

R E S T R I C T E D

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CASSA PER IL MEZZOGIORNO
AND THE ECONOMIC DEVELOPMENT
OF SOUTHERN ITALY

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Department of Operations
Europe, Africa and Australasia

Conversion Rates of Italian Currency

U.S. \$1	=	Lit. 625
Lit. 1	=	U.S. \$.0016
Lit. 1,000,000	=	U.S. \$1,600

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SICILY

1. A sharp contrast in living standards between Northern and Southern Italy has existed for a long time. The North is highly industrialized and its thirty million inhabitants enjoy a typically Western European living standard. The South, on the other hand, is predominantly agricultural and its eighteen million inhabitants have an income per head less than half as high. In order to rectify this imbalance, the Italian Government in 1950 decided on a long-range "pre-industrialization" program for the South.
2. To carry out this program the Cassa per il Mezzogiorno was established. Originally, the program was to be largely in the form of extraordinary public works intended to raise the output of the southern agriculture, improve and enlarge transportation facilities and raise the health and sanitation standards in the territory lying south of Rome, including the islands of Sardinia, Sicily and Elba. To achieve these goals the Cassa was allotted a total of \$1.6 billion over a ten-year period. The program has since been extended twice, first to twelve years and now to fifteen years. The funds placed at its disposal have been doubled to \$3.2 billion, and the emphasis has been shifted to industrialization.
3. The first task confronting the Cassa was the preparation of a concrete development program and the allocation of funds for specific works. This turned out to be a difficult task and although a preliminary distribution of funds among such sectors as agriculture, roads, and aqueducts was made at an early stage, it took nearly five years for the formulation of a comprehensive agricultural development plan. As a result of this delay, Cassa expenditures lagged behind appropriations during the first three fiscal years and there was a good deal of criticism of the Cassa. However, determined to assert itself as a public works rather than a work relief agency, the Cassa refused to be stampeded and proceeded in a systematic manner to cope with the difficulties facing it. By the end of the seventh year the Cassa had awarded contracts for about 3/5 of all the funds to be appropriated for the Twelve-Year Program, thus making up virtually all the lost time.
4. Considerable physical progress has been achieved under the Cassa program. In agriculture, which is most important both from the standpoint of money allocated to it and from its contribution to the original goals of the Cassa, 1,219 km. of drainage canals and 1,030 km. of diversion channels with necessary embankments and regulators, out of the programmed 2,900 km. and 4,700 km., respectively, have been completed and a land area of about 369,000 hectares has already been drained by these works. In irrigation, a network of 1,425 km. of canals, out of a programmed total of 16,400 km., has been built as a result of which 57,400 hectares were irrigated in the summer of 1957, as against a total goal of 352,000 hectares. A total of 2,800 km. of rural roads was built, as against a goal of 6,370 km. In the mountains, some 50,000 hectares, out of the programmed 163,000 hectares, have been reforested. At the farm level, an estimated 23,000 houses of the planned 60,000, barns for 107,000 head of cattle of the planned 277,000, and other farm structures, including wells, silos and warehouses have been built. Likewise, 621 new agricultural processing plants of the 1,510 planned were established.

5. Physical progress in road improvement and construction includes completion of about 10,600 km. of provincial roads out of a goal of 11,600 km. New roads have also been built to the extent of 970 km. out of the planned total of 2,800 km. The aqueduct works completed supply potable water to 572 localities with a population of 2.7 million persons, as against planned of 1,650 localities with a population of 13 million. To attract tourists, archeological excavations have been carried out at Pompeii and elsewhere, several historic structures have been restored and 100 km. of sightseeing roads have been improved or newly built. Thus physical progress under the Cassa program has been considerable.

6. During the first seven years of operations, the Cassa has actually invested and stimulated private investment of an estimated total of Lit. 843 billion (\$1,350 million). It is estimated that these combined Cassa and private investments required a total of 163.5 million man days of work with a total wage bill of \$378 million. The Cassa's largest investments have been in agriculture and substantial achievements are already in evidence. Private interests have also invested in the neighborhood of \$125 million in land improvement in conjunction with the Cassa's operations and these investments have increased the annual manpower requirements in agriculture by the equivalent of approximately 35,000 full-time jobs. A sample study reveals that the investments have already produced a fundamental change in the productive pattern of almost half of the farms transformed by the end of 1955 and that gross saleable production on these farms increased by an average of about 10%.

7. The Cassa has also played a role in stimulating the industrialization of the South. Of the estimated total industrial investment in the South of \$560 million between 1951 and 1957, \$360 million were carried out with the direct financial support of the Cassa and of the special industrial credit institutes (ISVEIMER, IRFIS, CIS) which the Cassa assists. A recent study made of the industrial plants financed through the Cassa and these special industrial credit institutes prior to the middle of 1956 reveals that these plants will provide roughly 20,000 jobs. While they will add only approximately 11 to 12% to industrial employment in the South, they will increase the value added by manufacturing by some 26%. The Cassa and these institutes have relied heavily on IBRD funds to finance the large chemical, fertilizer, mechanical and building materials plants sponsored in the South as branch plants by northern industrialists. While there were other inducements and pressures to locate in the South and some private industrialists may have responded to them, there is no reason to doubt that the money provided by IBRD intensified the movement.

8. During the past seven years, many fundamental improvements have taken place in the economy of the South. Agricultural and industrial production have increased substantially. Output of farm products has increased by some 42% from the 1949-52 average, or by about 5% annually, which exceeds the national rate of growth during this period. Industrial production also has risen by about 50%, or at roughly the high rate of growth for the country as a whole. In housing construction, consumption of electric power, and in the use of fertilizers and tractors, the South also registered a higher proportionate increase than the North. Total income in the South grew by 71%

as compared with 64% for the North. This is reflected in higher consumption; for example, more radio and telephone subscriptions, higher expenditures for entertainment and more cars and motor scooters. All this has been brought about by increasing private investment by 138% and public investment 106% in the South, while corresponding rates for the North were 83% and 36%.

9. These improvements in economic conditions have contributed toward a reduction of unemployment, Italy's outstanding economic problem. The increased public and private investments as well as the general expansion in economic activity have resulted in a rise in employment in excess of the growth in the labor force and together with a high emigration rate have reduced registered unemployment to its lowest postwar level of 1.6 million. In the South, labor has profited greatly from these developments as well as from the continuing emigration and internal migration. The latter, particularly, has become important as job opportunities in the North have expanded and it is estimated that in recent years approximately 1.2 million persons have moved there from the South. This combination of more jobs in the South, emigration and internal migration have not only already ameliorated the unemployment and underemployment problem of the South, but also hold out hopes of its eventual solution.

10. The recent extension of the life of the Cassa from twelve to fifteen years and the shift in the center of gravity from agriculture to industry present a new challenge to the Cassa. There will be more emphasis on the type of initiative where Cassa action will induce the investments of others. This is by far the more complex task. The successful discharge of these functions will require a substantial strengthening of the industrial section of the Cassa and of the institutes. In Italy, where the line of demarcation is much fainter than elsewhere between private, semi-public and public industry, there is always a danger that industrialization in the South will become much more of a state affair than it is in the North with political factors outweighing sound economic criteria. A case in point is the measure adopted last year which requires that a minimum of 40% of all new investments in state industrial enterprises take place in the South.

11. While the industrialization of the South makes much more sense today than it did in 1950 when widespread overcapacity characterized much of northern industry, an indiscriminate forced industrialization of the South may prove costly to the Italian economy. To the extent that raw materials, actual and prospective markets, a favorable manpower situation and other such inducements exist, the location of industrial plants in the South is fully justified, but there are still numerous instances where further industrial expansion of the North would be more economical. At this stage it can only be hoped that in the zeal to industrialize the South, the costs of alternative plant location will be adequately weighed and serious errors will be minimized. The task now confronting the Cassa is by no means a simple one and the manner in which it is handled will determine for many years to come the success and character of the industrialization of the South.

INTRODUCTION

1. The Bank has made four loans to the Cassa per il Mezzogiorno (Fund for the South) in support of its program for the economic development of Southern Italy. The first two loans (50 IT and 88 IT) were for \$10 million each, the third loan (117 IT) was for \$70 million and the fourth loan (150 IT) for \$74.628 million. Prior to the negotiation of the third loan, the Bank made an economic appraisal of the Cassa program and its suitability as an instrument of economic development for Southern Italy (EA-51a). In October 1956 a review of the progress of the Cassa program (EA-64a) was made in preparation for Loan 150 IT. The purpose of the present report is to trace the progress of the Cassa during its first seven years, assess what it has already done and indicate the direction it might take in the second half of its life.

2. By way of providing the essential background, this report starts with a brief description of the differences between the economies of Northern and Southern Italy and an explanation of the reasons for the creation of the Cassa. It then proceeds to explain the steps taken by the Cassa to formulate a development plan for the South and to evaluate the Cassa's performance in carrying it out. This evaluation is largely based on the Cassa's record of examining and preparing public works projects as exemplified by "Contracts awarded." The Cassa's performance is shown in terms of expenditure on "works completed" and the physical progress achieved in carrying out public works within its program. The over-all economic effects of the Cassa, however, far transcend its own activities. In part this is due to the very nature of the Cassa program, which has sought from the start to associate private investment with its own public works, and in part to the general stimulation which the Cassa has provided to the economic development of the South. For these reasons, an attempt is made to assess the changes in the economy of the South during the Cassa's seven-year life. The report concludes with a brief analysis of the problems now facing the Cassa and of the economic prospects of Southern Italy.

