

## *Policy for the South*

### **1. The South before the war and after**

With its population growing almost twice as fast as that of the rest of Italy<sup>1</sup> and outpacing income, the South experienced a progressive drop in living standards between 1938 and 1951. Per capita income fell drastically,<sup>2</sup> not least because the South's prevailing activity was still agriculture, and not notably prosperous agriculture at that.<sup>3</sup> Occupying around 60 per cent of the active population, agriculture supplied somewhat more than 40 per cent of total income, whereas industry, employing 22 per cent, accounted for about 20 per cent of income.

Various factors were responsible for the lower productivity of agriculture in the South compared with the North. These included the limited volume of capital invested, low livestock population density (60 per cent of the figure in the North) and a dearth of agricultural machinery (only 20 per cent of the threshing machines in Italy were in the South),<sup>4</sup> not to mention the damage that protracted combat between the German and Anglo-American forces, mainly in Campania and Abruzzo, had dealt to reclamation works in lands historically invaded by marshes. Of the national total of 9.8 million hectares to be reclaimed in 1943, 6 million were in the South.<sup>5</sup> To round out the picture of the depressed state of the South, the area, with its high birth rate, had an active population ratio of only 30 per cent, compared with 50 per cent in the rest of Italy, and, more important, an average unemployment rate of around 10 per cent. The situation, harbouring explosive political and social potential but not lacking in significant possibilities for development, could not fail to attract the government's attention. The first substantial project in favour of the South, outlined towards the end of December 1947, was a 5-year reclamation plan covering 700,000 hectares in 15 districts in central and southern Italy and costing more than 302 billion lire, of which 184 billion was to be borne by the landowners. This was followed by an even more ambitious endeavour to deal with irrigation, another problem of prime importance

<sup>1</sup> Between 1936 and 1951 the population grew by 9.54 per cent in the North and Centre and by 15.25 per cent in the South. See G. Di Nardi, "The program for the economic development of Southern Italy", *Review*, VI, 2 (March 1952), p. 99.

<sup>2</sup> In 1938 per capita income in southern Italy was equal to 56.3 per cent of the national average; in 1951 the corresponding figure was 33.25 per cent. *Ibid.*, pp. 99-100.

<sup>3</sup> Gross income per hectare of farmland in production was 30 per cent lower than in the rest of Italy. *Ibid.*, p. 100.

<sup>4</sup> As late as 1950 there was one tractor for every 114 hectares in the North, against one per 339.5 hectares in the Centre, 680 hectares in the mainland South and 852 hectares in Sicily and Sardinia. *Ibid.*

<sup>5</sup> D. Perini, "Land reclamation in Italy during the last 50 years" *Review*, III, 6 (November 1949), p. 510. The problem of reclamation was a constant in post-unification Italy and significant resources had been devoted to it. Between 1870 and 1943 such expenditure totalled approximately 17 billion historical lire, 6 billion of which was borne by private individuals.

for the South. A 10-year plan was prepared with the aim of adding first 376,000 hectares and then another 177,000 to the 1.5 million hectares already served by irrigation. The forecast cost to the state of these irrigation works was very substantial, amounting to some 120 billion lire; coupled with the planned expenditure on reclamation, the total cost was equal to roughly one half of the central government's annual revenues. Sustaining outlays of this magnitude would have been practically impossible without the assistance of the ERP's Lira Fund.<sup>6</sup>

## **2. The Marshall Plan and the Southern Italy Development Fund**

Marshall Plan aid helped to underwrite a far-reaching, consistent project for the Mezzogiorno. Law 646 of 10 August 1950 directed the government to draw up a 10-year plan of extraordinary public works in the South. Expenditure was to total 1 trillion lire, divided into equal annual instalments of 100 billion lire over the 10 years to 1960. In January 1952 the programme was lengthened to 12 years and annual expenditure raised to 125 billion.<sup>7</sup> The Southern Italy Development Fund, set up to run the programme, allocated almost half of the funds received under the Marshall Plan (or 440 billion lire) to reclamation and irrigation projects, more than a quarter (280 billion) to works required for the implementation of the agrarian reform, just over a tenth (110 billion) to aqueduct construction, a rather less than a tenth (90 billion) to road repair, 50 billion to reforestation and run-off and flood control, and 30 billion to tourism-related projects. The plan's broad goal was to eliminate some of the root causes of southern backwardness. Reclaiming the malarial swamplands that made up a good part of Italy's narrow coastal plains was a top priority.

According to Giuseppe Di Nardi, the plan was intended to complete the range of services that government must provide as prerequisites for raising the level of economic activity and employment. It was estimated that the planned investments would produce 6.21 million man-days of employment in the South alone. Counting the jobs created indirectly in the Centre and North as a result of the added demand for raw materials, machinery and manufactured consumer goods, on which the Fund was to spend at least one third of its resources,<sup>8</sup> the overall gain in employment rose to at least 7 million man-days. But even complete implementation of the plan would not be enough to stamp out southern unemployment. Like Costantino Bresciani Turrone, Di Nardi was of the view that this required a large inflow of foreign capital, to cover the balance-of-payments deficit that Italy would run until the new investments kicked in and generated the expected growth in national income.<sup>9</sup>

At any rate, by 1953 the Southern Italy Development Fund was already spending 6 billion lire a month. These resources flowed to hundreds of projects and had ripple

<sup>6</sup> *Ibid.*, pp. 513-14.

<sup>7</sup> Di Nardi, "The program for the economic development of Southern Italy", p. 101.

<sup>8</sup> G. Orsel, "The investment plan in Southern Italy as a national economic program", *Review*, VII, 3 (May 1953), p. 228.

