This report is restricted to those members of the staff to whose work it directly relates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PRELIMINARY REPORT

ON THE

DEVELOPMENT PROGRAM OF SOUTHERN ITALY

July 7, 1950

Economic Department

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I. **Summary and Conclusions**

1. The examination of Italy's creditworthiness leads to the conclusion that, under reasonably optimistic assumptions, Italy would appear to be creditworthy for an additional dollar debt burden represented by a series of annual loans of $20 to 25 million per annum. The loans envisaged for the development of the South are well within this limit. In fact, they only absorb about one-half of the "reasonably optimistic" credit ceiling. Even under less optimistic assumptions, loans envisaged at an annual rate of $10 million could just be serviced by Italy.

2. The maintenance of a stable Government seems probable in spite of high political tension both on the Left and on the Right. Centrifugal tendencies within the anti-Communist majority are rather a symptom of a smaller immediate danger of Communism than of any weakening of the anti-Communist front. While there might be reshuffles in the Cabinet, for instance, a movement within the present majority parties to the Right in the short-run and to the Left in a somewhat longer-run, the main danger to political stability would be the absence of a large economic development program.

3. The development program for the South is well conceived, inherently consistent and represents undoubtedly a priority in the Italian investment policy. The program envisages an investment of 100 billion lire ($160 million) per annum for ten years, but it is probable that it may be fulfilled more quickly in seven to eight years.
As a $1.6 billion program, it is the largest regional development program in the world and is to be financed to the extent of 90% by local capital and by only 10% from external loans. The plan is well enough worked out to offer a suitable basis for Bank financing.

Two-thirds of the investments will be in agricultural development, i.e.: land reclamation, irrigation, one-third in aqueducts, roads, other public works and tourism, as well as in agricultural processing industries.

For the first two years, about 43 billion lire per annum and about 25 billion lire in the third year of the program will be financed from the lire counterpart fund so that only 57 billion lire in the first two years and 75 billion lire in the third year will form additional investments. From the fourth year onwards, the whole of the 100 billion lire will represent additional investment. Italy is well capable to supply it without endangering its monetary equilibrium.

4. The investment authority for the South (Cassa del Mezzogiorno) (as proposed in the draft bill, which is not yet passed) is well devised and is a suitable instrument for the realization of this policy. There is reasonable hope that it will be relatively a-political and that all parties in Italy -- not only the government parties -- will be in favor of it. In fact, the only criticism raised so far was that rather more than $1.6 billion would be called for. There is no organized body of opinion, either among political parties or industrial and banking circles in the North which denies the necessity of a development program in the South.

5. The realization of the investment program will provide for productive employment of an additional 250,000 to 300,000 unemployed workers. These
workers consume at present 300 to 400 lire per day and will earn, when employed, 1,000 to 1,100 lire per day; they will thus consume 600 to 700 lire more a day than hitherto. Since Italy lacks vital foodstuffs (wheat and fats and raw materials) a proportion of the newly employed workers' additional expenditure will lead to a demand for additional imports. An analysis of the Southern Italian family workers' budgets and of the raw materials required by Italian manufacturers for the investment program leads to the conclusion that the equivalent of $100 million investments per annum will cause additional dollar imports of around $10 to 12 million per annum, while the expected increase in dollar exports is small. The foreign exchange needs other than dollars amount to the equivalent of about $40 million per annum, ie: four times the amount of the dollar requirements.

6. Increased income from investments will begin to flow in four to six years time, since it takes so long for most land reclamation and irrigation schemes (which form two-thirds of the whole program) to bear fruit. The increase in production of grains, milk and meat, fruit and vegetables will not only save some imports but will also increase exports to the non-dollar areas. Foreign exchange receipts from the increased exports are expected to cover the bulk of the indirect foreign exchange requirements at the end of the program. "Local currency loans" thus only advance subsistence funds over a transition period after which the higher level of production can be maintained without the continuation of additional lending. For the same reason, the Italian Government can advance the non-dollar foreign exchange requirements out of its own present reserves without danger to its long-run balance of payments position.
7. When after the first two years, the additional investment caused by the plan will rise from $100 to $120 million in the third year and then to $160 million per annum from the fourth year onwards, it is probable that some dollar imports may be substituted by non-dollar imports and may thus represent a smaller proportion of the indirect foreign exchange requirements of the plan. Italy may also then be able to finance out of its own reserves one part of the indirect dollar requirements of the plan besides providing for all non-dollar foreign exchange requirements. If neither of the two possibilities obtained, the case for raising somewhat the dollar financing by the Bank might be considered for future tranches of the loans after 1953 or 1954.