BACKGROUND

3. A sharp contrast in living standards between Northern and Southern Italy has existed for a long time. The North, where 30 million persons live, is relatively well developed economically with flourishing industries and a generally prosperous agriculture. On the other hand, the territory lying south of Rome (including the islands of Sardinia, Sicily and Elba), with a population of 18 million, has remained underdeveloped. Many reasons account for this basic difference including those of geography, climate and history. Northern Italy, and especially the northwest part, lies adjacent to some of the most prosperous countries of Western Europe, while the South has found itself geographically isolated from them. The North enjoys a central European type of climate, while the very dry climate of the South has resulted in low per capita agricultural output in an area where the population is mainly dependent on agriculture. An equally important factor in the differential rates of growth of the two parts has been the difference in their political and social heritages. The growth of a commercial and industrial

type of society in the North, with its emphasis on enterprise and innovations, contrasted sharply with the feudal structure which evolved in the South under the kingdom of Naples and Sicily and which existed from the time of the Middle Ages until Italian unification less than a century ago.

4. The great disparities between the North and the South in 1952 may be readily seen from a comparison of some major economic indicators for the two areas. In the industrialized North, 39% of the labor force was employed in industry and transport, while 37% was in agriculture; in the South the respective percentages were 27 and 53, with much of the farm labor underemployed. Furthermore, the average yield per hectare of such a staple commodity as wheat was 20 quintals in the North and only 10 quintals in the South, largely because of primitive farm techniques. This situation had resulted in the average real income per head in the South being less than half of that of the North, and while only 3% of the population in the North was estimated to live below the "poverty line," fully 27% was in this category in the South. Poverty in the South had naturally limited demand for the products of Italian industries, thereby aggravating the problem of industrial unemployment throughout Italy.

5. Once postwar reconstruction was substantially completed, the major social and economic problem facing Italian authorities was that of persistent and heavy unemployment throughout the country and the continuing underdevelopment of the South with its concomitants of underemployment and poverty. Moreover, as a result of population trends, the outlook was disquieting. This was particularly so for Southern Italy, where the labor force was increasing by 140,000 a year, more than twice as fast as in the rest of the country. With emigration prospects being limited at best to 125,000 workers annually for the country as a whole, a further growth in unemployment appeared unavoidable.

6. Several alternative approaches to the solution of the southern problem were considered in 1950. Increasing investments in the already developed North with a view to encouraging internal migration from the South was rejected on the grounds that considerable overcapacity characterized much of northern industry and that a substantial expansion in output could take place by the better utilization of manpower already available there. Similarly, any substantial increase in public works in the North was not expected to bring any benefits to the South through the movement of manpower or the purchase of goods and services there. On the other hand, immediate industrialization of the South appeared out of the question because of the overcapacity in northern industry and the limitations set by the local market. Confronted with this situation, the best approach appeared to be to launch a "pre-industrialization" program in the South, and the Italian Government undertook to increase the level of public investment under a ten-year development program for the South.

7. The major objective of this program was to raise the productivity of land and labor and to eliminate the economic waste involved in unemployment and underemployment. It was felt that an increase in the productivity of land

and labor in the South would not only raise living standards within the region, and subsequently lead to its industrialization, but would also reduce unemployment in the North by stimulating demand for its industrial products and services. The Italian authorities placed primary emphasis on the development of a healthy and prosperous agriculture as a prerequisite for the entire region, an emphasis similar to that contained in various general survey mission reports sponsored by the Bank for underdeveloped countries. With a view to providing a degree of coordination and continuity which could not be achieved by the regular ministries, the Government entrusted the execution of the program to a new agency, the Cassa per il Mezzogiorno.

THE CASSA PROGRAM

8. The Cassa per il Mezzogiorno was established in August 1950 as an agency of the Italian Government to implement the "Ten-Year Plan for the Economic and Social Development of Southern Italy." It was made directly responsible to a "Committee of Ministers for the South" and was entrusted with the formulation and execution of the development program. The law which established the Cassa also provided in effect for an average annual appropriation to it of Lit. 100 billion (\$160 million) during a ten-year period, and defined the area of Cassa activities roughly as the mainland south of Rome and the islands of Sardinia, Sicily and Elba. In July 1952 the life of the Cassa was extended from ten to twelve years and its funds were increased from a total of Lit. 1,000 billion (\$1.6 billion) to Lit. 1,280 billion (\$2 billion). In July 1957, a new law further extended the life of the Cassa to a total of fifteen years ending in 1965 and raised its appropriations by an additional Lit. 760 billion (\$1.216 billion). The Cassa therefore will dispose of \$3.2 billion over the fifteen-year period.

9. When the Cassa was established the major problem facing it was the allocation of funds for specific works. This was a difficult task because of the absence of a soundly formulated and properly coordinated economic development program for the South on the one hand, and the multiplicity of regional, political and other pressures to which the Cassa was subjected on the other. Against this background, the Committee of Ministers for the South, under the chairmanship of Minister Campilli who has carried out this duty continuously since 1950, laid down the broad outlines of the Cassa ten-year program and made a preliminary allocation of funds. These allocations were intended to indicate the over-all magnitudes of the works which would be carried out by the Cassa in the different sectors of the economy and were not in any sense firm commitments. Geographically, the allocation of funds was made on the basis of population and the degrees of economic and social depression prevalent in the several southern regions.

10. The following distribution of funds by major sectors was made for the ten-year and subsequently for the twelve-year programs:

The Ten-Year and Twelve-Year Cassa Programs
(in billions Lit.)

<u>Economic Sectors</u>	<u>Original</u>		<u>Revised</u>		<u>Changes</u>	
	<u>Ten-Year Plan</u>		<u>Twelve-Year Plan</u> ^{1/}			
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Agriculture	770	77	887	69	+ 117	+ 15
Land reclamation	(310)	(31)	(353)	(27)	+ (43)	+ 14
Reforestation	(50)	(5)	(124)	(10)	+ (74)	+ 148
Land reform	(280)	(28)	(280)	(22)	-	-
Private land improvement	(130)	(13)	(130)	(10)	-	-
Transport	110	11	190	15	+ 80	+ 73
Roads	(110)	(11)	(115)	(9)	+ (5)	+ 5
Railways	-	-	(75)	(6)	+ (75)	-
Aqueducts and sewers	90	9	178	14	+ 88	+ 98
Tourism	30	3	25	2	- 5	- 17
Total	1,000	100	1,280	100	280	+ 28

This program, particularly its agricultural phase, was only partly to be carried out directly by the Cassa. The portion earmarked for land reform amounting to Lit. 280 billion was placed under the Ministry of Agriculture. Likewise Lit. 130 billion was set aside to be used as Cassa subsidies toward private land improvements. As a result, the amount left for Cassa proper public works in agriculture is reduced to Lit. 477 billion and the total program to be carried out by the Cassa becomes Lit. 870 billion.

12. The above table indicates the nature and direction of the Cassa program. Its "pre-industrialization" character is clearly revealed by the concentration on agriculture and on the linking of the various parts of the area by a network of roads. Although the relative proportion of agriculture declined somewhat in the twelve-year plan, it still claimed nearly 70% of the financial resources. On the other hand, transportation increased both absolutely and relatively through the addition of funds for the railroads. The health and welfare aspects of the plans are reflected in the substantial sums allocated to aqueducts and sewers. "Tourism" claimed a small proportion from the start and was further reduced, although many of the improvements in transportation and sanitation will also make the South more attractive for tourists.

13. A great deal of effort went into the formulation of an agricultural development program, which was finally adopted by the Committee of Ministers for the South in April 1955. According to this program Cassa intervention

^{1/} The plan as it stood on June 30, 1957.

in one form or another would affect 9,548,000 hectares or about 73% of the total farm land and forests in the South. This comprehensive coverage resulted largely from social and political pressures to alleviate on as broad a scale as possible the conditions of southern agriculture. It was intended to create the impression that no significant part of southern agriculture was to be neglected and that something was going to be done for nearly everyone. Actually, the extent of Cassa intervention was to vary greatly from one area to another. The most intensive effort in agriculture was to be limited to irrigating some 440,000 hectares. At the opposite extreme are some 3.4 million hectares among which some scattered reforestation was to be carried out. Within the remainder of the area, accounting for about three-fifths of the total, a transformation from extensive to intensive dry land cultivation was to be promoted. Specifically, the Cassa's land reclamation program contemplated that by 1962 it will have

- a) provided irrigation for 440,000 hectares, 352,000 hectares of the total being irrigated annually including 40,000 hectares coming under citrus cultivation;
- b) intensively transformed 550,000 hectares with tree-crops on small landed properties under rain-fed cultivation;
- c) developed 560,000 hectares of dry-farmed land at different levels of intensity; and
- d) undertaken initial development of an area of 62,000 hectares in particularly difficult and backward regions.

14. The program in agriculture, among other things, called for the construction of 16,400 km. of irrigation canals, 2,900 km. of drainage canals, 4,700 km. of diversion channels with necessary embankments and regulators, 6,370 km. of access roads in reclamation districts, and the reforestation of 163,000 hectares of woodlands. The program called for the building of more than 60,000 farm houses, for barns for 277,000 head of cattle, for 1,510 processing plants and for other farm structures such as wells, silos and warehouses. The road program envisaged the improvement of some 11,600 km. of provincial roads and the construction of 2,800 km. of new roads to increase the highway network of the South by about 7%. The aqueduct program is intended to bring an adequate supply of potable water to 1,650 localities with a population of about 13 million out of a total of 18 million inhabiting the South. The railroad program will increase capacity by building longer sidings and electrifying a number of main southern railways. Lastly, the investments to encourage tourists will provide better roads and improved water supplies (in addition to the programs mentioned above) in recognized tourist centers and expand the variety of archeological excavations and other attractions.

