	.63	.56	.60	.62	.65	.67	-----
(d) Transport and communications.....	.71	.55	.63	.68	.74	.79	-----
(e) Trade, credit, insurance.....	1.19	.85	1.00	1.00	1.19	1.28	-----
(f) Housing.....	.90	.83	.80	.87	.87	.89	-----
(g) Professions and services.....	.46	.38	.41	.44	.46	.48	-----
Total.....	10.48	8.69	9.53	10.23	10.94	11.64	12.35
Net duplication.....	.06	.11	.11	.10	.10	.09	.09
Net national product.....	10.42	8.58	9.42	10.13	10.84	11.55	12.26
Maintenance.....	1.15	1.10	1.10	1.16	1.22	1.28	1.35
Gross national product.....	11.57	9.68	10.52	11.29	12.06	12.83	13.61
Deficit (+) or surplus (-) in the balance of payments on current account.....	- 27	+ 30	+ 50	+ 50	+ 50	+ 50	+ 50
Gross availability.....	11.84	10.48	11.02	11.79	12.56	13.33	14.11
Goods and services for tourists.....	.12	.02	.07	.10	.13	.17	.21
Total gross resources for domestic use..	11.72	10.46	10.95	11.69	12.37	13.16	13.90

Remarks: This table is based on Italian Government data adjusted to take into account more recent data on the Balance of Payments and in the projected deficits. No reliable data are available for the use of the resources over the entire period considered in the table. Data for the years 1938, 1947, 1948-49 are given in table I in the text.

TABLE II.—*Net investments by sectors: 1946 and 1947*

[Billions of current lire]

	1946	Percent	1947	Percent
Industry:				
Reconstruction.....	178.4	14.5	135.9	13.6
New plant.....	51.0	4.2	70.5	7.0
Increase of stocks.....	356.9	29.2	251.8	25.2
Agriculture.....	147.8	12.1	75.5	7.6
Housing.....	76.5	6.3	70.5	7.0
Transport:				
Railways.....	147.8	12.1	110.8	11.0
Motor vehicles.....	102.0	8.8	75.5	7.6
Merchant marine.....	20.4	1.7	70.5	7.0
Post and telecommunications.....	30.6	2.4	30.2	3.0
Public works.....	81.6	6.6	85.0	8.5
Other.....	25.4	2.1	25.2	2.5
Total.....	1,218.4	100.0	1,002.0	100.0
Correction for disinvestments.....	433.4	-----	292.0	-----
Total net investments.....	785.0	-----	710.0	-----

Compiled from data obtained by ECA Special Mission to Italy.

TABLE III.—*Net investments by sectors and source of financing: 1946 and 1947*

[Billions of current lire]

	1946			1947		
	Public	Private	Total	Public	Private	Total
Industry:						
Reconstruction.....		178.4	178.4		135.9	135.9
New plant.....		51.0	51.0		70.5	70.5
Increase of stocks.....		366.9	366.9		251.8	251.8
Agriculture.....		147.8	147.8		75.5	75.5
Housing.....	23.0	53.5	76.5	21.0	49.5	70.5
Transport:						
Railways.....	143.8	4.0	147.8	103.8	4.0	110.8
Motor vehicles.....		102.0	102.0		75.5	75.5
Merchant marine.....	20.4		20.4	70.5		70.5
Post and telecommunications.....	30.6		30.6	30.2		30.2
Public works.....	81.6		81.6	85.0		85.6
Other.....		25.4	25.4		25.2	25.2
Total.....	299.4	919.0	1,218.4	314.1	687.9	1,002.0
Correction for disinvestment ¹		438.4	438.4		292.0	292.0
Difference.....	299.4	480.6	780.0	314.1	395.9	710.0

¹ Precise meaning of this item not clear.

Source: Italian Ministry of the Treasury, January 1949.

APPENDIX E

External Accounts

Table I. Summary Balance of Payments, 1948-49 (OECE estimate).