8. The dollar impact of the investment program estimated around $10 to 12 million per annum can be broken down very roughly as follows:

(a) machinery (first year) equal to about 10%  $1 million
(b) raw materials, equal to about 50%, required
   for the production of
   i) home produced equipment  $5 - 5½ million
   ii) additional consumers goods (for instance, cotton for textiles)
(c) additional wage goods (for instance, wheat)
   equal to about 40%  $4 million

Total  $10 million

9. The dollar impact of the investment program should determine the amount of the Bank's loan. The purpose of the loan would be thus two-fold:

(1) to provide for the additional dollar imports resulting from the development plan for the South. The loan would enable
the Italian Government to proceed with the well-conceived plan without the danger of losing too much of the dollar or gold reserves; and

(2) to provide an equivalent amount of additional local currency investment for the financing of the program.

The lire counterpart of the Bank's loan to the Cassa should be invested in additional specific projects. It would thus, incidentally, raise the total amount of additional investment in Italy from $100 million to the equivalent of at least $110 million per annum. In practice, however, it would raise the investment to the equivalent of at least $120 million, since the lire counterpart of the Bank's dollars will be used as a loan to companies which will provide at least 50% of their own capital not much of which might have been otherwise invested for investment in specific projects. The Bank's loan of $10 million per annum would be an essential element in a flow of additional investment in Italy of $110 to $120 million per annum. The collaboration and consultation in the whole field of the development program will give the Bank an influence and a vital part in an investment more than ten times as large as the amount of its loans.

10. Conclusion

The Development Plan in the South is a good plan. It represents a priority in the Italian investment policy and may prove to be a turning point in Italian economic history. Italy has unused manpower and a good machine industry but it lacks foodstuffs and raw materials. Development of unused resources would be impossible without additional imports of foodstuffs and raw materials. Loans to provide these indirect foreign exchange requirements are therefore the most efficacious way to contribute to the solution of Italy's
fundamental economic and social problem. Such loans will not create a permanent need for credits to finance a higher standard of living but will only be required during a transition period of seven to eight years, after which the productive results of the development program could suffice to maintain a higher standard of living without further credits.

The Bank's participation in the Development Plan for the South of Italy should be envisaged for its whole duration, i.e.: 7 - 8 to 10 years, although no legal commitments for this length of time are to be made. A formula expressing the continuity of the Bank's interest in the Development Plan should be agreed upon. Four or five separate tranches each covering the indirect dollar requirements for about two years would finance the whole program.

The lire counterpart would be lent for selected specific projects and be the object of end-use supervision. Separate invoicing of single import items would not be called for.

One part of the Bank's loans can also be given in "free" Swiss francs.
II. Notes on Development Program of Southern Italy

(1 - 3. The Economy of the South of Italy; 4. The priority of the South in the Italian Economic Policy; 5. The Aims of the Plan; 6. The Agrarian Problem; 7. The Investment Program; 8. The Financing of the Plan "Cassa del Mezzogiorno"; 9. Conclusion)

1. The South of Italy is an underdeveloped area within a developed country. It has all the characteristic features of an underdeveloped country: an agrarian surplus population, open and disguised unemployment, a low income per head ($150 per annum as against the Italian average of $212 and the Northern Italian average of $240) and a rate of progress lower than the rest of the country. But it has also assets which other underdeveloped countries lack: availability of administrative managerial and technical know-how, a potential supply of additional skilled and semi-skilled workers from the North and a local capital supply which, though not sufficient, may be larger than the supply in most other underdeveloped countries. The economic resources of the South consist mainly in good, cheap and adaptable manpower, in land which although on the whole poor, is capable of considerable improvement and development, and, last not least, of some social overhead capital in railroads, roads, and public utilities, which is considerably better than that obtaining in other underdeveloped countries. There should be, therefore, better prospects of success for a development program in the South of Italy than almost anywhere else in the world.