<sup>9</sup> G. Orsel, "The investment plan in Southern Italy", pp. 229-30.

effects in various sectors. The enormous increase in the demand for cement, for example, indirectly brought forth additional investment. The same held for the iron and steel tubes needed for aqueduct construction, and the major industrial works required to turn them out were built in the South with the assistance of the Fund. The revitalization of the southern market also benefited the textile industry, counterbalancing its export crisis, and the automobile industry, which saw its southern sales rise by 17 per cent in 1952, with peaks of 27 per cent in Sardinia, 24 per cent in Calabria and 23 per cent in Campania.<sup>10</sup> In short, thanks also to the speed with which they become available, the Fund's investments stimulated the growth of industries directly tied to its interventions, such as cement, iron and construction machinery, and fulfilled the countercyclical function of economic stabilization.<sup>11</sup>

The beneficial effects continued between 1952 and 1955, when the number of employed workers rose by around 400,000. This was not enough to bring down unemployment, owing to population growth, but it helped cushion the impact of poor harvests in an area where farming was still the prevalent activity.<sup>12</sup>

### 3. Successes and difficulties in the Fund's first years

Four years after the passage of the law creating the Fund, Di Nardi drew up a balance sheet of its accomplishments to date and found the overall results unquestionably positive. The efficiency of the Fund's activity was demonstrated by the fact that between 50 and 60 per cent of the contracts it had awarded, for the sizable sum of 300 billion lire, were already being executed.<sup>13</sup> Three years

<sup>10</sup> G. Di Nardi, "Investment in public works for economic stability", *Review*, VIII, 3 (May 1954), pp. 227 *et seq.*

<sup>11</sup> L. Magnani, "Italy's achievements and experiences in depressed areas", *Review*, XI, 1 (January 1957), pp. 34-39.

<sup>12</sup> Di Nardi, "Investment in public works", pp. 229-30.

<sup>13</sup> Before the Fund was established the government had authorized the creation of industrial credit sections at Banco di Sardegna and Banco di Sicilia in 1944 and at Banco di Napoli in 1946. Law 1598 of 14 December 1947 authorized these industrial credit sections to grant loans of up to 10 billion lire for terms of up to 10 years, backed by government guarantees up to a maximum of 70 per cent and carrying a 4 per cent interest subsidy. Law 1419 of 15 December 1947 gave small and medium-sized firms special priority for these loans. Between 1946 and 1952 the major industrial firms operating in the South obtained loans totalling 120 billion lire under this programme (G. Dominici, "Credit policy for the development of Southern Italy", *Review*, XVIII, 6 (November 1964), p. 443). Other loans were disbursed through IMI, ICIPU and CREDIOP. With the aim of creating a more direct and larger flow of finance to southern industry and to small and medium-sized companies specifically, Law 445 of 22 June 1950 authorized the formation of regional medium/long-term credit institutions in which banks, insurance companies and other institutions would hold equity interests. Subsequently, Law 949 of 25 July 1952 approved the creation with government funds of Mediocredito Centrale, which was authorized to raise investment resources by way of bond issues. Law 298 of 11 April 1953 strengthened ISVEIMER, which had been operating in the mainland South since 1938, and established its counterparts IRFIS and CIS to operate in Sicily and Sardinia respectively. Law 135 of 16 April 1954 extended the scope of the industrial credit operations of these three institutions to include individual factories' stocks of raw materials. Law 634 of 29 July 1957 renewed the Southern

later, in 1957, re-examining the Fund's role in his contribution to a volume celebrating the tenth anniversary of the *Review*, Di Nardi emphasized that the increase in public spending had imparted new dynamism to the southern economy. In agriculture, Fund-approved improvement projects that private individuals had presented, taking advantage of the incentives offered by the Fund, amounted to about 128 billion lire over six financial years; state subsidies in respect of these projects totaled 48.5 billion. The situation in industry was more complex. Despite the Fund's interventions, industrialization still had to contend with such difficulties as inadequate road and telephone networks, deficient energy and water supply, and a shortage of skilled labour. In industry the Fund did not intervene directly but operated via three credit institutions, established or transformed in 1953: ISVEIMER on the mainland, IRFIS in Sicily and CIS in Sardinia made medium-term loans at subsidized rates for plant expansion and new plant construction.<sup>14</sup> To encourage such initiatives, the state granted a 10-year exemption from the tax on working capital, exemption from customs duties on imported machinery, special rail rates for shipments of machinery and a reduction in the general tax on turnover.<sup>15</sup> In their first three years ISVEIMER, IRFIS and CIS granted loans that financed 53.4 per cent of a total of 223.5 billion lire of new private sector capital spending in industry in the South.<sup>16</sup> Though appreciable, this was inadequate in relation to the size and population of the South, showing that private investment would fall short without the assistance of the state. It was therefore decided to extend the Fund's life at least to 1964-66 and to increase its financial endowment and investment capacity.<sup>17</sup>

Agriculture still accounted for the dominant share of the Mezzogiorno's net product.<sup>18</sup> Thus, with 37 per cent of the Italy's population and 41 per cent of

Italy Development Fund's term of existence and authorized it to grant interest subsidies to ISVEIMER, IRFIS and CIS on the loans they made to industrial enterprises in the South. The same law also authorized IMI, Centrobanca, Mediobanca, Efibanca, the industrial credit section of Banca Nazionale del Lavoro and the medium/long-term credit institutions of Tuscany, Latium and Marche to grant loans to southern industries on the same terms and conditions as ISVEIMER, IRFIS and CIS. For their part, the regional governments of Sicily and Sardinia used their special autonomous powers to assign to IRFIS and CIS respectively a special fund for subsidized lending to businesses established within their territories. Law 623 of 30 July 1959 created a nationwide programme of subsidized credit for small and medium-sized firms, with loans for a term of up to 15 years in the South and 10 years in the Centre and North. The maximum loan in the South was set at 1 billion lire for new plant construction and 500 million lire for plant expansion (G. Dominici, "Credit policy", pp. 438 *et seq.*)  
<sup>14</sup> SVIMEZ, *Agevolazioni per l'industrializzazione e lo sviluppo economico del Mezzogiorno*, Rome, 1955.

<sup>15</sup> Magnani, "Italy's achievements", p. 42; Dominici, "Credit policy", p. 451.