15. Although the Cassa program started out as essentially a "pre-industrialization" effort for the South with primary emphasis on improving the output and incomes of the farm population, it was soon realized that the long-run manpower requirements of the more intensive agriculture resulting

from the Cassa efforts would eliminate only a part of the existing agricultural underemployment and that employment outside of agriculture would have to be found for the rest. Furthermore, given the heavy population density in the South in relation to the land available, the opportunities for raising incomes through agricultural development alone were severely limited. Since the South has certain natural advantages that have not been fully exploited -- her position vis-a-vis the Mediterranean and North Africa, mineral resources, (systematic exploration has only recently begun and oil and potash have already been found in commercial quantities); good ports with unused capacity; cheap and willing labor; and a growing local market, the need to eventually industrialize the South was recognized and efforts in this direction began to take shape at an early stage although a large-scale program has materialized only recently.

16. As a result of this recognition and the growing demand in the South for some industrial products, the scope of the Cassa's activities in furthering the economic development of Southern Italy was greatly extended by a special law of March 22, 1952. This law recognized that the solution of the problem of the South required as a first step the creation of a favorable climate for industrial growth and it empowered the Cassa to start financing industrial enterprises. A variety of inducements were offered to Italian and foreign businesses to make investments in the South. Foremost among these inducements were tax and tariff concessions, freight rebates, as well as long-term credit on favorable terms. The Cassa was authorized to allocate Lit. 50 billion of its own funds plus any amounts it could borrow in the domestic market as well as abroad. Under this new authority the Cassa was able to relend the bulk of the proceeds of ILLD loans of \$161.4 million to expand private industry and to increase the electric power generating capacity in the South. These early beginnings were greatly strengthened by means of a new law of July 1957 which extended the life of the Cassa to fifteen years and empowered it to launch a major effort for the industrialization of the South. This law will be analyzed later in this report.

PROGRESS OF THE PROGRAM

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

18. A good deal of time was thus spent in the administrative and technical review of projects before contracts could be awarded. Even at this stage, however, difficulties were encountered, primarily because bidding was originally limited to southern contractors, whose prices were on the whole high.

The contractors experienced difficulties in obtaining the equipment and machinery necessary for such a rapidly stepped up public works program, a serious cement and steel tube shortage developed during the early construction days, and an unexpected dearth of skilled and semi-skilled workers impeded the implementation of the works. To meet these problems, the Cassa encouraged bidding by qualified Italian contractors even though they are not located in Southern Italy and appears to have succeeded in overcoming the original reluctance on the part of many established construction firms to bid. In this manner it has not only saved money but has also assured itself of high grade performance. The Cassa also helped finance cement and steel tube factories with IBRD funds and the training of workers. Thus, the Cassa handled each problem as it arose and, in general, has done a satisfactory job in overcoming these difficulties.

19. Needless to say, the pressures on the Cassa were very great to limit its review of the projects, in order that it could spend the funds at its disposal as early as possible and thereby create direct employment in the South and indirectly in the rest of the country. Determined to assert itself as a public works rather than a work relief agency the Cassa refused to be stampeded. Not wishing to proceed without being satisfied with the economic and technical merits of its works, the Cassa adopted the general policy of approving and launching the simpler works first, at the same time continuing to prepare the more complex works, especially those in irrigation. During its first seven years of operations ending June 30, 1957, the Cassa examined investment applications totalling Lit. 884 billion (\$1.4 billion); approved a total of Lit. 799 billion (\$1.3 billion) of projects and entered into formal contracts for Lit. 508 billion (\$813 million). In addition, the Cassa approved expenditures of the land reform agency for Lit. 226 billion and extended subsidies for private land improvements in the amount of Lit. 48 billion. The following table presents a summary statement of the value of contracts awarded by the Cassa combined with estimated expenditures on behalf of the land reform program and subsidies for private land improvements.

Contracts Awarded for Cassa Works^{1/}
(June 30, 1957)

<u>Economic Sectors</u>	<u>Amounts</u> <u>Billions of Lit.</u>	<u>% of Allocations</u> <u>in Revised</u> <u>Twelve-Year Plan</u>
Agriculture	529	60
Land reclamation	(218)	62
Reforestation	(37)	30
Land reform	(226)	81
Private land improvement	(48)	37
Transport	144	77
Roads	(92)	80
Railways	(52)	69
Aqueducts and sewers	93	52
Tourism	16	64
Total	782	61

^{1/} Includes works on farms under the land reform program and the Cassa contributions for private land improvements.

20. Thus by the end of the seventh fiscal year contracts were awarded for almost three-fifths of all the funds which were to be appropriated for Cassa public works during the twelve-year period.^{1/} If account is also taken of the Cassa expenditures for land reform and its subsidies for private land improvements, the proportion is slightly higher as is revealed by the preceding table. Considering the Cassa's early difficulties, this proportion is satisfactory. The low percentage in reforestation is insignificant because of the marginal character of these works. They are the closest approximation to work relief and can be carried out on relatively short notice. On the other hand, the low percentage in private land improvements is largely due to the normal time lag between the completion of public works and the launching of farm improvements. Moreover, to the extent that these works were retarded by the farmers' inability to borrow their share of investment funds from credit institutions, this difficulty has been overcome by a new provision in the Cassa law of 1957.^{2/}

21. Sufficient time has now elapsed to take stock of the works which have been carried out under the Cassa program. As of the end of the seventh year, a total of Lit. 262 billion of works was completed and an equal amount of works was under construction or about to be started by the Cassa. A summary of these works combined with the land reform and private land improvement works is shown in the following table:

Works Completed or Under Construction and
Estimated Average Percentage of Completion
(June 30, 1957)

<u>Economic Sectors</u>	<u>Works completed</u>		<u>Works in progress</u> <u>or about to be started</u>		
	<u>% of</u>		<u>% of</u>		
	<u>Amount</u>	<u>allocations</u>	<u>Amount</u>	<u>allocations</u>	<u>Average % of</u>
	(billions		(billions		completion
	of Lit.)		of Lit.)		
Agriculture	316	36	228	26	80 ^{3/}
Land reclamation	(104)	29	(130)	37	80
Reforestation	(19)	15	(17)	14	88
Land reform	(158)	56	(68)	24	80 ^{3/}
Private land improvement	(35)	27	(13)	10	80 ^{3/}
Transport	94	49	50	26	88
Roads	(73)	63	(19)	16	93
Railways	(21)	28	(31)	41	85
Aqueducts and sewers	38	21	56	32	77
Tourism	7	28	9	36	82
Total	455	36	343	27	81

^{1/} This proportion is computed net of (a) the land reform program (Lit. 230 billion) and (b) the Cassa contributions for private land improvements (Lit. 130 billion), i.e., Lit. 1280 billion less Lit. 450 billion equals Lit. 830 billion and Lit. 508 ÷ 870 is 59%.
(see next page for footnotes ^{2/} and ^{3/}.)

The public works completed by the end of the seventh year amount to approximately 30% of the relevant allocations and public works still under construction but about four-fifths finished raise the proportion to roughly 60% of the funds allocated in the Twelve-Year Plan for those purposes.^{4/} Inclusion of the land reform and private land improvement works gives roughly the same results. This may be regarded as satisfactory. The relatively low proportions of completion in agriculture, as compared with transport, are due to the fact that a definitive agricultural plan was not formulated until 1955. However, with the recent and current intensified pace of the large irrigation works, there is good reason to expect that the plan will be completed within the time limits set or with only relatively minor delays.

22. In agriculture, which is most important both from the standpoint of money allocated to it and from its contribution to the goals of the Cassa, 1,219 km. of drainage canals and 1,030 km. of diversion channels with necessary embankments and regulators, out of the programmed 2,900 km. and 4,700 km. respectively, have been completed and a land area of about 369,000 hectares has already been drained by these works. In irrigation, a network of 1,425 km. of canals, out of a programmed total of 16,400 km. has been built, as a result of which 57,400 hectares were irrigated in the summer of 1957, as against a total goal of 352,000 hectares. A total of 2,800 km. of rural roads was built, as against a goal of 6,370 km. In the mountains, some 50,000 hectares, out of the programmed 163,000 hectares, have been reforested. At the farm level, an estimated 23,000 houses of the planned 60,000, barns for 107,000 head of cattle of the planned 277,000, and other farm structures, including wells, silos and warehouses have been built. Likewise, 621 new agricultural processing plants of the 1,510 planned were established.

23. Physical progress in road improvement and construction has also been considerable. About 10,600 km. of provincial roads out of a goal of 11,600 km. have been improved and this part of the program is virtually complete. New roads have also been built to the extent of 970 km. out of the planned total of 2,800 km. The aqueduct works completed supply potable water to 572 localities with a population of 2.7 million, roughly one-third of the 1,650 localities with a population of 13 million for which aqueduct works were planned. To attract tourists, archeological excavations have been carried out at Pompeii and elsewhere, several historic structures have been restored and 100 km. of sightseeing roads have been improved or newly built. Thus physical progress under the Cassa program has been considerable.