2. Southern Italy was not always less developed than Northern Italy. The unification of Italy in 1861, which might have meant an economic integration, had a disintegrating effect on the economy of the South. The abolition of internal and the lowering of the external tariffs ruined the industry in the South, which was as developed as that in the North, but more dependent on
protection. When the free trade policy was abandoned, the industrialization in the late 1870's and 1880's in Italy benefitted only the North but not the South. The difference in economic development and income per head became steadily more accentuated. In point of fact, Southern Italy reached already between 1860 and 1870 an economic saturation level which it has not overcome during the last eighty or ninety years. Out of the total increase of population in the South, between 1861 and 1936 of 9.4 million persons, only 0.2 million found productive employment in the South; 4.1 million swelled the ranks of the unproductive or unemployed people; 1.3 million was the increase in the number of children, while fully 3.8 million people emigrated either to the North or abroad. Only about 5% of the increase in population found productive living in the South, while 95% had either to emigrate or to remain unemployed. It may be noted that more than half of the increase in population remained unemployed while less than half succeeded in migrating.

3. The situation threatens to become even worse at present because the possibility of absorbing emigrants from the South is very much diminished in the North of Italy. The emigration abroad, while vitally important, cannot possibly provide a sufficient outlet for the increase in population in the South.

4. "The problem of the South" is not, however, only a Southern regional problem. It is a national problem of Italy as a whole and has been recognized as such for decades already. Four economic cases and one social one for the priority of the South in the Italian economic development policy may be enumerated:

1) There is plenty of undeveloped land and of unused manpower
in the South. Peasants in the South could not be used for anything else in the short-run but for work on the land. On the other hand, they are both fit to work on the land and want to work where they live. It is thus both cheaper and safer to use them in the South.

ii) The development program in the South would not only provide work on the spot but would also give many contracts to the industry in the North which would benefit thereby. An industrialization program in the North, however, would hardly use any of the Southern Italian resources and would thus only aggravate the existing disparity between the two areas, creating two nations within one.

iii) No preliminary work on organization of investment and project making has been made for the North. It exists for the South. While there are single projects in the North of Italy which might be directly more profitable, not a sufficient amount of them exists to provide a minimum size of investment which would acquire the proper momentum of creating a new economic structure in Italy through a further industrialization of the North. It is quite true that it is not only the lack of capital which is an obstacle to economic development but also the lack of the "organization of investment," i.e. the successful preparation of all the projects required. The activities of the Svimez (Society for the Development of the South) over the past three years provided a stock of studies and projects without which the
development plan for the South could not possibly start. These studies exist for the South but not for the North and that in itself is an additional reason why a large industrialization program in the North could not start at present.

iv) Lower wages are not a sufficient incentive for investments in the South. Without a purposely changed economic framework, the long-run flow of investments in Italy would be smaller and the bulk of it would continue to flow to the North. We might see in the 1960's, 40 million people concentrated in the North and 10 million only in the South. Expensive new housing and other not directly productive capital investment would have to be provided in the North where in the long-run the undue concentration of people might produce an economic congestion, i.e: diminishing returns. It would be then too late to reverse the process since capital assets in the South, far from being increased, would not even have been maintained at the present level. There would be an economic loss to the whole of Italy.

There is thus a strictly economic case in favor of development of the South even apart from social explosions which a lack of such a program is bound to produce.

v) Social case: Without a development program in the South, a social explosion would be bound to occur which would upset the stability of the whole of Italian economy and not only of the South.

The task of the development program in the South is primarily to employ productively unused resources and to create a changed economic structure which once achieved would attract spontaneously a flow of private capital sufficient to secure a higher standard of living in the South and a more
balanced economy for the whole of Italy. The achievement of such a program requires a certain minimum quantum of investments in the area for a number of years. A minimum size and continuity of investments of several years are accordingly the basic features of the program envisaged at present. Such investments will lead to a fuller utilization of the existing unused capacity (for instance, in handicrafts and small industry in the South and in some industries in the North), will induce a modernization of the existing industry and will lead to the creation of additional industries operating on an optimum scale. It is thus not only the direct profits accruing from the investment but also substantial indirect profits and the new investment opportunities created which must be taken into account. The new investment opportunities will only emerge after the first phase of the program has been successfully achieved in four to six years time. In a way, therefore, the whole of investment over the first phase may be considered as foregoing somewhat higher profits in the short-run for the sake of securing more profits in the longer-run. It is thus quite true that there are presumably many single projects which might yield profits of well over 25% from capital invested, while the plan, as a whole, can be expected to produce a direct return in terms of increased national income of only about 10 to 12% per annum. But besides these direct returns of 10 to 12%, the development plan would produce many additional investment opportunities which in the long-run would raise the national income above the level which other single projects could secure even though these other projects yield in the short-run higher direct profits.