<sup>16</sup> It was also decided to extend the Fund's interventions to include vocational training, subsidies for fishing cooperatives, the completion of aqueducts and sewers in towns with a population of less than 10,000, and grants to private companies for the production and distribution of energy needed for land reclamation and other purposes. Magnani, "Italy's achievements", pp. 42-44.

<sup>17</sup> G. Di Nardi, "Politica di sviluppo in Italia", in *L'economia italiana nel decennio 1947-1956. Review*, special tenth anniversary issue, 1957, pp. 126-27, 134.

<sup>18</sup> C. Vannutelli, "Unemployment statistics in Italy", *Review*, IV, 4 (July 1950), p. 300.

Italy's territory, the South supplied only a quarter of national income; its per capita net product was barely 65 per cent of the national average. Given a high and rising birth rate, overpopulation remained a problem, not least because emigration had slowed to a trickle soon after the Great War.<sup>19</sup>

#### 4. Emigration

In reality, emigration from the South resumed immediately after the Second World War, thanks more to the initiative of Italians with relatives and friends abroad, especially in the Americas, than to the opening of borders.<sup>20</sup> But the flow was modest, not exceeding 150,000 a year, and with 200,000 workers entering the labour market each year unemployment seemed bound to grow. It thus appeared opportune to encourage emigration. The question was how.

The issue was soon brought to the attention of the International Labour Organization, as J. David Zellerbach, head of the Economic Cooperation Administration mission, remarked in a talk delivered at Banco di Roma in December 1948.<sup>21</sup> A series of international meetings and negotiations at various levels ensued. Justo Giusti Del Giardino, director general for emigration, noted that the government had done its utmost on this front. In the early fifties, four countries – Argentina, Australia, Brazil and France – displayed an interest in taking immigrants. Italian emigration to Argentina had resumed after the war, and the Italian government hoped to see agricultural joint ventures established there, with the Italian capital to come from the assets frozen in Argentina during the conflict.

Agreements were also signed with Brazil, which declared it was willing to take Italian immigrants for work in non-farming sectors as well as in agriculture. Some difficulties were encountered with France; citing trade-union and local opposition, Paris saw scope for seasonal immigration at harvest time in certain regions, but considered permanent immigration less feasible. The most encouraging agreement was that with Australia, which accepted to take tens of thousands of Italians a year over and above the normal, spontaneous flow of immigration. To facilitate departures the Italian government promised almost full coverage of the passage to Australia, in part through loans booked by the ICLE<sup>22</sup> and in part in outright grants.

Italy also entered into negotiations for agreements with Switzerland, Belgium, Venezuela and Canada.<sup>23</sup> The United States could have given work to hundreds

<sup>19</sup> J. Giusti Del Giardino, "International emigration problems", *Review*, VI, 3 (May 1952), pp. 182 *et seq.*

<sup>20</sup> "Mr. Zellerbach at the Banco di Roma", *Review*, III, 1 (January 1949), p. 23.

<sup>21</sup> Istituto di credito per il lavoro italiano all'estero.

<sup>22</sup> Giusti Del Giardino, "International emigration problems", pp. 183 *et seq.*

<sup>23</sup> E.P. Hutchinson, *Legislative History of American Immigration Policy 1798-1965*, (University of Pennsylvania Press, Philadelphia, 1981), pp. 276, 288, 295, 299, 311, 320, 329 and 333.

of thousands of Italians, but a return to unrestricted immigration was not in the realm of possibility. Even with influential Italian-American politicians and the Italian-American community exerting pressure on Washington, Rome was unable to surmount the wall of the 1924 Immigration Act and the opposition of substantial sectors of US public opinion. Only after 1950 did Washington authorize immigration for tens of thousands of Italians.<sup>24</sup> It should be recalled, however, that in those years the United States took in not only relatives of US citizens but also hundreds of thousands of political refugees from Europe and other parts of the world.<sup>25</sup>

### 5. Small and medium-sized industry

While the Southern Italy Development Fund's reclamation, irrigation and other improvement projects were already remaking the agrarian landscape of the Mezzogiorno, initiating a transfer of population from the highlands to the drained and now prospectively prosperous plains, industry was still struggling to take off, even though a 1957 law reserved 40 per cent of new public investment in industry for the South.

To be sure, some small and medium-sized companies had sprung up in the South, and particularly in the province of Naples, at the initiative of local businessmen and outsiders attracted by the concessionary interest rates and deferred repayment schedules applied to loans for new factories or plant expansion in the South.<sup>26</sup>

Yet these new enterprises and expansion projects often proved unable to fuel exports, stimulate secondary industrial growth or increase employment.<sup>27</sup> With the threefold aim of rectifying this situation, preparing small and medium-sized enterprises for the inevitable risks of competition engendered by the full implementation of the European Economic Community, and countering the effects of the recession that afflicted Italy in 1958 and early 1959, the government laid down new rules for subsidized credit. Law 623 of 30 July 1959<sup>28</sup> provided for subsidized medium-term lending to industry, setting a scale of priorities and reserving such finance only for investments that would promote the industrialization of underdeveloped areas. The so-called Colombo Law (named after its chief government sponsor, Minister Emilio Colombo) made credit an instrument of industrial policy.<sup>29</sup> The 15-year subsidized loans granted in the

<sup>24</sup> Giusti Del Giardino, "International Emigration Problems", pp. 193-95.

<sup>25</sup> F. Ventriglia, "Credit as an instrument of Italy's industrial development policy", *Review*, XIV, 2 (March 1960), pp. 131-32.

<sup>26</sup> *Ibid.*, pp. 132 *et seq.*

<sup>27</sup> See note 14.

<sup>28</sup> Ventriglia, "Credit as an instrument of Italy's industrial development policy", p. 134.