FINANCIAL RECORD

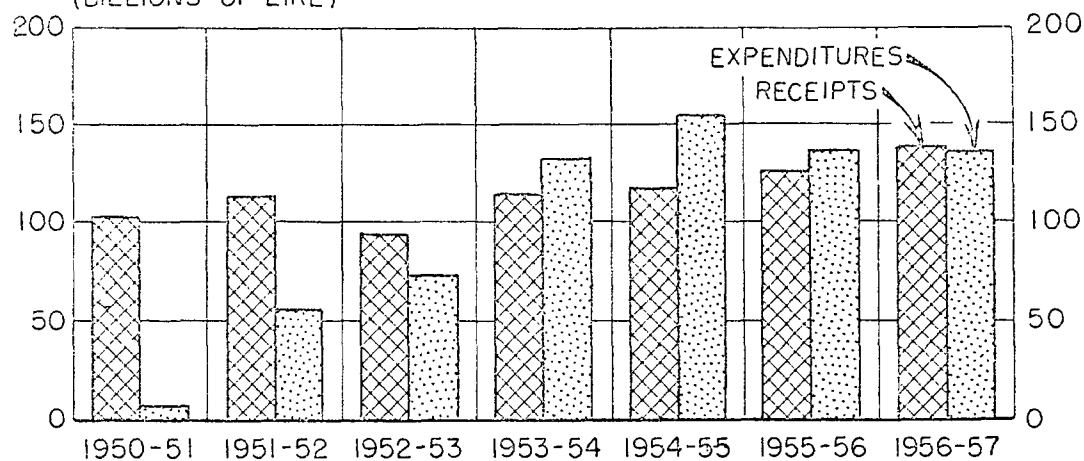
24. The slow start and the subsequent acceleration of Cassa activities is best illustrated by the pace of its expenditures. The following table shows

2/ The general pattern of financing private land improvements is as follows: Cassa subsidy 20%, loan of 60% at 5½% interest (2% of which is paid by the Cassa) and 20% put up by the farmers. All or a part of the last portion is in the form of unpaid family labor.

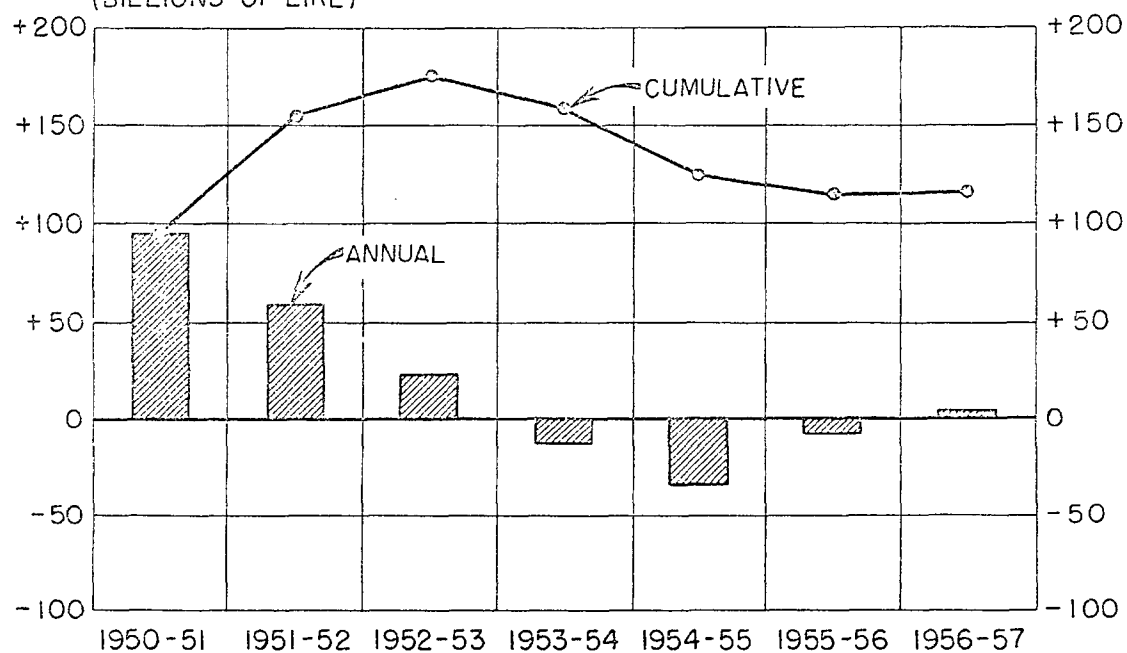
3/ These are estimated to be the same as for land reclamation.

4/ See paragraph 10.

RECEIPTS AND EXPENDITURES OF THE CASSA
PER IL MEZZOGIORNO
(BILLIONS OF LIRE)



ANNUAL AND CUMULATIVE DIFFERENCES BETWEEN
RECEIPTS AND EXPENDITURES
(BILLIONS OF LIRE)



the annual appropriations and expenditures of the Cassa between 1950/51 and 1956/57:1/

<u>Fiscal Year</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Annual difference between (2) and (3)</u>	<u>Cumulative difference between (2) and (3)</u>
(1)	(2)	(3)	(4)	(5)
	(in billions Lit.)			
1950/51	101.6	7.9	+ 93.7	-
1951/52	114.2	54.9	+ 59.2	93.7
1952/53	93.7	72.8	+ 20.9	152.9
1953/54	115.5	130.6	- 15.1	173.8
1954/55	118.0	153.7	- 35.6	158.7
1955/56	125.7	135.6	- 9.9	123.1
1956/57	<u>139.1</u>	<u>137.5</u>	+ 1.6	113.2
	807.8	693.0	114.8	114.8

During the first three years the Cassa accumulated substantial balances, as previously mentioned, but since then in spite of rising annual appropriations, expenditures have more than kept pace with them thus reducing the available balance. Only during 1956/57, has the unspent balance increased again somewhat, although expenditures also rose. These are accounting data and are not indicative of the actual volume of work carried out in any single year (discussed in the next section) because they include advances to contractors on the one hand and on the other frequently exclude payments for work done pending final inspection and approval.

25. The source of most of the Cassa funds is the government budget. It furnished Lit. 640 billion. An additional Lit. 74 billion was provided by the Italian government from the repayments of Marshall Plan loans, raising the total to Lit. 714 billion. The remaining Lit. 94 billion includes Lit. 26 billion in interest on Cassa deposits, Lit. 49 billion in loans from IBRD as well as a number of other smaller items. Of the Lit. 689 billion spent by the Cassa, approximately Lit. 426 billion was on the Cassa program proper, 2/ Lit. 193 billion on behalf of the land reform administered by the Ministry of Agriculture, and Lit. 70 billion on credits to industrial and electric power concerns.

ECONOMIC EFFECTS OF THE CASSA

26. The effects of the Cassa operations on the economic development of Southern Italy have been two-fold. On the one hand are the investments made by the Cassa in public works or private investments directly induced by its subsidies, including private land transformation, food processing plants, and hotel construction. On the other hand, the Cassa activities have stimulated large scale investments in electric power, in private industrial plants and in residential construction. The combined total of these activities is substantial and although they have not yet basically changed the economic structure of the South, they have had a noticeable impact.

1/ Fiscal years are years ending June 30.

2/ This includes subsidies for private land improvement of Lit. 48 billion.

27. During the first seven years of operations, the Cassa has actually invested and stimulated private investment of an estimated total of Lit. 843 billion (\$1,350 million), made up as follows:^{1/}

<u>Economic sectors</u>	<u>Amounts of "real investment"</u>	
	<u>Total</u>	<u>By the Cassa</u>
	(in billions Lit.)	
Agriculture	536.2	448.3
Land reclamation	(174.6)	(164.2)
Reforestation	(31.9)	(31.9)
Land reform	(204.3)	(204.3)
Private land improvement	(125.4)	(47.9)
Transport	122.3	120.9
Roads	(84.6)	(84.6)
Railways	(37.7)	(36.3)
Aqueducts and sewers	66.9	66.6
Tourism	12.0	12.0
Industry, power and hotels	105.2	50.9
Total	842.6	698.7

Of the Cassa total of Lit. 699 billion only Lit. 648 billion represents a charge against the allocations to the Cassa of Lit. 1,280 billion since the remaining investments are based on Cassa borrowings. Investments by private interests in connection with the Cassa program in land improvement, warehouses, hotels and private industrial plants amounted to Lit. 195 billion, of which loans from the Cassa covered Lit. 51 billion. It is estimated that these combined Cassa and private investments required a total of 163.5 million man-days of work with a total wage bill of Lit. 236 billion (\$378 million).

28. The Cassa's largest investments have been in agriculture and although the greatest benefits to be realized must wait the completion of the irrigation works, achievements are already substantial. Private interests have already invested in the neighborhood of Lit. 78 billion (\$125 million) in land improvement in conjunction with Cassa operations and these investments have increased the annual manpower requirements in agriculture by some 7 million man-days, thereby providing the equivalent of approximately 35,000 full-time jobs, of the 275,000 to 300,000 expected to result from the carrying out of the full agricultural program. A sample study covering 408,000 hectares (about 7.3% of all farming land in the Cassa jurisdiction) reveals that the investments have already produced a fundamental change in the productive pattern of 46% of the farms transformed by the end of 1955. Most of these have passed from extensive to intensive farming following the availability of irrigation water, or have introduced mixed farming with tree crops and livestock, or changed to a more remunerative cropping pattern. Gross saleable production on these farms increased on an average by about 40%, with the increase being concentrated mainly on the irrigated farms growing citrus

^{1/} The figures in this section are estimates of "real investment" and are not comparable with earlier accounting figures of financial investment.










fruit and vegetables. Although these figures are based on a small sample and cover only a limited period, they indicate the direction southern agriculture is taking under the priming of the Cassa. Moreover, they suggest that the goal of raising agricultural output in the South by some 25 to 30 percent is reasonable.

29. Although, as pointed out before, the Cassa program was originally envisaged as a public works program, it was also intended that the Cassa stimulate private initiative in both agriculture and industry. Apart from the above achievements in agriculture, the Cassa's most noteworthy accomplishment has been to create the basis for private and public industrial investment in the South by improving transportation and sanitation, increasing the supply of electric power and extending credits on attractive terms to industrialists.