5. The development program for the South is a typical pre-industrialization program intended to create an additional market and a framework within which
further industrialization can take place later on. The creation of an additional market will occur largely through development of agriculture on which two-thirds of the whole investment will be spent, as well as development of some public utilities and the establishment of processing of agricultural industries. The plan is cautious, employing people where they want to work and allowing for time for training of workers and gradual emergence of a more progressive economic climate. The program envisions an investment of 100 billion lire per annum (equal to $160 million) for ten years. It is thus a $1.6 billion program for investments in the field of land reclamation, irrigation, agricultural improvement, secondary roads, aqueducts, as well as factories for processing of agricultural products, a hydro-electric plant extension and investments intended with tourism. It is so far the largest regional development plan in the world and is to be financed to the extent of 90% from local resources and by only 10% from external loans. The plan is reasonably conceived, internally consistent and well enough worked out to offer a suitable basis for bank financing. Since the bulk of the plan concerns the development of agriculture in the South, a brief survey of the agrarian problem in Italy might help to appreciate its design.

6. The Problem of Italian Agriculture

In Italy half the population live on the land. In 1936, 8.6 million people (over ten years old) were engaged in agriculture. The density of the population is very high; there is not much of this land and a high proportion of it, especially in the South, is poor. "The difficulties are compounded by the fact that the land and the people living on it are very old. They both suffer, therefore, from an age-old exploitation and from the accumulation of ingrained habits and traditions which, whether good or bad,
are not easily altered." (M. Einaudi, The Italian Land, Social Research, March, 1950). The agrarian problem is thus very complicated. No one single measure of "agrarian reform" can easily or speedily solve it.

**Distribution of Agrarian Population**

The population engaged in agriculture can be divided into three groups:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Owners, crop-sharers (mezzadri) and tenants</td>
<td>5,400</td>
</tr>
<tr>
<td>(ii)</td>
<td>Mixed group, combining two or three of the above functions</td>
<td>840</td>
</tr>
<tr>
<td>(iii)</td>
<td>Laborers on daily, annual and combined wage- and crop-sharing basis</td>
<td>2,320</td>
</tr>
</tbody>
</table>

Most of the first and half of the second category are well employed and more or less satisfied. Most of the third and half of the second category (2.7 million) are very poor, underemployed and form the landless rural proletariat longing for ownership or greater security from better and more regular work. Their longing can unfortunately be only satisfied very slowly and to a limited extent.

**Distribution of the Land**

Of Italy's 70 million acres of cultivable land, 54 million acres (77.5%) are individually owned and around 16 million acres (22.5%) are publicly owned. Two-thirds of public land is owned by municipalities, most of it poor land of which 74% is in mountainous regions.

The individually owned land is distributed as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>under 25 acres (in it 5 million units under 1.25 acres each, and one-half of the whole acreage under 5 acres)</td>
<td>42</td>
</tr>
<tr>
<td>(ii)</td>
<td>25 - 250 acres</td>
<td>32</td>
</tr>
</tbody>
</table>
Practically nowhere in Northern Italy is there an economically excessive concentration of land ownership. Where there are large estates in the Po Valley, they are most intensively cultivated with heavy capital investment. In Tuscany, large estates are divided into smaller farms; while legal units are thus large, the agricultural units are much smaller.

The worst agrarian problem exists in the South. Only one-tenth of the area is intensively cultivated, along the coast largely in small holdings. This one-tenth of the acreage supports half the peasant population and is more than seven times as productive as the rest of the land. The irrigated area is only 12% of the irrigated area of Italy. It amounts to only 5.5% of the acreage in the South (compared with 26.5% in the North) and can be increased to 8.8%. Almost nine-tenths are extensively cultivated areas, of which a) 5 million acres in latifundia (large estates, and b) several more million acres in very small holdings owned by several hundreds of thousands of peasants. Peasants frequently own several widely separated patches of land, renting few from large estate owners. The latifundia are therefore frequently atomised into thousands of unrelated pieces of land, without a common plan of production. Both large and small holdings constitute a problem in the South. The integration of small units is as important and even more difficult than a redistribution of the large ones.