<sup>29</sup> *Ibid.*, p. 137.

period from 12 August 1959 to 30 June 1961 on its basis carried interest of 5 per cent for industries located in the Centre and North and 3 per cent for those in mainland Southern Italy, Sicily and Sardinia;<sup>30</sup> up to then the prevailing interest rates had been between 5.5 and 7.5 per cent on 5-year loans in the Centre and North and between 4 and 5.5 per cent on 15-year loans in the South. Another innovative feature was that the award of interest subsidies was not automatic; the Ministry for Industry reserved the right to decide whether to grant subsidies only after weighing the merits of the financial plan.<sup>31</sup>

New interpretations and conditions were issued during the two years in which Law 623/1959 was in effect. The Interministerial Committee for Credit and Savings eliminated the ceiling of 500 workers for a company to qualify as medium-sized, and raised the ceiling of invested capital to 6 billion lire for firms in mainland Southern, Sicily and Sardinia. The size of the loans was also increased.<sup>32</sup>

These changes responded to the demands of the larger firms and were not intended to foster the creation of a select, robust fabric of small and medium-sized firms. Some 5,000 applications were received for subsidized loans under Law 623/1959; 3,000 of these, amounting to 238 billion, passed screening and were submitted to the Ministry of Industry for examination. In the end 2,791 applications were approved for finance totalling 213.5 billion lire, compared with an aggregate investment commitment of between 355 and 390 billion. A breakdown by loan size shows that those larger than 500 million lire, representing just 1.2 per cent of the total number, received 14.7 per cent of the total finance; loans of between 101 and 500 million lire accounted for 15.8 per cent of the operations and 48.2 per cent of the total finance. In other words, out of the 2,791 firms that received finance, 476 companies, or 17 per cent, obtained 62.9 per cent of the total amount. The geographical distribution of loan approvals and finance is even more revealing. Only 726 of the 2,791 loan applications approved, or 26 per cent, originated in the South; these loans accounted for 31.8 per cent of the total amount. The most active southern regions were Campania, Apulia, Sicily and Sardinia;<sup>33</sup> Campania received 14.5 per cent of the total amount of credit disbursed; the others received between 4.9 to 6.1 per cent each. As to the sectorial distribution of loans in terms of number and amount, we find, *inter alia*, engineering with 16.8 per cent of the number and 19.2 per cent of the total amount, food processing (14.3 and 15 per cent), chemicals (4.9 and 10.1 per

<sup>30</sup> *Ibid.*, pp. 138-39.

<sup>31</sup> F. Ventriglia, "Credit to small and medium industry", *Review*, XV, 5 (September 1961), pp. 421-22.

<sup>32</sup> Loans approved numbered 259 for Campania, 107 for Sicily, 105 for Puglia and 101 for Sardinia.

<sup>33</sup> Ventriglia, "Credit to small and medium industry", pp. 419 and 426-29. Acting on the government's proposal that the law be extended, Parliament examined amendments designed to abolish the loan ceiling for firms located in the South. In the end, the Interministerial Committee for Credit and Savings was empowered to determine the ceiling case by case in the light of general economic and credit conditions.

cent), construction materials (11 and 8.9 per cent), wood (7.7 and 4.1 per cent) and textiles (7.3 and 8.4 per cent).<sup>34</sup>

## **6. The creation of the IASM**

The response of southern businessmen to Law 623/1959 was limited. Many traced this to faulty technical, economic and financial knowledge of the application procedures and deadlines. In order to obviate this difficulty, assuming it was the real cause of the South's failure to take advantage of the law, the government, while the law was being refinanced,<sup>35</sup> established the Institute for Assistance in the Development of Southern Italy (IASM) on 27 September 1961. The three southern medium-term credit institutions, ISVEIMER, IRFIS and CIS, participated in the new entity, which was charged with promoting and assisting enterprise creation and plant modernization and expansion.<sup>36</sup> According to Alessandro Molinari, who was appointed its president, the lack of an institution like the IASM had retarded southern industrialization and curbed the effectiveness of governmental measures for the South.<sup>37</sup>

The IASM began to function on 1 January 1962 and pursued its objectives by means of a variety of instruments and initiatives: sectorial surveys and studies, consultation on diverse aspects of economic development, training, advice on public supply contracts, technical and financial assistance, national and international marketing studies, and aid in setting up consortia for industrial districts.<sup>38</sup>

## **7. The debate on the fate of the Southern Italy Development Fund**

With the Southern Italy Development Fund's mandate scheduled to conclude at the end of 1964, criticism of its activity and results was heard from several quarters. Giulio Pastore, chairman of the Committee of Ministers for the South, responded with a spirited defence of the Fund's achievements and a plea for the continuation of special investment in the Mezzogiorno. Whereas in 1952 agriculture had accounted for around 55 per cent of southern employment, in 1963 its share in employment did not exceed 40 per cent, Pastore recalled. Over the same period agriculture's contribution to the South's gross income declined from over 40 to just 32 per cent.<sup>39</sup> In the last four years investment in agriculture

<sup>34</sup> *Ibid.*, p. 419.

<sup>35</sup> A. Molinari, "Institute for assistance in the development of Southern Italy", *Review*, XVI, 3 (May 1962), pp. 187 *et seq.* <sup>36</sup> *Ibid.*, p. 189.

<sup>36</sup> *Ibid.*, pp. 192-99.

<sup>37</sup> G. Pastore, "Development policy in Italy and the law on Southern Italy", *Review*, XVIII, 6 (November 1964), p. 417.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*, p. 419.

had grown at an average annual rate of 13.3 per cent in the South, compared with 9.8 per cent in the North and Centre. Likewise, investment in industry had expanded by 24.5 per cent a year in the South, compared with 10.2 per cent a year in the rest of the country. Thanks to this boost, income had increased by 6.9 per cent a year in the South, compared with 6.7 per cent a year in the rest of Italy. This represented an enormous step forward, considering that between 1950 and 1958 the South had recorded an average annual income growth of 3.8 per cent, well below the figure of 5.9 per cent for the North and Centre.<sup>40</sup>