30. The monumental task of industrializing the South has begun in earnest as is evidenced by the recent diversification of industrial investments. Between 1947 and 1952, the Bank of Naples financed some 2,500 industrial plants on the southern mainland advancing a total of Lit. 58 billion. Only 452 or a fifth of these can be regarded as new, the rest falling in the category of expansions and modernizations of previously existing plants. On the other hand, between 1953 and 1957, the investment of an additional Lit. 57 billion in 537 industrial plants included 337 new plants and only 202 expansions of ones already existing. During the first period, only 33% of the amount invested was directed toward new plants, while during the second period the proportion increased to almost 80%. Thus the character of industrial investment has been changing appreciably with the bulk of the investments during the first period being directed to the traditional southern industries of food processing, whereas in the second period a substantial increase of investments took place in the mechanical and chemical industries, with a total of 112 new plants. These developments on the southern mainland were paralleled by those in Sicily, where Lit. 191 billion was invested in 789 new industrial plants out of a total of 3,068 industrial enterprises financed. It is also significant to note that the average size of plant financed has risen from Lit. 100 million to Lit. 300 million. Although this is still a modest figure for an industrial enterprise, it is a significant indicator of direction.

31. The Cassa has also aided the industrialization of the South in a more direct way. Of the estimated total industrial investment in the South of Lit. 350 billion between 1951 and 1957, Lit. 225 billion were carried out with the direct financial support of the Cassa and of the special industrial credit institutes (ISVEIMER, IRFIS, CIS) which the Cassa assists. These institutes were established in 1952, their capital being subscribed by the government, the Cassa and such regional banks as the Bank of Sicily, the Bank of Naples and the Bank of Sardinia. Their directors and managements are in effect appointed by the government. Thus both in ownership and administrative structure, but not in operation, they bear a strong resemblance to the rest of the Italian banking system. They raise funds by sales of bonds to the public at an effective cost of 7.05% and make loans primarily to private industrialists at 5 to 6 percent. A government subsidy covers the operating losses of the institutes and no dividend is paid on the equity capital.

INDUSTRIAL PROJECTS ON SOUTHERN MAINLAND AND SARDINIA FINANCED BY IBRD

-  Cement Plant
-  Hardboard Plant
-  Pulp & Paper Mill
-  Glass Factory
-  Vehicle Body Plant
-  Motor Vehicle Plant
-  Steel Tube Mill
-  Cannery
-  Woolen Mill

*Calce e Cementi
de Segni*



PESCARA

Novilegni

AVEZZANO



SIL

Cementir



CASERTA

Saint Gobain

Viberti



NAPLES

Forino



NOCERA INFERIORE

Fiat

Dalmine



*Lanificio
di Maratea*



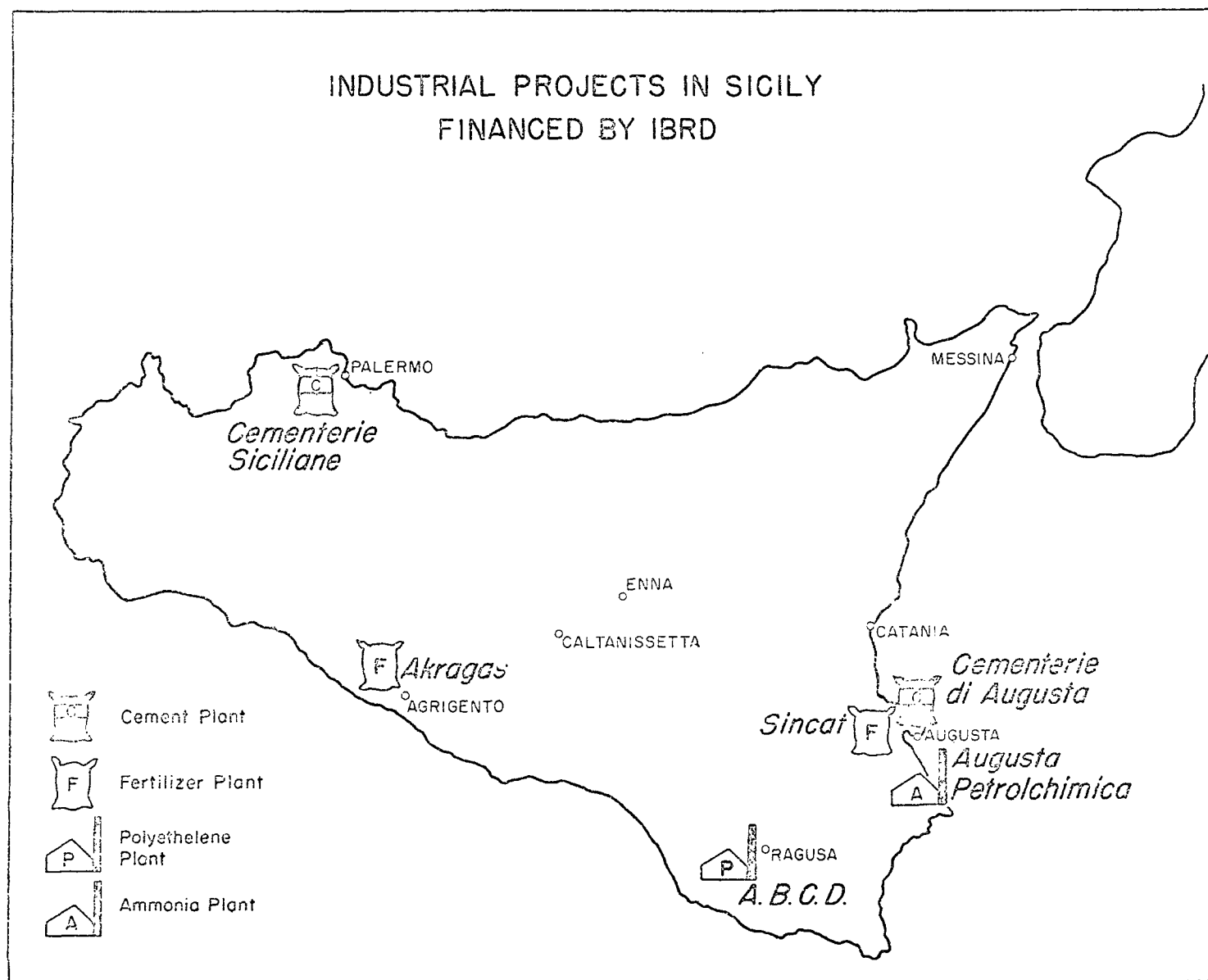
MARATEA

SASSARI

*Cementerie
di Sardegna*

CAGLIARI

INDUSTRIAL PROJECTS IN SICILY FINANCED BY IBRD



32. A recent study made of the industrial plants financed through the Cassa and the special industrial credit institutes prior to June 30, 1956, revealed that 284 new plants with an investment of Lit. 78 billion were in operation, while 51 new plants with an investment of Lit. 40 billion were under construction, and 11 new plants with an investment of Lit. 13 billion still remained to be started. These plants will provide roughly 20,000 jobs. While they will add only approximately 11 to 12% to industrial employment, they will increase the value added by manufacturing by some 26%. This suggests that the capital requirements per worker are higher than originally believed and more investment will be required to eliminate underemployment in the South. To some extent, this unfavorable capital/employment ratio is offset by the higher productivity and incomes of these workers which spills over into a larger demand for manpower in the service industries.

33. Also significant are the recent changes in the sources of funds for industrialization. Whereas prior to 1952, only one-third of the private investment funds came from Northern Italy and abroad, in recent years the proportion has risen to two-thirds. This shift is most important not only because it brings to the South the necessary capital but also modern technology, the managerial ability, the spirit of enterprise, the research mentality, and the whole complex of forces which have industrialized the North and made it prosperous and which in the South could at best have developed spontaneously only very slowly. In this connection, the role of IBRD loans to the special industrial credit institutes through the Cassa, has been vital. These institutes were endowed with limited funds and have had to spread their resources as widely as possible (special approval by the Committee of Ministers for the South is required for loans over Lit. 300 million and because of regional and political pressures this is difficult to secure) with the result that most of their loans are under Lit. 300 million each. They have thus relied heavily on IBRD funds to finance the large chemical, fertilizer, mechanical and building materials plants which have been sponsored in the South as branch plants by northern industrialists. A case in point is IRFIS of Sicily which has made a total of Lit. 48 billion in loans to 272 borrowers. Only six of these borrowers have been the beneficiaries of IBRD loans, but they account for more than 25% of the total amount lent by IRFIS. While there were other inducements and pressures to locate in the South and some private industrialists may have responded to them, there is no reason to doubt that the money provided by IBRD both fortified and accelerated the movement.

34. During the past seven years, many fundamental improvements have taken place in the economy of the South, some of which may be attributed to Cassa operations and others to the general growth of the Italian economy. Agricultural and industrial production have increased substantially. Output of farm products has increased by some 42% from the 1949-52 average, or by about 5% annually, which exceeds the national rate of growth during this period. Industrial production also has risen by about 50%, or at roughly the high rate of growth for the country as a whole. The rate of growth of sugar, cement (to which IBRD projects have contributed) and paper production in the South exceeded the national average and in the first two was more than double the national growth. In housing construction, consumption of electric power, and in the use of fertilizers and tractors, the South also registered a higher proportionate increase than the North. Total income in the South grew by 71% as compared with 64% for the North. This is reflected in higher consumption; for example, more radio and telephone subscriptions, higher expenditures for

entertainment and more cars and motor scooters. All this has been brought about by increasing private investment by 138% and public investment 106% in the South, while corresponding rates for the North were 83% and 36%.