The Agrarian Reform in the narrower sense of redistribution of land cannot solve the agrarian problem by itself. There is not enough land to distribute and the bulk of the land to be distributed is poor. Intensive
studies on new rotation plans, training of peasants and preliminary investments in cottage building and land reclamation are necessary if the achievement of socially most desirable ends is not to go at the expense of agricultural production. The Italian Government bill about agrarian reform has not yet been passed. Several alternative projects of agrarian reform are still under discussion. The Government program of redistributing 3.75 million acres, even when passed as law, must remain a distant goal. At best, 80,000 to 100,000 acres can be distributed per annum, settling 4,000 to 5,000 families and providing work for about 8,000 to 10,000 workers. Since the preparatory work on what the new settlers should produce, what means they should obtain to be able to produce, is not well advanced, it would be physically impossible to organize the work at any quicker rate. The agrarian reform must take about 30 years if a conflict between its economic and social effects is to be avoided. The fear of agrarian reform has, however, two good effects: it accelerates private sales to small proprietors which proceeded last year at a rate which is four to five times higher than the normal one, and it encourages the estate owners to proceed with land reclamation schemes.

Land reclamation and irrigation works can provide more quickly an increase in agricultural employment and production. While the "agrarian reform" can provide work for about 80,000 people in ten years, land reclamation and irrigation can provide additional work for about 250,000 in that period.

The so-called "agrarian pacts" are the third measure which could contribute to the solution of the agrarian program. They intend to regulate rents paid for land which owing to the land-hunger are unduly high and
prevent a rational cultivation by sharecroppers and small tenants. The
opposition of the big estate owners to this measure is not the main ob-
stacle to its realization. Numerous small absentee owners supplement their
low income in towns by renting small patches of land. They would bitterly
oppose a Government intervention in those matters and they represent many
thousands of votes. Prospects of progress here are dim.

7. The Plan consists of two major parts:

I. Projects entirely to be financed by the Cassa.

II. "Connected Projects", which are industrial projects, for
which private companies will advance a part of their own
capital and receive loans for the rest from the Cassa.

I. consists of the following parts:

(Billion Lire)

1. Land reclamation and land improvement ........ 640
   (in which irrigations additional to those
   contained in the ERP Acceleration Program
   for 1950-1953 ........ 135 billion lire)

1a. To that should be added Acceleration Program
   using ERP counterpart funds ............... 160

2. Aqueducts .................................. 100

3. Roads (mainly secondary) ...................... 100

4. Tourism ...................................... 50

5. Other public works .......................... 100

Total ............................................ 1,150

II. Connected projects which are only worked out in detail for the first
four years of the plan consist of:

(Billion Lire)

1. Fruit and vegetable collecting centers ...... 15.9

2. Olive Oil industry ............................ 10.0
3. Hydro-electric plants ............................... 20.9
4. Nitrogen Plant (Bagnoli) which may be financed by ERP counterpart funds ............... 4.3
5. Fiberboard plant ...................................... 0.7

Total 52

Distribution of the projected investment over the first four years of the plan is shown on the table attached.

A detailed description of the development plan will be given in a subsequent full report. Some remarks may be made here, however, on them.

The importance of land reclamation and irrigation projects has been stressed in the description of the agrarian problem in Italy (see preceding paragraph). The Cassa will certainly pay for the "public investment", i.e.: the part that the State would have to advance in public works subsidies ($344 million). It may have to advance funds, i.e.: to lend the "private investment part" ($297 million).

Irrigation projects are very well worked out, refer to seven different districts covering an area of 185,000 hectares. The average increase of production per hectare after six to ten years amounts to 250%. The increase in net income produced per hectare amounts to 122,000 lire. The total investment foreseen is 135 billion lire and is expected to yield after six to ten years about 15%. Additional employment provided amounts to over 50,000 people.