Answering those who asserted that the time had come to wind up special measures and to tackle the "southern question" as part of the plan for national economic development, Pastore said the Fund had to be considered "one of the most important acquisitions of the development policy". Its transformation was conceivable only within the hypothetical framework of a politically-organized planned economy, endowed with all the technical and administrative levers and all the links to economic and social reality necessary for its operation. In the absence of this kind of political, administrative and social machinery, it would be a very serious mistake to do away with a structure that had performed so well. With the Fund, for the first time in Italian administrative history there was "a public body operating in a plurality of sectors and spreading its investment decisions over a span of several years".<sup>41</sup>

The consensus view was opposed to the dispersion of government measures. Pastore agreed that, now that the Fund had helped to provide a body of infrastructure and public utilities and to stimulate the establishment of a certain number of manufacturing firms (including some very advanced operations), it should concentrate its activity in specific areas where its efforts could pay off with rapid employment growth coupled with adequate productivity gains.<sup>42</sup> To this end, it would be appropriate to shift responsibility for some sectors back to the domain of ordinary administration and to reserve for the Fund full responsibility for coordinating stepped-up measures in the industrial areas and centres, irrigated districts and tourist areas. In conclusion, Pastore argued that the duration of the Fund and its ancillary organizations should be extended for 15 years. More than full employment, the goal was to equip the South with an economic structure aligned with that in place in the rest of Italy.<sup>43</sup>

## **8. Full employment and southern development**

The results of the 1961 census were published while the fate of special investment in the South was under debate, and, as Di Nardi emphatically

<sup>40</sup> *Ibid.*, p. 423.

<sup>41</sup> *Ibid.*, pp. 424-25.

<sup>42</sup> G. Di Nardi, "Regional development in Italy" *Review*, XVIII, 6 (November 1964), p. 426.

<sup>43</sup> *Ibid.*, p. 427.

remarked, "a cry of alarm rose up in Italy concerning the fate of the regional development policy".<sup>44</sup> Between the 1951 census and that of 1961 the population of the South grew at a natural rate of between 14 and 15 per thousand, while that of the North and Centre expanded at one of between 4.8 and 5.9 per thousand. And although the initial figures for 1962 and 1963 indicated that native population growth in the South was slowing down, the rate was still very considerable at 13.4 and 13.7 per thousand respectively, compared with 5.2 and 5.9 per thousand in the rest of Italy.<sup>45</sup>

Against this backdrop, the South's social fabric had been saved only by the emigration of 2,100,000 persons, or about 12 per cent of the southern population, between 1951 and 1961. This allowed the South's share of Italy's population to fall from 38.2 to 37.7 per cent, despite the high regional birth rate.

As mentioned earlier, emigration from the South was directed not only towards Australia, Canada, the United States and northern Europe but even more notably to the cities of the North of Italy, where local authorities struggled to stretch resources and services that were meagre enough as it was. Worst of all, Di Nardi stressed, the outflow was strongest from the agricultural interior and had entailed the abandonment of houses and farms in some of the districts coming under the agrarian reform.<sup>46</sup> On the one hand, energy and capital had been wasted; on the other, more money now had to be spent to supply housing and services to the growing multitude of southerners who had moved north. If this trend continued, it would be useless to keep on pursuing the structural conversion of the southern economy; inexorably, regional development policy's drive to industrialize the South would have to be abandoned.<sup>47</sup>

But the whole country stood to lose if the industrialization of the South ground to a halt. A reversal would be all the more disappointing since the census figures indicated that industry was making headway in the South, as evidenced by the visible growth in per capita income. The South's industrialization thus continued to be an issue of vital interest. Amidst calls for a more vigorous approach to regional development policy, it was proposed that all future investments by state-controlled companies should be in the South (compared with the 40 per cent obligatory quota in force up to then); further, that the aims of the national economic development plan should include creating 40-45 per cent of all new jobs in the South in non-farming employment. Other suggestions included additional incentives, a massive increase in public spending on

<sup>44</sup> *Ibid.*, pp. 426-27.

<sup>45</sup> Between 1959 and 1963 the South's employment rate rose from 93.8 to 97 per cent and its unemployment rate (excluding first-job seekers) fell from 4.1 to 1.6 per cent. Quasi-full employment was thus achieved. *Ibid.*, p. 434.

<sup>46</sup> N. La Marca, "Financial incentives for industrial enterprises in Southern Italy", *Review*, XXI, 4 (July 1967), pp. 293-97.

<sup>47</sup> F. Bernstein, "Consortia for the industrial development areas and industrial nuclei in Southern Italy", *Review*, XXV, 5 (September 1970), pp. 317 *et seq.*

infrastructure to prepare industrial areas and major tourist centres, and technical and financial assistance for farmers and small and medium-sized firms.

## 9. Planning and the South

In effect, 1965 marked a change in policy towards the Mezzogiorno. In the context of the planning approach that had been adopted, Law 717 of 26 June 1965 charged the Interministerial Committee for Economic Planning (CIPE) with approving a plan coordinating ordinary and extraordinary intervention for the South's economic development, setting the ceilings and general parameters for dispensing financial incentives. Uncertainty as to the latter temporarily paralyzed applications for aid, and it was not until February 1966 that the mechanism entered into operation. To be eligible for incentives, a firm had to meet at least one of the following criteria: a) it used materials or semi-finished goods produced in the South or made products that other southern companies would use; b) it produced capital goods, instruments used in production or related equipment; c) it improved, increased or rationalized the exploitation of local resources, including mineral or energy products; d) its products made it a player in the international market, increasing Italy's exports; e) it helped to modernize local or national sectors of production, especially by bringing cost reductions and technical improvements in production and marketing; f) it introduced new processes or products. Qualifying new firms or expanding companies could avail themselves of soft loans, subsidies for inventory and an outright grant of up to 40 per cent of fixed capital.<sup>48</sup>

The eligibility requirements described above reflect the government's efforts to devise more effective formulae for the industrialization of the South, which was also the aim of the steps taken to create consortia for the industrial development areas and nuclei in the Mezzogiorno.<sup>49</sup>

## 10. Towards "planned bargaining"

The exodus from the South continued even in the absence of incentives. Analyzing the data for the period 1961-69 - a flow of 8.4 per cent a year, compared with 10 per cent in the previous years - Tagliacarne pointed out that not a single southern region showed a trade surplus. Between 1963 and 1969 the South had an overall deficit of more than 13 trillion lire, while the Centre and North ran a surplus of over 18 trillion.<sup>50</sup> The South was a major importer of goods, but a very

<sup>48</sup> G. Tagliacarne, "Socio-economic dynamics between North and South", *Review*, XXV, 2 (March 1971), pp. 97 *et seq.*

<sup>49</sup> According to Tagliacarne's calculations, the number of southerners who emigrated to the North averaged 78,000 a year between 1951 and 1961 and 200,000 a year between 1961 and 1969. *Ibid.*, p. 97.