35. These improvements have contributed toward a reduction of unemployment which constitutes Italy's outstanding economic problem. Because of the increased public and private investments as well as the general expansion in economic activity employment has risen faster than the labor force has grown and combined with a high emigration rate have reduced registered unemployment to its lowest postwar level of 1.6 million. In the South the labor situation has profited greatly from these developments as well as from the continuing emigration and internal migration. The latter, particularly, has become important as job opportunities in the North have expanded and it is estimated that in recent years approximately 1.2 million persons have moved there from the South. This combination of more jobs in the South, emigration and internal migration have not only already ameliorated the unemployment and underemployment problem of the South, but also hold out hopes of its eventual solution.

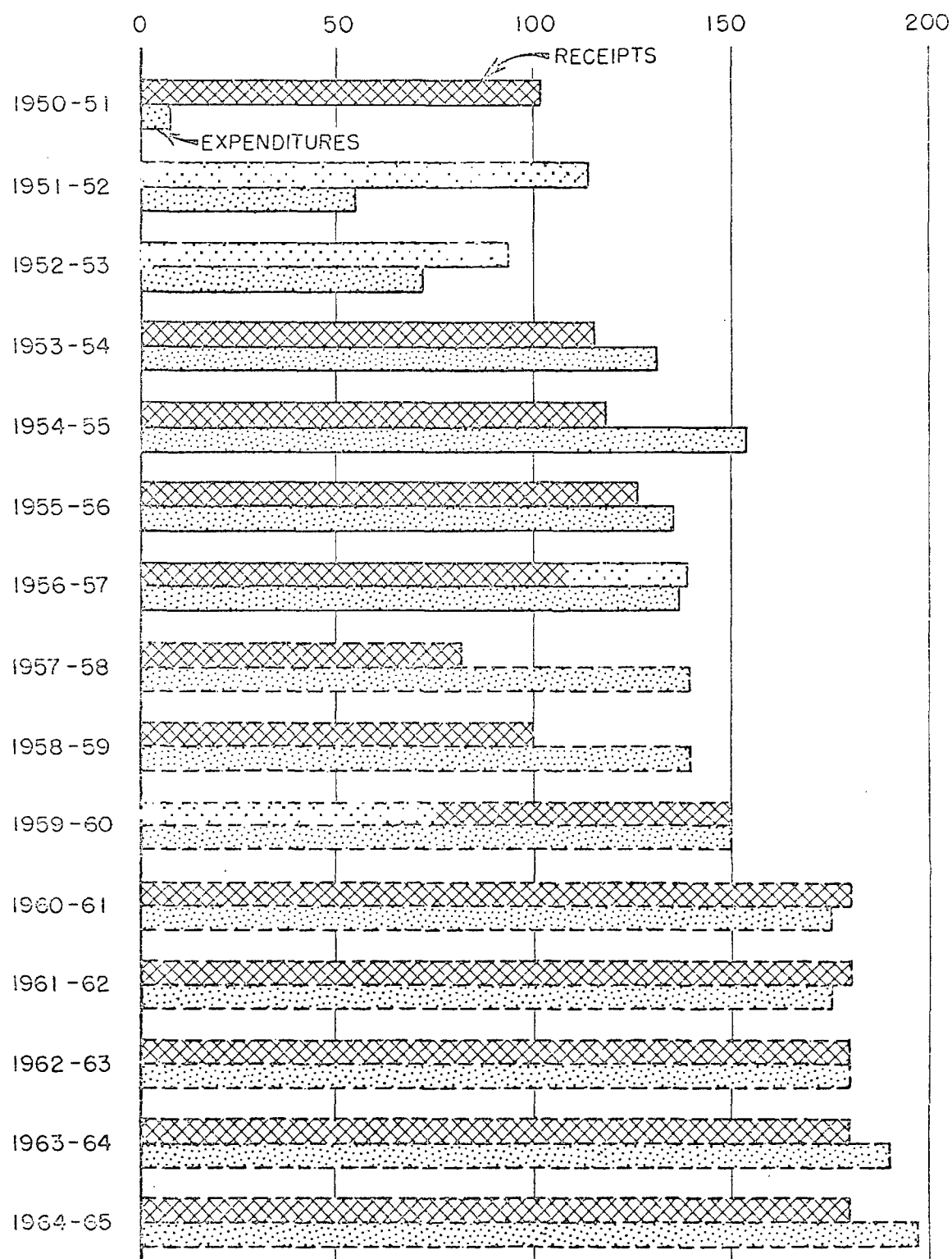
36. In spite of Cassa operations, the per capita investment in the North has continued to be about 25% higher than in the South every year since 1950 and a larger proportion of this investment was channeled into the more directly productive pursuits than in the South where a good deal of investment went into public works. Moreover, the natural resources of the South are on the whole poorer than those of the North with less favorable capital to output ratio. Because of these factors as well as the stimulation to the economy of the North provided by the additional demand for investment and consumer goods as a result of the accelerated development in the South, the gap in income per head between the North and the South has probably not diminished. Thus, while the Cassa's objective of raising living standards in the South is plainly succeeding, the objective of the Vanoni Plan to close the gap between the North and the South is not being fulfilled. This situation has produced a clamor for stepping up investment in the South and resulted in the adoption of a new policy measure in 1957 which requires that public industrial enterprises devote a minimum of 40% of their total new investment to projects in Southern Italy.

OUTLOOK

37. The preceding analysis of Cassa activities during the first seven years and its goals for the remaining five years was made within the framework of its Twelve-Year Program and total allocations of approximately \$2 billion. This framework has now, however, been greatly expanded by a law of July 31, 1957, which extends the life of the Cassa for an additional three years -- until the middle of 1965 -- and increases appropriations by Lit. 760 billion (\$1,216 million).^{1/} The enactment of this law by the Italian Parliament reflects both the determination of the Italian people and government to

^{1/} The Cassa will now receive Lit. 100 billion in 1958/59; Lit. 150 billion in 1959/60; and Lit. 130 billion each year in the period 1960/61 - 1964/65.

RECEIPTS AND EXPENDITURES OF THE CASSA PER IL MEZZOGIORNO,
1950-51 THROUGH 1956-57 ACTUAL AND 1957-58 THROUGH
1964-65 ESTIMATED
(BILLIONS OF LIRE)



persevere in the economic development of the South and their faith in the Cassa's ability to carry it out.

33. The new law has been popularly referred to as the second stage of the Cassa's operations. A detailed analysis of the law, however, reveals that it is by and large a continuation and intensification of the Cassa's former activities, with somewhat greater emphasis on industrialization since the pre-industrialization stage, if not yet complete, has at least been fully mapped out. Perhaps the best view of what may be accomplished under the new law might be obtained at this stage from the recent preliminary allocation of funds (see following table) made by the Committee of Ministers for the South.

The Twelve-Year Cassa Program and Allocations
Under the Law of July 31, 1957

<u>Economic Sectors</u>	<u>Twelve-Year Plan</u>		<u>New Appropriations</u>		<u>Total</u>		
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	
	(billions of Lit.)		(billions of Lit.)		(billions of Lit.)	(millions of \$)	
Agriculture	887	69	250	33	1,137	1,819	55
Land reclamation	(353)	(27)	(111)	(15)	(464)	(742)	(23)
Reforestation	(124)	(10)	(19)	(2)	(143)	(229)	(7)
Land reform	(280)	(22)	-	-	(280)	(448)	(13)
Private land improvement	(130)	(10)	(120)	(16)	(250)	(400)	(12)
Transport	190	15	45	6	235	376	12
Roads	(115)	(9)	(45)	(6)	(160)	(256)	(8)
Railways	(75)	(6)	-	-	(75)	(120)	(4)
Aqueducts and sewers	178	14	140	18	318	509	16
Tourism	25	2	-	-	25	40	1
Industrialization	-	-	300	40	300	480	15
Training of tech- nicians, voca- tional schools and training of specialized per- sonnel	-	-	25	3	25	40	1
Total	1,280	100	760	100	2,040	3,264	100

39. Unlike the earlier program, allocations to agriculture amount to only one-third. Nevertheless, it remains an important claimant. Within agriculture Lit. 89 billion is earmarked for irrigation and is fully justified in the light of the highly productive character of this investment. The several irrigation projects within the Cassa program studied and later financed by the Bank were all highly productive. Likewise, Sir Herbert Stewart's review of Italian agriculture (Annex I to EA-71a) concluded that further investments in irrigation were worthwhile. The sums set aside for subsidies for private land improvements and agricultural credit may also be expected to give a satisfactory account of themselves since the real test of the value of the agricultural program will be in the extent and degree to which it manages to induce

large-scale private land improvements with resulting increases in productivity and output. The allocation to reforestation, with its relatively low productivity, is small and is the result of political pressures to aid the mountainous regions which crowd the southern landscape. By and large, the allocations reveal a high degree of economic sophistication in the commitment of public funds for the agriculture of the South and if effectively implemented, they should produce sound results. No doubt the general improvement in the overall economic conditions of the South made possible this type of concentration of efforts, but it also reflects a determination to support long-range productive objectives as against immediate benefits from work-relief.

40. The road sector continues to be important in the extended program. Most of the funds are to be spent on surfacing existing roads, for the construction of regional and interregional heavy traffic highways, and for connections with farm-to-market roads as well as for roads adding to the efficiency of the existing provincial and communal networks. Road traffic has been increasing in the South and with continued emphasis on rapid economic development, additional highway construction is probably justified on the grounds that it should help agriculture, industry and tourism. Although on the basis of available information it is impossible to properly evaluate these investments, it appears that most of the funds in this sector have been earmarked for economically desirable purposes.

41. Even more difficult to evaluate is the large allocation for aqueducts and sewers which is intended for the completion of water mains leading into consumption centers and for internal distribution networks. Funds to complete the system are essential if the goal of bringing potable water to most of the population in the South is to be reached. Although these public works will reduce the price of water to the consumers, the entire undertaking must be judged primarily in terms of public health and social benefits, rather than economic criteria.