Table II. Summary Balance of Payments, 1949-50 (Italian estimate).

Table III. Value of trade by areas: January-September 1948.

Table IV. Trade by principal areas and countries.

Table V. Italy's 10 principal suppliers and markets: 1938 and 1948.

Table VI. Total exports by months, for 1946, 1947, 1948.

Table VII. Italy's principal 1938 markets, with comparisons for other years.

Table VIII. Italian exports to Eastern Europe, by principal product groups, 1938 and January-September 1948.

TABLE I.—*Summary balance of payments for 1948-49*

[OECE estimate. Millions of dollars]

	Dollar account			Non-dollar account	Grand total
	United States	Other	Total		
1. Imports.....	502.6	264.7	767.3	634.4	1,401.7
2. Exports.....	48.1	153.4	201.5	647.1	848.6
3. Merchandise balance.....	-454.5	-111.3	-565.8	+12.7	-553.1
4. Invisibles (net).....	-77.7	-34.4	-112.1	-38.8	-150.9
5. Current account balance.....	-532.2	-145.7	-677.9	-26.1	-704.0
6. Settlements.....					
7. Capital transactions:					
(a) Non-ECA financing.....	+65.6		+65.6		
(b) Repayments.....	-18.6		-18.6		
(c) Other.....					
8. Net position.....	-485.2	-145.7	-630.9		
9. Estimated requirements for United States aid.....			601.0		
10. Uncovered deficit.....			20.9		

TABLE II.—*Summary balance of payments for 1949-50*

[Italian estimate. Millions of dollars]

	Dollar account			Non-dollar account	Grand total
	United States	Other	Total		
1. Imports.....	488.9	252.7	741.6	738.2	1,479.8
2. Exports.....	60.5	180.0	240.5	762.8	993.3
3. Merchandise balance.....	-428.4	-72.7	-501.1	+14.6	-486.5
4. Invisibles (net).....	-84.1	-11.8	-95.9	+20.8	-75.1
5. Current account balance.....	-512.5	-84.5	-597.0	+35.4	-561.6
6. Settlements.....					
7. Capital transactions:					
(a) Non-ECA financing.....					
(b) Repayments.....	-11.0	-2.1	-13.1		
(c) Other.....					
8. Net position.....	-523.5	-86.6	-610.1		
9. Estimated requirements for United States aid.....			610.1		
10. Uncovered deficit.....					

TABLE III.—Value of trade by areas: January–September 1948

[Thousands of dollars]

Group of countries	Imports	Exports	Balance
United States of America.....	402 587	62 146	-340, 441
Other Western Hemisphere.....	261 592	126 626	-134, 966
ERP participating countries.....	200, 964	291 755	+90, 791
Colonial territories and dependencies of ERP countries.....	28, 801	35, 838	+7, 037
Eastern European countries.....	44, 773	44 397	-376
Others.....	176 950	141, 461	-35, 489
Total.....	1 115, 667	702, 273	-413, 394

Source: Compiled by ECA Special Mission to Italy.

TABLE IV.—Trade by principal areas and countries

IMPORTS IN CURRENT LIRE VALUES JANUARY-SEPTEMBER, 1948 COMPARED WITH SIMILAR PERIOD IN 1938 AND 1947

[Millions of lire]