<sup>50</sup> *Ibid.*, pp. 107-108.

fair share of the goods the South imported from the North would not have been produced if masses of southerners had not gone North to work in the factories.<sup>51</sup> There was “no ‘exploitation’ of one part of the country by the other”; if the southerners had worked in their home regions, the North’s output would have been proportionately smaller and the South’s larger. Producing more goods, the South would have had to rely less on the North to satisfy its consumption and investment. The solution was not to introduce disincentives designed to reduce productive capacity in the Centre and North, as some proposed, but to continue to offer incentives for the South.<sup>52</sup>

In the context of the planning approach that the government had just adopted, a growing number of observers favoured accelerating the South’s industrialization by putting one of the objectives of the five-year plan for 1965-69 on the fast track through recourse to “planned bargaining”.<sup>53</sup> This involved government and business agreeing the conditions, size and location of new industrial investments in a way that would not encroach on freedom of enterprise. It was up to government to provide the necessary infrastructure, particularly in the field of communications, and to foster the creation, in existing or new industrial centres and districts,<sup>54</sup> of a group of complementary industrial activities.<sup>55</sup> The idea was to assemble blocks of investments in public and private sector firms, ensuring the formation of those clustering factors that were vital to make businesses viable and competitive.

## **11. Planned bargaining**

This policy shift, heralded by FIAT and IRI on behalf of private and public industry respectively,<sup>56</sup> became operational in January 1968 following the definition of the related procedures, the role to be played by the so-called select committee of ministers and the technical committee, and the task to be performed on behalf of small firms by the IASM in tandem with the local associations of industry.<sup>57</sup> It was decided that the government, in bargaining with private and public industry, could use fiscal, monetary and financial policy instruments in order to facilitate the financing of “investment blocks” in the South<sup>58</sup> or large-scale undertakings capable of increasing employment.<sup>59</sup>

<sup>51</sup> This view was strengthened by the fact that the South had not benefited from the economic recovery of 1966.

<sup>52</sup> *Ibid.*, p. 165.

<sup>53</sup> *Ibid.*, p. 163.

<sup>54</sup> *Ibid.*, pp. 170-71.

<sup>55</sup> *Ibid.*, pp. 164 *et seq.*

<sup>56</sup> *Ibid.*, p. 166.

<sup>57</sup> *Ibid.*, p. 169.

<sup>58</sup> N. Novacco, “Regional policy for the development of Southern Italy, 1960-1980”, *Review*, XXV, 4 (July 1971), pp. 271-97.

<sup>59</sup> *Ibid.*, p. 290.

It was not long before the new policy produced significant industrial investment in the South.<sup>60</sup> ENI and Montedison drew up a \$3,200 million plan for plant construction to produce basic chemicals, resins, synthetic fibres, plastics and other products. In iron and steel, IRI, through Italsider, and Breda, through its affiliates, agreed to invest \$3,200 million to build blast furnaces. Half of these projects were scheduled for completion by 1975, with employment forecast at 18,000. In turn, FIAT approved \$400 million of investment in plants to produce cars, construction machinery, aviation components, tractors and other durables. In the province of Naples, the construction of IRI's Alfa-Sud motorworks was accelerated, with an investment of \$480 million and forecast employment of 14,000. The Olivetti group planned investments amounting to \$30 million and expected to create 2,000 jobs. Several IRI-group companies approved \$240 million of investments in the electronics industry that was forecast to employ 3,000 workers.<sup>61</sup> Pirelli-Dunlop gave the green light to a \$160 million plant construction and expansion plan in the sector of rubber, cable and allied products, with expected employment of around 6,000.<sup>62</sup> At the same time, the Southern Italy Development Fund was authorized to make direct investments of more than 7 trillion lire, an amount equal to the Fund's total expenditure in the twenty years 1951-70.<sup>63</sup> Finally, the second 5-year plan, covering 1971-75, earmarked 40 per cent of total national investment for the South – in money terms, around 56 trillion lire – compared with 27 per cent in the period 1960-69. The investments made during the plan were expected to create 800,000 nonagricultural jobs, of which 300,000 in industry.<sup>64</sup>

The importance of these prospects was magnified by the fact that employment in the South contracted from 6.5 to 5.9 million between 1960 and 1969: agriculture shed some 900,000 workers, a loss partly offset by the increase of 300,000 in non-farming employment (less than 90,000 in industry).<sup>65</sup>

## 12. Europe and the Mezzogiorno

The role of EEC policy towards the backward areas was the subject of lively debate in the early seventies. According to Nino Novacco, the so-called Europe of the Regions must not consist in the Community adopting the policy of its individual member states towards their respective backward areas. It was best if the Community assumed a direct responsibility vis-à-vis these areas, distinguishing its role from that of the member states with authentically supranational aims and interventions.<sup>66</sup>

<sup>60</sup> *Ibid.*

<sup>61</sup> *Ibid.*, p. 293.

<sup>62</sup> *Ibid.*, p. 295.

<sup>63</sup> *Ibid.*, pp. 289-91.

<sup>64</sup> *Ibid.*, p. 296.