42. The new allocation for training technicians and building vocational schools is extremely important. The experience of the past seven years has amply demonstrated that in the midst of a large pool of unemployment and underemployment, the South suffers from a severe shortage of all types of skilled workers. However, it will be necessary to proceed most cautiously in this field because of the dearth of competent instructors. The Cassa management is fully aware of this problem and it is reasonable to expect that it will resist any substantial waste of funds allocated to this purpose.

43. In terms of its long-run significance to the economic development of Southern Italy, the allocation of funds for industrialization is by far the most important aspect of the new law. The Cassa is now empowered to induce industrial development by heavily subsidizing it in three ways. It has allocated some Lit. 90 billion (\$144 million) to pay a subsidy of 2½% per annum towards the interest on the bonds to be issued by the special financial institutes for the purpose of getting funds to lend.^{1/} It has also allocated Lit. 170 billion (\$272 million) for subsidies for buildings and machinery

^{1/} See paragraph 31.

for projects to be located in towns with a population of 70,000 or under. These subsidies are limited to 20% of the cost of buildings and 10% of the cost of machinery and installations. Lastly, some Lit. 40 billion (\$64 million) are allocated for the subsidization of other costs in creating additional industrial zones, such as now exist in Catania in Sicily or in Naples on the mainland. These funds are expected to meet up to 50% of such costs as the purchase of sites, installation of water supplies and sewers, construction of roads, sidings, transmission lines, and the like. Although different in the areas to be applied, the last two provisions are very similar in nature. The first is intended to offset the advantages that industry will receive by locating in the larger population centers designated as industrial areas and thereby render the smaller towns equally attractive.

44. Funds available in this way are quite substantial since the bond interest subsidy alone, if used fully, could support a total industrial investment of approximately \$750 million, which is about three times the current annual rate of industrial investment in the South. Since, however, these subsidies are expected to last until 1965, they seem to be quite realistic. No crash industrialization program is likely to be undertaken in the immediate future for a number of considerations. To begin with, any greatly increased resort to the Italian capital market would cause a severe strain on it and it is reasonable to expect that the Capital Issues Committee would preclude such a development. Even more limiting, however, is the social and technical absorptive capacity for industry in the South. The shortage of technically trained and skilled labor, the absence of properly prepared projects and the limited entrepreneurial talents, will all militate against an unrestrained application of the industrialization policy.

45. Since the establishment of the three special regional institutions for the financing of industry -- ISVEIMER for the southern mainland, IRFIS for Sicily and CIS for Sardinia in 1952 -- the Cassa's role in programming and financing industry in the South has been subordinated to that of the institutes. The new law seems to maintain the policy of leaving the active promotional functions to the institutes, except that it gives the Cassa a new task of subsidizing the creation of industrial zones in the larger centers and of granting direct subsidies to industrial plants in small towns. The successful discharge of the additional functions will require a substantial strengthening of the industrial section of the Cassa and of the institutes. The formation in 1957 of ISAP ^{1/} to promote the industrialization of the South by encouraging Italian and foreign private investors was a promising step, but thus far it has very little to show in the way of practical results.

46. The current situation presents both an opportunity and a challenge to the Cassa. While there are now in existence only limited facilities for carrying out on a private basis an industrial program of such magnitude, the

^{1/} I.S.A.P. was formed by IMI, Banca Nazionale del Lavoro, Banca di Napoli, Mediobanca, and Banca di Sicilia.

pressures to proceed with it will be very great. The Cassa has once before demonstrated its ability to cope with such pressures but in a country like Italy where the line of demarcation is much fainter than elsewhere between private, semi-public and public industry, there is always a danger that industrialization in the South will become much more of a state affair than it is in the North. A sign in this direction is the previously mentioned measure adopted last year which requires that a minimum of 40% of all new investments in state industrial enterprises take place in Southern Italy. This was a political and social decision and its underlying economic soundness is open to serious questioning. While the industrialization of the South makes much more sense today than it did in 1950 when widespread overcapacity characterized much of northern industry, an indiscriminate forced industrialization of the South may prove costly to the Italian economy. To the extent that raw materials, actual and prospective markets, a favorable manpower situation and other such inducements exist, the location of industrial plants in the South is fully justified, but there are still numerous instances where further industrial expansion of the North would be more economical. At this stage it can only be hoped that in the zeal to industrialize the South, the costs of alternative plant location will be adequately weighed and serious errors will be minimized.

CONCLUSIONS

47. During the seven years of its operations the Cassa has given a satisfactory account of itself. It has formulated a development program, which although far from perfect, may be regarded as quite sound given the regional and political pressures to which it has been constantly subjected. A sizeable portion of the program, particularly the irrigation part, is of a high economic priority. The Cassa has also been implementing the program reasonably well. The projects have been on the whole scrutinized carefully and the diligence exercised in awarding contracts has resulted in large savings of public funds. Work progress during the past seven years has been satisfactory and the goals of the Twelve-Year Plan are likely to be achieved on time or with only relatively slight delays. In the context of Italian public works history, the Cassa is an extraordinary agency in more than one sense.

48. The recent extension of the life of the Cassa from twelve to fifteen years and the shift in the center of gravity from agriculture to industry present a new challenge to the Cassa. There will be fewer public works to be constructed directly by the Cassa and more and more the Cassa will have to induce others to invest. In the past, as is exemplified both by private land transformations and by industrial enterprises, this has been by far the more complex task. However, the Cassa has already acquired some useful experience in this field which it may be expected to utilize to full advantage. The task now confronting the Cassa is by no means simple and the manner in which it is handled will determine for many years to come the success and character of the industrialization of the South.

49. On the whole the Cassa's mandate to accelerate the economic development of Southern Italy is being diligently discharged. Both as the result of the Cassa's direct intervention, as well as by the stimulus which it has provided to private and public initiatives, the economic situation of the

South has improved and the economic climate has acquired a degree of dynamism previously absent. Private and public investment have doubled, output and income have risen in agriculture and industry at rates equal or greater than for the country as a whole, and the standard of living has been improving. Most significant of all the Cassa has stirred up the economy of the South and generated a self-sustaining process of growth which may be expected to continue long after its own objectives are achieved.

Table 1

Income Produced by the Various Economic Sectors
in the North and the South
(millions of Lit.)

<u>Sectors</u>	<u>Geographic Break- down</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Agriculture and Forestry	North	1,464,400	1,528,698	1,549,867	1,741,391	1,659,960
	South	656,600	852,292	857,133	820,609	884,040
	Italy	2,121,000	2,381,000	2,407,000	2,562,000	2,544,000
Fishing	North	8,847	8,898	10,028	10,982	11,421
	South	12,153	12,102	12,972	13,018	15,579
	Italy	21,000	21,000	23,000	24,000	27,000
Building	North	72,598	96,025	108,675	128,288	169,792
	South	25,402	28,975	29,325	33,712	41,208
	Italy	98,000	125,000	138,000	162,000	211,000
Industry, commerce, credit, insurance and transport	North	4,158,224	4,555,399	5,042,466	5,557,853	6,208,807
	South	636,776	762,601	834,534	928,147	1,024,193
	Italy	4,795,000	5,318,000	5,877,000	6,486,000	7,233,000
Professions, in- dustrial and domestic services	North	296,839	316,485	356,939	363,994	396,753
	South	65,161	75,515	87,061	92,006	97,247
	Italy	362,000	392,000	444,000	456,000	494,000
Public adminis- tration	North	602,596	656,267	751,729	823,354	912,686
	South	282,404	304,733	334,271	392,646	419,314
	Italy	885,000	961,000	1,086,000	1,216,000	1,332,000
Total income of the private and public sectors	North	6,603,506	7,161,782	7,819,705	8,625,863	9,359,419
	South	1,678,494	2,036,218	2,155,295	2,280,137	2,481,581
	Italy	8,282,000	9,198,000	9,975,000	10,906,000	11,841,000
Total income of the private and public sectors net of duplication	North	6,151,081	6,635,241	7,222,596	7,939,631	8,596,140
	South	1,505,919	1,831,759	1,931,404	2,014,369	2,193,860
	Italy	7,657,000	8,467,000	9,154,000	9,954,000	10,790,000

Table 2

Income Produced, Population and Income Per Capita
in the North and the South

<u>Sectors</u>	<u>Geographic Break- down</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Total income of the private and public sectors, net of duplications (millions of Lit)	North South Italy	6,385,368 1,556,632 7,942,000	6,915,920 1,884,080 8,800,000	7,315,608 1,956,392 9,272,000	8,097,017 2,055,983 10,153,000	2,193,860 10,790,000
Same as above (in percent of total)	North South Italy	80.40 19.60 100.00	78.59 21.41 100.00	78.90 21.10 100.00	79.75 20.25 100.00	79.67 20.33 100.00
Resident popula- tion at mid-year (in '000 units)	North South Italy	29,592 17,748 47,340	29,743 17,823 47,566	29,880 17,920 47,800	29,976 18,040 48,016	30,081 18,141 48,222
Same as above (in percent of total)	North South Italy	62.51 37.49 100.00	62.53 37.47 100.00	62.51 37.49 100.00	62.43 37.57 100.00	62.38 37.62 100.00
Income produced per inhabitant (millions of Lit)	North South Italy	215,780 87,707 167,765	232,523 105,711 185,002	244,833 109,174 193,975	270,117 113,968 211,450	285,766 120,934 223,752
Same as above - average for Italy	North South Italy	128.7 52.3 100.0	125.5 57.1 100.0	126.2 56.3 100.0	127.7 53.9 100.0	127.7 54.0 100.0