Land Reclamation

In Italy, often regarded as intensively cultivated, there are hundreds of thousands of acres of underdeveloped land. To bring this vast area into
PROJECTED INVESTMENT IN THE TEN-YEAR DEVELOPMENT PROGRAM FOR SOUTHERN ITALY
(including Sicily and Sardinia)
(in billions of lire)

<table>
<thead>
<tr>
<th>Projects</th>
<th>Total investment (10 yrs)</th>
<th>1st year (1950)</th>
<th>2nd year (1951)</th>
<th>3rd year (1952)</th>
<th>4th year (1953)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan proper</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation 1/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public investment</td>
<td>87.1</td>
<td>10.6</td>
<td>23.0</td>
<td>24.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Private investment</td>
<td>47.7</td>
<td>0.1</td>
<td>2.2</td>
<td>3.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Land reclamation and improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accelerated program using ERP counterpart funds</td>
<td>160.3</td>
<td>54.1</td>
<td>51.2</td>
<td>29.8</td>
<td></td>
</tr>
<tr>
<td>Supplement to accelerated program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public investment</td>
<td>257.1</td>
<td>4/</td>
<td>4/</td>
<td>4/</td>
<td>4/</td>
</tr>
<tr>
<td>Private investment</td>
<td>249.3</td>
<td>4/</td>
<td>4/</td>
<td>4/</td>
<td>4/</td>
</tr>
<tr>
<td>Aqueducts</td>
<td>106.8</td>
<td>17.1</td>
<td>34.1</td>
<td>34.1</td>
<td>10.7</td>
</tr>
<tr>
<td>Roads (mainly secondary) 2/</td>
<td>100</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
</tr>
<tr>
<td>Tourism (private investment)</td>
<td>50</td>
<td>(5) 3/</td>
<td>(5) 3/</td>
<td>(5) 3/</td>
<td>(5) 3/</td>
</tr>
<tr>
<td>Other public works</td>
<td>100</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
<td>(10) 3/</td>
</tr>
<tr>
<td><strong>Total: Plan proper</strong></td>
<td><strong>1,158.3</strong></td>
<td><strong>106.9</strong></td>
<td><strong>135.5</strong></td>
<td><strong>133.0</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Connected projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fruit and vegetable collecting centers 1/</td>
<td>15.9</td>
<td>2.9</td>
<td>2.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Olive oil industry 1/</td>
<td>10.0</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Hydro-electric plants 1/</td>
<td>20.9</td>
<td>1.6</td>
<td>4.0</td>
<td>6.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Nitrogen plant (Bagnoli) 1/</td>
<td>4.3</td>
<td>1.0</td>
<td>2.5</td>
<td>0.8</td>
<td>-</td>
</tr>
<tr>
<td>Fiberboard plant 1/</td>
<td>0.7</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>1,219.1</strong></td>
<td><strong>113.9</strong></td>
<td><strong>145.7</strong></td>
<td><strong>121.4</strong></td>
<td></td>
</tr>
</tbody>
</table>
1/ Available in English and Italian in IBRD.
2/ Will not be available for several months.
3/ Figures in parenthesis represent annual averages of 10-year total.
4/ Investment in the supplementary program will follow the accelerated program. It will, therefore, only become substantial as ERP counterpart expenditures decline, i.e.: from 1952 on.

Note: Due to rounding, columns do not always add to totals.
better production, the program dwarfing anything Mussolini tried is presented in the development plan. This part is an extension and continuation of a land reclamation and irrigation program financed by ERP. In fact, the first two or three years of the program will be devoted to the realization of the so-called "Acceleration Program" agreed with and to be financed by the ERP. This program will conclude 240 reclamation projects which are expected to raise production by about 30% in the areas concerned. The reclamation works in the plan will increase production on the average by about one-third and will provide work for 175,000 to 200,000 people. Many of the additional employed represent untrained manpower which could hardly be otherwise employed. The reclamation work will use materials which Italy can supply while direct import requirements are negligible. In consequence, the investments do not imply the use of many scarce factors or any choice between alternative outlays and are capable of increases in income which are technically possible, but would not otherwise be achieved.

Aqueduct projects are very well worked out. In Southern Italy, 20% of the population is without water. The aqueducts program represents a concentration of effort which will make possible a more rational administration and better maintenance of aqueducts. They will take from three to six years to construct and will provide on the average employment for 28,000 people.

The connected projects will raise substantially the value added by processing agricultural products of the South. Among them, the fruit collecting centers will increase considerably the value added in fruit and vegetables which represent 25 to 30% of value of the agricultural output of the South. Olive oil crushing and refining will improve the value added of olive oil which represents 10% of the value of the agricultural output
in the South.