<sup>65</sup> N. La Marca, "Southern Italy in a more realistic EEC regional policy", *Review*, XXV, 6 (November 1971), pp. 474 *et seq.*

<sup>66</sup> N. La Marca, "New possibilities of aid for productive enterprises in Southern Italy with recent EEC regional policy decisions", *Review*, XXVI, 4 (July 1972), pp. 284 *et seq.*

With specific regard to European regional policy and the Mezzogiorno, La Marca remarked that there were strong reasons to believe the European Social Fund would be of practical assistance to the South. Its resources could be tapped for basic and specialized vocational training, reforestation programmes and even for moving flows of financial investment towards industrial projects capable of having a real impact on unemployment.<sup>67</sup> In a subsequent article on several proposals that had been put forward by the EEC Commission, La Marca described the importance of an autonomous EEC regional policy and the potential benefits for the South.<sup>68</sup>

### **13. Special projects**

In October 1971 a new law for the South put southern development policy entirely in the hands of the CIPE, which was to set financial and non-financial priorities and objectives and pass judgement on subsidized credit and other forms of aid. The law contemplated the granting of incentives to industrial and commercial enterprises, with financing included in the 7.2 trillion lire allocated under the government's second 5-year plan (covering 1971-75).<sup>69</sup> The decision to centralize responsibility in the CIPE was accompanied by a sharp and wide-ranging debate whose jumping-off point was the scant efficacy of past incentives for industrialization and which saw many advocate a shift in emphasis from capital-intensive to labour-intensive branches of industry. The new law placed the "southern question" squarely at the centre of national economic policy with the creation of "special projects", i.e. interregional and/or intersectorial projects for the construction of major infrastructure, facilitating new plant construction, urban development, the performance of particular types of economic activity, and the rational exploitation and protection of environmental resources. Formulated by the Minister for the South or by regional governments, the projects were to be approved by the CIPE under a specific procedure and then entrusted to the Southern Italy Development Fund as the executive agency.

### **14. The 1971 census**

The new law was promulgated after the publication of the 1971 census, whose results clarified the magnitude of Italy's transformation.

Between 1951 and 1971 GDP grew at an average annual rate of 5.4 per cent, as former Prime Minister Emilio Colombo observed in an analysis which appeared

<sup>67</sup> A. D'Alessandro, "The new law for Southern Italy", *Review*, XXVI, 1 (January 1972), pp. 54 *et seq.* "Economic survey", *Review*, XXIX, 1 (January 1975), pp. 75-76. "Economic survey", *Review*, XXX, 2 (March 1976), pp. 119-20, *Ibid.*, p. 122.

<sup>68</sup> E. Colombo, "On socio-economic change in Southern Italy", *Review*, XXVI, 6 (September 1972), pp. 441 *et seq.*

<sup>69</sup> *Ibid.*

in the *Review*.<sup>70</sup> Over the same period annual investment rose from 2,650 to 8,721 billion lire, or by 6.1 per cent a year, and consumption by 5 per cent a year. The contribution of agriculture to GDP fell from 24 to 13 per cent, while that of industry rose from 34 to 45 per cent; the share of the services sector diminished slightly, from 43 to 42 per cent. The number of workers in agriculture dropped from nearly 9 million in 1951 to 3,650,000 in 1971, but agriculture's gross product increased by 50 per cent and the standard of living of the agricultural workforce improved appreciably. The number of workers in industry grew from 5,803,000 to more than 8 million, i.e. from 31 to 46 per cent of the labour force. Similarly, those in services increased from 4 million to nearly 6 million and from 22 to 33 per cent of the labour force.

In the span of two decades Italy had thus become a primarily industrial country; around a fifth of its labour force was now in agriculture. If this was the picture for Italy as a whole,<sup>71</sup> what about the South?

No doubt the South had experienced an immense transformation in the period in question. It had absorbed 40.2 per cent of all expenditure on public works thanks to which 1 million hectares of land had been reclaimed, 400,000 hectares irrigated and more than 100,000 hectares reforested; thousands of towns and villages had been connected to aqueducts, industries had been founded or expanded, and the road and motorway network had been vastly improved. But though the rate of growth in gross fixed investment had been higher in the South (8.4 per cent) than in the Centre and North (6 per cent), the South's 4.9 per cent rate of GDP growth had been below the national average of 5.4 per cent.

Although 4,372,840 southerners had emigrated,<sup>72</sup> the South's population rose by 1,091,000 between 1961 and 1971. The population of Campania, Apulia, Sicily and Sardinia grew, while that of Abruzzo, Molise, Basilicata and Calabria declined. Around 1,800,000 workers abandoned agriculture, compared with 3,200,000 in the rest of Italy; the number of workers in industry and services rose about 600,000 and 500,000 respectively, compared with increases of 1,800,000 and 1,200,000 in the rest of Italy.<sup>73</sup> In a nutshell, despite the overall improvement, which was also highlighted by the rise in per capita income, there was still a long way to go, Colombo admitted<sup>74</sup>. Then, at this point, the 1973 oil shock crashed like a boulder to block the road.

## 15. The oil crisis and the South

The first consequence of the oil crisis was an abrupt fall in investment in the South. Investment began to decline in 1974 and plunged further by 20 per cent

<sup>70</sup> F. Ventriglio, "Results and prospects of the policy for southern Italy", *Review*, XXVII, 1-2 (January-March 1973), p. 28.

<sup>71</sup> Colombo, "On socio-economic change in Southern Italy", pp. 445-47.