Principal countries	1938 (9 months)		1947 (9 months)		1948 (9 months)	
	Value	Percent	Value	Percent	Value	Percent
Sterling area.....	1, 264	15.1	33, 512	10.9	68, 879	11.3
United Kingdom.....	536	6.4	6, 671	2.1	17, 554	2.9
India.....	201	2.4	3, 724	1.2	13, 690	2.2
Union of South Africa.....	76	.9	184	3.3	6, 372	1.0
Australia.....	182	2.2	10, 077	3.3	18, 654	3.0
Egypt ¹	125	1.5	7, 746	2.5	10, 469	1.7
Dollar area.....	1, 551	18.5	159, 013	51.6	279, 231	45.6
United States of America.....	1, 036	12.4	140, 532	45.6	230, 828	37.7
Canada.....	30	.4	4, 999	1.6	11, 261	1.8
Brazil.....	93	1.1	7, 990	2.6	13, 823	2.3
Chile.....	135	1.6	1, 057	.3	5, 514	.9
Other countries.....	5, 727	66.4	115, 403	37.5	283, 595	43.1
Austria.....	(²)	(²)	2, 828	.9	9, 098	1.5
Belgium-Luxemburg.....	122	1.5	11, 889	3.8	7, 729	1.3
Denmark.....	25	.3	3, 750	1.2	7, 653	1.2
France.....	175	2.1	4, 164	1.4	5, 433	.9
Greece.....	72	.8	1, 363	.4	5, 530	.9
Germany.....	2, 325	27.7	4, 946	1.6	11, 483	1.9
Netherlands.....	81	.9	3, 835	1.2	7, 282	1.2
Sweden.....	165	2.0	4, 930	1.6	7, 755	1.3
Switzerland.....	256	3.0	10, 187	3.3	18, 178	3.0
Czechoslovakia.....	226	2.7	6, 306	2.0	7, 022	1.1
Poland.....	215	2.6	3, 050	1.0	5, 970	1.0
Yugoslavia.....	120	1.4	4, 133	1.3	8, 456	1.4
Iran.....	33	.4	4, 425	1.4	13, 291	2.2
Argentina.....	207	2.5	11, 025	3.6	100, 052	16.4
Total.....	8, 542	100.0	308, 018	100.0	611, 705	100.0

¹ Considered sterling area for tabulation purposes.² Included in Germany.

Compiled by ECA Special Mission to Italy.

TABLE IV.—Trade by principal areas and countries—Continued

EXPORTS IN CURRENT LIRE VALUES JANUARY-SEPTEMBER, 1948, COMPARED WITH SIMILAR PERIOD IN 1938 AND 1947 (MILLIONS OF LIRE)

[Millions of lire]

Principal countries	1948 (9 months)		1947 (9 months)		1938 (9 months)	
	Value	Percent	Value	Percent	Value	Percent
Sterling area.....	764	13.3	30,524	21.9	69,162	18.6
United Kingdom.....	396	6.9	14,727	10.5	26,115	7.0
India.....	117	2.0	4,095	2.9	20,310	5.4
Union of South Africa.....	71	1.2	3,037	2.1	5,197	1.4
Egypt ¹	165	2.9	6,269	4.5	18,900	5.1
Dollar area.....	887	15.5	16,524	11.8	64,851	17.4
United States of America.....	555	9.7	7,519	5.4	35,581	9.5
Brazil.....	69	1.2	3,422	2.5	7,578	2.0
Mexico.....	24	.4	342	.2	4,675	1.3
Venezuela.....	28	.5	1,050	.7	4,668	1.3
Other countries.....	5,859	71.2	92,570	66.3	238,822	64.0
Austria.....	(²)	(²)	2,317	1.7	6,573	1.8
Belgium-Luxemburg.....	99	1.7	3,763	2.7	13,676	3.7
Denmark.....	42	.7	3,988	2.8	4,930	1.3
France.....	228	4.0	3,916	2.8	18,228	4.9
Greece.....	72	1.3	1,142	.8	4,297	1.2
Germany.....	1,469	25.6	1,498	1.1	11,930	3.2
Norway.....	72	1.3	3,250	2.3	7,008	1.9
Netherlands.....	93	1.7	4,901	3.5	7,262	1.9
Sweden.....	96	1.7	9,275	6.6	12,249	3.3
Switzerland.....	350	6.1	15,608	11.2	33,499	9.0
Turkey.....	53	.9	5,822	4.2	4,525	1.2
Czechoslovakia.....	101	1.8	4,209	3.0	4,339	1.2
Poland.....	85	1.5	404	.3	5,954	1.6
Yugoslavia.....	159	2.8	2,103	1.5	8,446	2.3
Syria.....	32	.6	2,013	1.4	5,955	1.4
Argentina.....	328	5.7	10,832	7.8	44,502	11.6
Total.....	7,510	100.0	139,618	100.0	372,335	100.0

¹ Considered sterling area for tabulation purposes.