The total investments during the first two years other than the acceleration program amount to 114 billion lire. They will be spent roughly as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Billion Lire</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wages</td>
<td>32.2</td>
<td>28.2</td>
</tr>
<tr>
<td>2. Raw materials and machinery:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. from the South of Italy</td>
<td>14.4</td>
<td>12.6</td>
</tr>
<tr>
<td>b. from the North of Italy</td>
<td>30.7</td>
<td>26.8</td>
</tr>
<tr>
<td>c. imported from abroad</td>
<td>8.7</td>
<td>7.6</td>
</tr>
<tr>
<td>3. Transport of the above:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. by rail</td>
<td>2.9</td>
<td>9.0</td>
</tr>
<tr>
<td>b. otherwise</td>
<td>7.4</td>
<td>10.3</td>
</tr>
<tr>
<td>4. Taxes</td>
<td>3.2</td>
<td>1.8</td>
</tr>
<tr>
<td>5. Expropriation and land purchases</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>6. Preparation of projects and technical assistance</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>7. Administration costs</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>8. Other reserve for repairs, maintenance and amortization</td>
<td>6.3</td>
<td>5.5</td>
</tr>
</tbody>
</table>

The investment program will increase the total Italian investment by about 10% and will increase the Italian national income by at least 2% to 4%. It will benefit the existing industries in the South as well as in the North. It will give rise to both regional and extra-regional external economies. After the first success is established or anticipated, it will provide for a spontaneous inflow of private investment in the South. These catalytic effects of the program should form the final criterion of its success.

8. A draft bill presented by the Italian Government on March 17, 1950,
which has not yet been passed, proposes to establish a para-statal institution in the name of C.O.S.P.I.M. which is to carry out the plan. As an investment authority for the South, the Cassa will be the main administrative and financing instrument of the plan.

The law about the para-statal institution establishes it under the name of C.O.S.P.I.M. (Cassa per Opere Straordinarie di Publico Interesse nell' Italia Meridionale). It will be known apart from C.O.S.P.I.M. shortly as Cassa per il Mezzo-giorno. The Cassa has to prepare, coordinate and finance a program which is additional to the normal public works in the South of Italy in the fields of land reclamation, irrigation, agricultural improvement, secondary roads, aqueducts -- all these also where they are connected with the agrarian reform -- as well as establishments for processing of agricultural products and investments connected with tourism. (Article 1).

Each year's program of the Cassa has to be approved by a committee of ministers appointed by the Cabinet. These ministers serve there, however, in their personal capacity, ie: the program is not to pass through the civil service of the respective ministries. Where single technical projects have to be approved according to the existing law by the Ministry of Public Works, a special section is created at the Ministry of Public Works of 15 technical members probably appointed as follows: 8 by the Ministry of Public Works who also supplies the chairman of this special section, 6 by the Ministry of Agriculture and 1 by the Ministry of Health. This section has to approve the projects of the Cassa irrespective of all the other public work projects considered in the respective ministries.
The fact that a special section is created, assures that this work will be done without the normal bureaucratic delay. (Article 3).

The Cassa will have at its disposal 100 billion lire per annum for ten years. If it is technically necessary to spend more, the Cassa may borrow additional sums and thus spend more than 100 billion lire in a year. If in any one year the expenditure does not reach 100 billion lire, the unspent part can be used in the successive year (so far this was impossible according to the normal Italian budget law). (Article 5).

The Cassa can also advance all such subsidies and contributions which would have to be made by the State in the field of agriculture. It can discount and capitalize such subsidies either out of its own funds or by issuing bonds. (Article 4). To give an example, the State has to pay a subsidy of 5% per annum for thirty-five years for the construction of aqueducts. In practice, however, there was only the law but not the appropriation. Neither the 5% subsidy nor borrowing against the subsidy was, therefore, possible and many aqueducts were not built for that reason. The same applies to many schemes of land reclamation where the law foresees State subsidies for special categories of work but where the lack of an appropriation made the realization of many of these works impossible.

The Cassa may create separate limited companies for specific functions, taking up all or a part of the shares of such a limited company. (Article 6).

The Cassa may in future grant a prolongation of loans due to be repaid against a quid pro quo, for instance, if the sums due to be repaid were to
be invested for the industrialization in the South. The Cassa has the right to cede or to issue bonds for the amounts due under that headline. Its bonds would be state guaranteed. (Article 3).