<sup>72</sup> *Ibid.*, pp. 446-49.

in 1975. The recession revealed the fragility of Italian industry.<sup>75</sup> In 1974 the demand for textiles, clothing, wood, construction materials and certain engineering products contracted sharply, reducing the index of industrial production by 4.5 per cent by the end of the year. In quite a few industries, including automobiles and textiles, the number of man-hours worked fell and that of hours covered by short-time compensation surged; in October 1974 the latter was more than three times higher than a year earlier.<sup>76</sup> Nor was there any substantial improvement in 1975: the index of industrial production showed some signs of reviving but still remained 12 per cent below its pre-recession peak; over the year output fell by 9.5 per cent in industry as a whole, and by 10.2 per cent in manufacturing. The utilization rate of plant capacity fell from 78.3 per cent in the fourth quarter of 1974 to 68 per cent in the same period of 1975.<sup>77</sup> There was, moreover, little prospect of rapid recovery, given the political uncertainty caused by the wave of terrorism in Italy, the crisis of several European countries and the resulting imbalances in international and especially intra-Community relations.<sup>78</sup> A retrenchment of investment in the South was inevitable, but the South appears to have withstood the initial impact of the crisis rather well. In 1975, for example, the contraction in GDP was smaller in the South than in the Centre and North (1 per cent, compared with 4.6 per cent). The same was true of the fall in industrial output (7.9 per cent, compared with 10.4 per cent). Moreover, gains were larger in the South than in the rest of Italy in agricultural production (5.5 per cent, compared with 2.2 per cent) and in services (2.1 against 0.2 per cent). On the other hand, the collapse in construction was more severe than in the Centre and North (8.3 against 8.1 per cent). Consumption in the South remained practically unchanged, whereas it diminished by 1.9 per cent in the rest of Italy. However, the South's greater resistance to the crisis reflected not the solidity of its economic structure but its marginality and relative backwardness vis-à-vis the North and in the international context.<sup>79</sup> Unless the situation on the energy front improved, the repercussions of the crisis were bound to increase.

## 16. Industrial conversion and the South

The crisis that raged through much of the international economy in those years laid bare the limits and fragility of the industrialization of the Mezzogiorno, precariously based on local units of northern firms and unable to foster a cohesive

<sup>75</sup> L. Guantario, "Southern Italy and industrial reconversion", *Review*, XXX, 5 (September 1976), p. 409.

<sup>76</sup> "Economic survey", *Review*, XXIX, 1 (January 1975), pp. 75-76.

<sup>77</sup> "Economic survey", *Review*, XXX, 2 (March 1976), pp. 119-20.

<sup>78</sup> *Ibid.*, p. 122.

<sup>79</sup> Guantario, "Southern Italy and industrial reconversion", pp. 408-409.

<sup>80</sup> *Ibid.*, p. 410.

<sup>81</sup> *Ibid.*, pp. 410-12.

industrial structure, especially at a time when the parent companies and industrial centres back North were themselves hard pressed. Furthermore, the cost of labour in the South was not low enough compared with the less developed countries to stimulate the creation or relocation of labour-intensive industry. Southern industry therefore ran "the risk of being squeezed between those enjoying high levels of productivity and those enjoying low labour costs".<sup>80</sup>

The prospects were even more alarming, for the oil crisis and the changes in the international division of labour between rich countries and poor ones cast doubt on the future of some the sectors that constituted the backbone of southern industry – automobiles, synthetic fibres and textiles. A decline in employment in these industries would aggravate the situation in the South, which, as home to 35 per cent of all Italians, was still burdened by an excess of population, notwithstanding the continuing stream of emigration. With these industries forced to embark on rationalization in order to survive, the South, through no fault of its own, was catapulted into restructuring. According to Luigi Guantario, "if reconversion is to correspond to the needs of economic and social growth in southern Italy, it must act to shift the industrial centre of gravity of the country towards the South". For this to happen, there would have to be a further decentralization of northern industries and a transfer of workers from manufacturing to services in the North. But it was a good deal more likely that the prevailing model would continue to reign, with more mass migration from the South and a reaffirmation of the South's destiny as a "labour reservoir" for the North.<sup>81</sup>

## 17. The Mezzogiorno: a dependent economy

In the succession of downturns and short, sharp upswings that characterized the ten years ending in 1973, the South, building on the fifties' legacy of growth in the nation's economy, was transformed from a predominantly agricultural society into "an urban society with a substantial level of industrialization". By contrast, the period from 1974 to 1978, essentially one of stagnation, saw the South's economic dependence confirmed. As a consequence of the progressive freeze on investment in manufacturing and with the index of gross fixed investment by state-controlled companies (1970=100) plunging from 161.4 in 1972 to 37 in 1977, the industrialization of the South "took a turn for the worse after 1974".<sup>82</sup>

Beginning that year, GDP grew more slowly in the South than in the rest of Italy, labour productivity declined and unemployment rose. If the first half of the seventies had been a parenthesis of feverish growth in southern industry in

<sup>80</sup> A. Giannola, "The industrialization, dualism and economic dependence of the Mezzogiorno in the 1970s", *Review*, XXXVI, 1 (February 1982), p. 67.

<sup>81</sup> *Ibid.*, pp. 69-70.

<sup>82</sup> *Ibid.*, pp. 84 *et seq.*

such sectors as automobiles, aerospace and electronics, led not so much by private sector firms as by state-controlled companies (even though basic functions ranging from research to design engineering were located elsewhere), the second half of the decade recorded an abrupt slowdown in the South's industrial development. While industrial restructuring and conversion proceeded in the Centre and North, basic industrial sectors such as chemicals and steel, which were largely located in the South, plunged into crisis, "adding to the problem of limited industrialization that of 'old' industrialization".<sup>85</sup> It is true that local businessmen in certain regions stepped up their investment, creating a host of small and medium-sized companies, but this had only a slight impact on employment. Furthermore, unlike their counterparts in the North, these companies operated mainly in traditional, labour-intensive industries such as clothing, leather and footwear, wood and furniture, and construction materials, and failed to spread into engineering, capital goods, electronics and the like. Furthermore, with the North, but were diverted into real estate, building and commerce. In any case, commercial capital, local and not, clearly dominated the fabric of small and medium-sized industry in the South, which was also favoured by government transfer payments in the form of unemployment benefits. (Of course, such transfers were not only the prerogative of the South; short-time compensation played an important role as a social shock-absorber in the North and often financed moonlighting.) In summary, whereas in the first half of the seventies equilibrating mechanisms had operated with some effectiveness, in the second half of the seventies, when transfers dried up, the geographical disparities widened again and the South became more dependent. In 1975 per capita income in the South was equal to 70 per cent of the national average; by 1979 the ratio had plummeted to 66.9 per cent.

<sup>85</sup> *Ibid.*, p. 82.