² Included in Germany.

Compiled by ECA Special Mission to Italy.

TABLE V.—Italy's 10 principal suppliers and markets—1938 and 1948

[In millions of lire]

PRINCIPAL SUPPLIERS 1938

Country	Value	Percent	Country	Value	Percent
Germany.....	3,016	26.7	Argentina.....	274	2.4
United States.....	1,338	11.9	British India and Ceylon.....	269	2.4
United Kingdom.....	728	6.5	France.....	254	2.3
Switzerland.....	376	3.3	Czechoslovakia.....	254	2.3
Poland and Danzig.....	320	2.8	Rumania.....	253	2.3

PRINCIPAL SUPPLIERS 1948 (9 MONTHS)

United States.....	230,828	37.7	Brazil.....	13,823	2.3
Argentina.....	100,052	16.4	India.....	13,690	2.2
Australia.....	18,654	3.0	Iran.....	13,291	2.2
Switzerland.....	18,178	3.0	Germany.....	11,483	1.9
United Kingdom.....	17,554	2.9	Canada.....	11,261	1.8

Source. Italian Government.

TABLE V.—Italy's 10 principal suppliers and markets—1938 and 1948—Continued

[In millions of lire]

PRINCIPAL MARKETS 1938

Country	Value	Percent	Country	Value	Percent
Germany.....	2,002	19.1	Switzerland.....	405	4.7
Eritrea.....	1,325	12.6	Argentina.....	405	3.9
United States.....	782	7.5	France.....	328	3.1
United Kingdom.....	587	5.6	Ethiopia.....	295	2.8
Libya.....	526	5.0	Egypt.....	267	2.5

PRINCIPAL MARKETS 1948 (9 MONTHS)

Argentina.....	44,502	11.6	Egypt.....	18,900	5.1
United States.....	35,631	9.5	France.....	18,228	4.9
Switzerland.....	33,499	9.0	Belgium-Luxemburg.....	13,676	3.7
United Kingdom.....	26,115	7.0	Sweden.....	12,249	3.3
India.....	20,310	5.4	Germany.....	11,930	3.2

Compiled by ECA Special Mission to Italy.

TABLE VI.—Total exports, by months, 1946, 1947, and 1948

[In millions of 1948 dollars]

Month	1946 ¹	1947	1948	Month	1946 ¹	1947	1948
January.....	4	56.0	53.8	August.....	41	49.4	95.5
February.....	16	51.7	59.8	September.....	32	49.2	84.8
March.....	15	63.6	72.9	October.....	39	55.1	98.9
April.....	22	55.6	84.5	November.....	55	53.3	117.7
May.....	26	54.3	76.6	December.....	55	66.3	-----
June.....	24	52.9	80.0	Totals.....	359	606.3	² 918.1
July.....	30	58.9	93.6				

¹ 1946 values are very approximate.

² 11-month total.

Source: Italian Central Institute of Statistics.