The funds of the Cassa will be acquired as follows:

In the first year of 1950-1951 the Cassa will receive

- from the counterpart fund for agricultural work \(\ldots\) 42.6 billion lire
- from the interim aid counterpart fund \(\ldots\) 23.8 billion lire
- The State will make up the additional \(\ldots\) 33.5 billion lire

\[\text{100 billion lire}\]

In 1951-1952 the Cassa will have from the counterpart fund \(\ldots\) 50 billion lire

- from interim aid counterpart fund \(\ldots\) 18 billion lire
- from State contribution \(\ldots\) 32 billion lire

\[\text{100 billion lire}\]

From the third year onwards the Cassa will receive

- from repayment of loans granted to Italian industry for imports of ERP machinery \(\ldots\) about 30 billion lire
- from State contribution \(\ldots\) about 70 billion lire

\[\text{100 billion lire}\]

If these revenues do not add up to 100 billion lire per annum, the State has to make up the deficiency. If they surpass 100 billion lire, the State may not lower its contribution of 70 billion lire per annum from the
third year onwards. The Cassa can, thus, have somewhat more than 100 billion lire per annum, but never less. (Article 9).

The Cassa receives the repayments due on ERP loans. The interest on these loans appropriated until March, 1950 (= $132 million) will be used through the existing institutions as an additional credit over and above the means of the Cassa for "follow-up credits" for land reclamation. It has been found repeatedly that after the main land reclamation work was done, some additional maintenance or follow-up credit was required for which it was difficult to obtain funds. The interest on the ERP loans will provide about 60 billion lire for these purposes which would be given as credits without creating any new institutions. (Article 13).

**Administration of the Cassa:**

The administrative council of the Cassa is composed of

(a) A president nominated by the President of the Republic on the proposal of the Prime Minister who has consulted with the Cabinet;

(b) Two vice-Presidents nominated by the Prime Minister after consultation with the Cabinet, on proposals for one by the Minister of Public Works and one by the Minister of Agriculture; and

(c) Eight members "selected from among people who are particularly expert": (Probably 2 proposed by the Minister of Finance, 2 by the Minister of Public Works, 2 by the Minister of Agriculture, 1 by the Minister of Labour and 1 by the Commissariate for Tourism). (Article 15).

Finally, the Cassa is authorized to contract foreign loans, either directly or indirectly through its subsidiaries, in all fields of its activity. These loans may be for the financing of a program as specified
in Articles 1 and 3 or for specific projects connected with these programs or for the construction of establishments for the processing of agricultural products or in the field of tourism. Each such loan will have full State guarantee. (Article 11). It would, thus, not be necessary to have the Parliament's ratification in the case of IBRD loans.

If the Cassa is established as proposed in the draft bill, it will be functional and relatively a-political and can prove an adequate instrument for the realization of its aim. The opposition to the Cassa comes from three main groups:

like to

a) The bureaucracy which does not/lose power and is naturally opposed to the creation of para-statal institutions;

b) Members of Parliament, including the Government parties who do not want control of Parliament to be substantially weakened; and

c) Some industrialists who hoped that they need not repay the loans granted to them by the Italian Government and who now will have to repay them to the Cassa.

Although the Cassa is created for ten years, it is expected that it may succeed in fulfilling its program if it functions well within seven or eight years, since it has the possibility of discounting future payments due to it. The realization of its program will be, thus, largely determined by what is technically feasible. The Cassa will presumably start by spending less than the annual rate of 100 billion lire during the first period, will reach after a year or so a higher rate of expenditure which may then fall off toward the end.

9. Italy to-day has only the same income per head she had at the beginning of the century. During the last eighty years, she could raise her
income per head only during three decades. A great effort was required, nonetheless, to keep its income per head in face of the increasing population. Like Alice in Wonderland, Italy had to run very fast in order to stand still. Gross investment amounted to 15 - 16% of gross national product, which is a very high proportion on that low level of income. The rising unemployment eats into the vital savings of the country. The unemployed receive very low unemployment benefits over a short period only. Family feeling takes in Italy the place of the Welfare State. The unemployed are supported by close and even distant relatives on the land and consume without producing resources a large part of which could otherwise be invested. Open and disguised unemployment in Italy may be estimated at around 4 million people. Over 2.5 of them are in the South. If there were any likelihood of a United States of Europe and freedom not only of trade but also of movement of population, there might be some doubt about the appropriateness of a large scale regional development in the South. As it is there can be none.