Table 3Distribution of Savings Between
Northern and Southern Italy

<u>Sectors</u>	<u>Geographic Break- down</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Total savings in banks and post of- fice (millions of Lit)	North	683,664	626,419	354,141	403,747	471,086
	South	123,999	139,872	90,532	83,474	83,526
	Italy	807,663	766,291	444,673	487,221	554,612
Same as above- % breakdown	North	84.65	81.75	79.64	82.86	84.94
	South	15.35	18.25	20.36	17.14	15.06
	Italy	100.00	100.00	100.00	100.00	100.00
Total income pro- duced (millions of Lit.)	North	6,151,081	6,635,241	7,222,596	7,939,631	8,596,140
	South	1,505,919	1,831,759	1,931,404	2,014,369	2,193,860
	Italy	7,657,000	8,467,000	9,154,000	9,954,000	10,790,000
Index of propen- sity to save (Sav- ings over 1000 Lit. of income produced)	North	111.1	94.4	49.0	50.9	54.3
	South	82.3	76.4	46.9	41.4	38.1
	Italy	105.5	90.5	48.6	48.9	51.4

Table 4

Percentage Breakdown of Income in
Northern and Southern Italy

<u>Sectors</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
<u>Northern Italy</u>					
Agriculture and Forestry	22.2	21.3	19.8	20.2	17.7
Industry, commerce, credit and transport	63.0	63.6	64.5	64.5	66.3
Public administration	9.1	9.2	9.6	9.5	9.8
Other sectors	<u>5.7</u>	<u>5.9</u>	<u>6.1</u>	<u>5.9</u>	<u>6.2</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Southern Italy</u>					
Agriculture and Forestry	39.1	41.9	39.8	36.0	35.6
Industry, commerce, credit, and transport	37.9	37.5	38.7	40.7	41.3
Public administration	16.8	15.0	15.5	17.2	16.9
Other sectors	<u>6.2</u>	<u>5.6</u>	<u>6.0</u>	<u>6.1</u>	<u>6.2</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Italy</u>					
Agriculture and Forestry	25.6	25.9	24.1	23.5	21.5
Industry, commerce, credit, and transport	57.9	57.8	58.9	59.5	61.1
Public administration	10.7	10.4	10.9	11.1	11.2
Other sectors	<u>5.8</u>	<u>5.9</u>	<u>6.1</u>	<u>5.9</u>	<u>6.2</u>
Total	100.0	100.0	100.0	100.0	100.0

Table 5

Consumption of Items other than Foodstuffs,
Percentage Distribution between North and South

<u>Sectors</u>	<u>Geographic Breakdown</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Radio subscriptions	North	79.42	78.85	78.02	76.67	75.88	76.18
	South	20.58	21.15	21.98	23.33	24.12	23.82
Expenditures on tobacco	North	73.02	72.84	72.64	72.26	72.20	72.05
	South	26.98	27.16	27.36	27.74	27.80	27.95
Expenditures on enter- tainment	North	80.81	79.96	79.58	77.73	76.88	76.67
	South	19.19	20.04	20.42	22.27	23.12	23.33
Consumption of electricity for lighting	North	80.27	80.52	80.47	79.85	79.44	79.42
	South	19.73	19.48	19.53	20.15	20.56	20.58
Subscriptions to Readers' Digest	North	86.49	82.54	82.23	81.55	79.63	79.72
	South	13.51	17.46	17.77	18.45	20.37	20.28
Index of motorization (motor scooters, motor- cycles, automobiles)	North	85.97	85.82	85.21	82.14	81.77	80.92
	South	14.03	14.18	14.79	17.86	18.23	19.08
Average of above six indexes	North	81.00	80.16	79.69	78.59	77.64	77.49
	South	19.00	19.84	20.31	21.41	22.36	22.51

Table 6

Percentage Breakdown between North and South of Income Produced
by the Various Economic Sectors

<u>Sectors</u>	<u>Geographic Breakdown</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Agriculture and Forestry	North	69.04	64.21	64.39	67.97	65.25
	South	30.96	35.79	35.61	32.03	34.75
Fishing	North	42.13	42.37	43.60	45.76	42.30
	South	57.87	57.63	56.40	54.24	57.70
Building	North	74.08	76.82	78.75	79.19	80.47
	South	25.92	23.18	21.25	20.81	19.53
Industry, commerce, credit, insurance and transport	North	86.72	85.66	85.80	85.69	85.84
	South	13.28	14.34	14.20	14.31	14.16
Professions, industrial and domestic services	North	82.00	80.73	80.40	79.82	80.32
	South	18.00	19.27	19.60	20.18	19.68
Public administration	North	68.09	68.29	69.22	67.7.	68.52
	South	31.91	31.71	30.78	32.29	31.48
Total income of the private and public sectors net of duplications	North	80.33	78.37	78.90	79.76	79.67
	South	19.67	21.63	21.10	20.24	20.33

Table 7

Economic Growth of the North and South
1954-56

<u>Economic indicator</u>	<u>Geographical Breakdown</u>	<u>(1950=100)</u>		
		<u>1954</u>	<u>1955</u>	<u>1956</u>
1- Per capita gross income ^{1/}	North	136.5	149.2	159.3
	South	143.1	150.6	163.6
2- Per capita investment	North	149.8	166.2	182.5
	South	189.6	209.8	222.1
3- Per capita food consumed (in kgs. of meat)	North	115.1	118.3	130.2
	South	122.6	122.6	138.7
4- Per capita consumption other than food	North	149.2	156.2	-
	South	159.9	177.7	-
5- Per capita gross agricultural output	North	1/	114.1	-
	South	1/	120.8	-
6- Per capita consumption of electricity for industrial uses	North	142.8	153.5	-
	South	150.7	156.6	-
7- Per capita rooms built	North	245.7	294.5	312.6
	South	300.0	358.5	400.0
8- Shipments of merchandise (in tons per 1,000 inhabitants)	North	131.5	148.1	-
	South	136.4	142.4	-
9- Automobile registration (number per 1,000 inhabitants)	North	144.3	154.1	162.3
	South	154.5	168.2	181.8
10- Per capita monetary savings	North	191.8	216.3	-
	South	183.2	201.1	-
Average of indices 2 to 10 above ^{2/}	North	158.8	175.9	
	South	174.6	192.1	

- ^{1/} In order to reduce the effects of annual variations in harvests, the average for 1950/52 is compared with 1953/55 and is reported under 1955.
- ^{2/} This average excludes item 5. If item 5 is included the index for 1955 becomes North 169.0; South 184.2.

Table 8

Annual Variations Between North and South

<u>Economic indicator</u>	<u>Geographical Breakdown</u>	<u>Annual percentage changes</u>		
		<u>1950/51</u>	<u>1954/55</u>	<u>1955/56</u>
1- Per capita gross income	North	15.4	9.2	6.8
	South	16.2	5.3	8.6
2- Per capita investment	North	19.5	11.0	9.8
	South	25.5	10.6	5.9
3- Per capita food consumed (in kgs. of meat)	North	- 2.4	2.8	10.1
	South	- 6.5	0.0	13.2
4- Per capita consumption other than food	North	12.9	4.7	?
	South	7.8	11.1	?
5- Per capita gross agricultural output	North	-	-	-
	South	-	-	-
6- Per capita consumption of electricity for industrial uses	North	24.1	7.5	?
	South	19.3	3.9	?
7- Per capita rooms built	North	31.5	19.9	6.1
	South	29.3	19.5	11.6
8- Shipments of merchandise (in tons per 1,000 inhabitants)	North	16.3	12.6	?
	South	23.4	4.4	?
9- Automobile registration (number per 1,000 inhabitants)	North	9.8	6.8	5.3
	South	9.1	8.8	8.1
10- Per capita monetary savings	North	16.2	12.8	?
	South	15.5	9.8	?
Algebraic average of changes in items 2 to 10 (excluding 5)	North	16.0	9.8	?
	South	15.4	8.5	?

Table 7

Relative Economic Distance Between North and South

<u>Economic indicator</u>	<u>South as</u> <u>percentage of North</u>				<u>Decrease (-) or</u> <u>increase (+) with</u> <u>respect to 1950</u>		
	<u>1950</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
1- Per capita gross income	42.7	44.7	43.1	43.8	- 2.0	- 0.4	- 1.1
2- Per capita investment	43.2	54.7	54.5	52.6	-11.5	-41.3	- 9.4
3- Per capita food consumed (in kgs. of meat)	49.2	52.4	51.0	52.4	- 3.2	- 1.8	- 3.2
4- Per capita consumption other than food	31.5	33.8	35.9	?	- 2.3	- 4.4	-
5- Per capita gross agricultural output	79.2 ^{1/}	-	83.9 ^{2/}	?	-	- 4.7	-
6- Per capita consumption of electricity for industrial uses	19.4	20.5	19.8	-	- 1.1	- 0.4	-
7- Per capita rooms built	32.3	39.4	39.3	41.3	- 7.1	- 7.0	- 9.0
8- Shipments of merchandise (in tons per 1,000 inhabitants) ^{3/}	64.9	67.3	62.4	-	- 2.4	+ 2.5	-
9- Automobile registration (number per 1,000 inhabitants)	36.1	38.6	39.4	40.4	- 2.5	- 3.3	- 4.3
10- Per capita monetary savings	44.5	42.5	41.4	-	+ 2.0	+ 3.1	-
Arithmetic average of items 2 to 10 ^{4/}	44.5 ^{5/}	40.1 ^{6/}	43.7	47.5 ^{5/}	- 3.6	- 3.0	

1/ Calculated on the average for 1950/52.

2/ Calculated on the average for 1953/55.

3/ Merchandise shipped by rail and by sea.

4/ Excluding item 5 in 1950 and 1954.

5/ Relative figure to all items 2 to 10.

6/ Excluding item 5 in order to make it comparable with 1954.