TABLE VII.—Italy's principal 1938 markets, with comparisons for other years

	Value of exports in millions of 1948 dollars					Percent of total Italian exports				
	1926	1938	1947	January-September 1948		1926	1938		1947	January-September
				9 months	Annual rate		Including colonies	Excluding colonies		
Italian colonies.....	18.4	267.7	2.5	2.5	3.3	1.6	23.3	24.9	0.4	0.4
Germany.....	169.8	210.7	6.3	22.5	30.0	15.0	19.1	19.1	1.0	3.2
Austria.....	34.4	(1)	10.6	12.4	16.5	3.0	(1)	(1)	1.7	1.8
United States.....	118.3	82.3	39.4	67.0	89.3	10.4	7.5	9.7	6.3	9.5
United Kingdom.....	107.3	61.8	57.2	49.2	65.6	9.5	5.6	7.3	9.1	7.0
Switzerland.....	92.3	62.1	70.1	63.1	84.1	8.1	4.7	6.2	11.1	9.0
Argentina.....	68.4	42.6	52.0	83.8	111.8	6.0	3.9	5.0	8.3	11.9
France.....	129.1	34.5	15.9	34.3	45.7	11.4	3.1	4.1	2.5	4.9
Egypt.....	37.5	28.1	27.3	35.6	47.5	3.3	2.5	3.3	4.3	5.1
Yugoslavia.....	23.2	23.4	14.1	15.9	21.2	2.0	2.1	2.8	2.2	2.3
Hungary.....	8.1	17.6	2.6	1.7	2.3	.7	1.6	2.1	.4	.2
British India.....	40.5	16.0	17.0	38.3	51.1	3.6	1.5	2.0	2.7	5.4
Netherlands.....	11.8	15.7	24.4	13.7	18.3	1.0	1.4	1.9	3.9	1.9
Rumania.....	20.1	14.7	.2	3.7	4.9	1.8	1.3	1.7	(2)	.5
Sweden.....	6.7	14.4	39.4	23.1	30.8	.6	1.3	1.7	6.3	3.3
Czechoslovakia.....	11.3	14.3	21.7	8.5	11.3	1.0	1.3	1.7	3.4	1.2
Belgium-Luxembourg.....	22.5	14.2	19.7	25.8	34.4	2.0	1.3	1.7	3.1	3.7
Poland-Danzig.....	7.4	12.1	1.6	11.2	14.9	.7	1.1	1.4	.3	1.6
Spain.....	19.1	11.2	2.7	4.0	5.3	1.7	1.0	1.3	.4	.6
Turkey.....	36.6	10.4	22.7	8.5	11.3	3.2	.9	1.2	3.6	1.2
Brazil.....	18.2	10.3	15.5	14.3	16.1	1.6	.9	1.2	2.5	2.0
Norway.....	3.3	9.9	13.1	13.2	17.6	.3	.9	1.2	2.1	1.9
Greece.....	16.0	9.0	7.7	8.1	10.8	1.4	.9	1.2	1.2	1.2
Union of South Africa.....	5.4	7.7	11.0	9.8	13.1	.5	.9	1.1	1.8	1.4
Chile.....	7.5	7.7	4.2	1.8	2.4	.7	.7	.9	.7	.2
Australia.....	8.7	7.0	6.6	5.5	7.3	.8	.6	.8	1.0	.8
Albania.....	3.5	6.9	.4	(2)	(2)	.3	.6	.8	.1	(2)
Subtotal.....	1,045.4	994.1	505.9	577.5	769.9	92.2	90.0	87.2	80.4	82.2
Other countries.....	88.6	110.8	123.5	124.8	166.5	7.8	10.0	12.8	19.6	17.8
Total exports.....	1,134.0	1,104.9	629.4	702.3	936.4	100.0	100.0	100.0	100.0	100.0

¹ Austria included with Germany in 1938.

² Negligible.

Derived from Official Italian Government data.

TABLE VIII.—Italian Exports to eastern Europe, by principal product groups, 1938 and January-September 1948

[Thousands of current dollars]

	1938		January-September 1948	
	Percent	\$000	Percent	\$000
Eastern Europe, totals				
Fruits.....	22.6	9,467	2.5	1,079
Other foods.....	9.0	4,154	8.8	3,724
Textiles and clothing: wool, silk.....	34.2	14,319	32.8	13,966
Chemicals, drugs, and dyes.....	4.4	1,841	5.6	2,371
Vehicles and parts.....	8.8	3,692	17.3	7,367
Machinery.....	2.1	906	20.3	8,630
Metal manufactures.....	.8	334	1.1	469
Miscellaneous.....	17.2	7,204	11.6	4,923
Total.....	100.0	41,917	100.0	46,033
Yugoslavia:				
Fruits.....	5.8	635		
Other foods.....	12.0	1,313	8.6	1,370
Textiles and clothing: wool, silk.....	55.8	6,120	46.3	7,370
Chemicals, drugs, and dyes.....	2.9	319	5.0	783
Vehicles and parts.....	7.5	821	10.4	1,661
Machinery.....	1.5	171	20.0	3,180
Metal manufactures.....	2.4	250	1.6	259
Miscellaneous.....	12.1	1,330	8.1	1,237
Total.....	100.0	10,959	100.0	15,910

TABLE VIII.—*Italian Exports to eastern Europe, by principal product groups, 1938 and January-September 1948*

[Thousands of current dollars]

	1938		January-September 1948	
	Percent	\$000	Percent	\$000
Poland:				
Fruits.....	40.8	2,654	1.9	217
Other foods.....	1.6	92		
Textiles and clothing: wool, silk.....	7.7	437	5.9	656
Chemicals, drugs, and dyes.....	1.4	79	8.1	902
Vehicles and parts.....	6.0	339	45.3	5,080
Machinery.....	2.4	138	24.7	2,774
Metal manufactures.....			.7	76
Miscellaneous.....	34.1	1,934	13.4	1,504
Total.....	100.0	5,673	100.0	11,215
Czechoslovakia:				
Fruits.....	59.5	4,016	9.1	782
Other foods.....	9.3	621	23.4	2,428
Textiles and clothing: wool, silk.....	12.8	863	21.6	1,845
Chemicals, drugs, and dyes.....	2.4	155	5.6	481
Vehicles and parts.....	1.6	111	3.8	330
Machinery.....	2.5	162	19.0	1,072
Metal manufactures.....			.6	48
Miscellaneous.....	11.9	807	11.3	964
Total.....	100.0	6,735	100.0	8,550
Rumania:				
Fruits.....	4.7	329		
Other foods.....	15.4	1,062		
Textiles and clothing: wool, silk.....	41.3	2,833	87.0	3,247
Chemicals.....	6.7	462	1.8	68
Vehicles and parts.....	19.2	1,329	5.3	199
Machinery.....	3.0	208	1.8	68
Metal manufactures.....			.5	20
Miscellaneous.....	9.7	670	3.6	130
Total.....	100.0	6,913	100.0	3,732
USSR:				
Fruits.....				
Other foods.....			8.9	235
Textiles and clothing: wool, silk.....			23.6	623
Chemicals, drugs, and dyes.....			3.6	95
Vehicles and parts.....	13.2	3	18.0	477
Machinery.....	62.9	17	45.1	1,194
Metal manufactures.....	7.8	2		
Miscellaneous.....	16.1	4	.8	24
Total.....	100.0	26	100.0	2,648
Bulgaria:				
Fruits.....	4.1	132		
Other foods.....	.9	30		
Textiles and clothing: wool, silk.....	40.1	1,282	27.2	620
Chemicals, drugs, and dyes.....	21.2	678	8.2	187
Vehicles and parts.....	8.2	262	8.2	185
Machinery.....	2.1	64	17.2	392
Metal manufactures.....	2.6	82	4.6	105
Miscellaneous.....	20.8	660	34.6	789
Total.....	100.0	3,190	100.0	2,280
Hungary:				
Fruits.....	20.3	1,700	9.9	171
Other foods.....	12.4	1,037		
Textiles and clothing: wool, silk.....	33.1	2,765	44.4	768
Chemicals, drugs, and dyes.....	1.8	147	3.0	51
Vehicles and parts.....	9.9	826	2.3	40
Machinery.....	1.7	146	3.7	64
Metal manufactures.....				
Miscellaneous.....	20.8	1,735	36.7	634
Total.....	100.0	8,356	100.0	1,728

Derived from Official Italian Government Data.



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