Italian Commercial Policies in the 1970s

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This work in progress report is part of an inquiry being undertaken by the World Bank in conjunction with scholars from twelve industrial countries into the penetration of the markets of industrial countries by exports of manufactures from developing countries. The project seeks to establish the shares of industrial country markets held by the developing countries, changes in such shares in the 1970s, and why they vary among industry groups and countries. The aim is to assist developing and industrial countries to improve their policies through a better understanding of trade patterns and protectionist pressures.

Italy appears to have made only a modest autonomous contribution to the protectionist trend of the Economic Community in the 1970s, maintaining a rather free trade posture in Community level discussions. Developing countries do not appear to have been the primary target of the new non-tariff measures enforced by Italy. The reasons for moderation are to be found in Italy's trade position as a relatively small open economy, specializing in primary transformation processes and competing with developing countries in export markets. A marked degree of social and political consensus for liberal trade policies existed at the national level, and in the actual policies followed by the government in the 1970s to deal with industrial sector problems. Direct and indirect aid to industry, export promotion, and temporary unemployment assistance to crisis sectors were preferred over restrictive trade measures.

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ITALIAN COMMERCIAL POLICIES IN THE 1970s

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INTRODUCTION

Until very recently an almost total lack of coverage of commercial policy issues was a striking feature of economic literature in Italy. 1/ Over the last few years this gap has begun to be filled, if in an uneven manner. The oil price increases of 1973 were commonly interpreted as the source of major new structural changes in the economies of industrialized countries, already under pressure from the newly industrializing developing countries. The strong export orientation of the Italian economy where exports account for 25 percent of domestic product and imports for a similar share of total domestic consumption, forced professional economists, policy makers and industrialists to analyze the current and future implications of Italy's international trade for domestic production, employment and economic growth. The restructuring problems were perceived to be more acute for Italy than for most industrial countries because Italian exports are still heavily skewed in favor of manufactured products at relatively low levels of transformation where Italy's relative advantages could be expected to be on the wane. 2/

Particular attention at the policy making level was given to the need for restructuring of the Italian Industry; legislation providing various types of incentives to industry was passed; more export credit was made available to the industry and export promotion activities were intensified. At the international political level the government actively pursued export outlets for the

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1/ One of the few exceptions was the essay by A. Pedone, "La Politica del Commercio Estero", in Lo Sviluppo Economico in Italia, Vol. II, ed. G. Fuà (Milano, Franco Angeli, 1969), pp. 241-259.

2/ See, for example, G. Vaciago, ed., L'Economia Italiana nell'Integrazione Internazionale, (Milano: Editore Comunità, 1974); D. Battistelli, Produzione Internazionale e Commercio Estero, (Torino: Editore Valentino, 1975). G. Conti, F. Falcone, C. Antonelli and G. Garofalo, Specializzazione e Competitività Internazionale dell'Italia (Bologna: Il Mulino, 1978); F. Onida, Industria Italiana e Commercio Internazionale (Bologna: Il Mulino 1978); B. Contini, "Collocazione Internazionale dell'Italia", in Economia Pubblica, No. 10, 1974, pp. 8-18; M. Roccas, "Problemi Relativi all'Impostazione di una Politica Commerciale a Medio Termine", in Sviluppo Economico e Strutture Finanziarie in Italia, ed. G. Carli (Bologna: Il Mulino, 1977): A. Aquino, "Innovazione Tecnologica, Specializzazione Internazionale e Politica Industriale, in Rivista di Economia e Politica Industriale, No. 3, 1977, pp. 417-451.

home industry by seeking bilateral trade and cooperation agreements with many developing countries, particularly the oil-rich Middle East and in Latin America. 1/

Yet, very little public attention and even less professional attention was paid to commercial policies affecting imports. Despite international concern with emergence of "new protectionism" no serious discussion of a possible national strategy to deal with this contingency took place at the policy making level. Even more surprising was the apparent lack of interest in the related commercial policy issues shown by the economic profession in Italy, which, with very few exceptions, did not confront the problem either at the national or international level. 2/

Several questions arise. Did Italy in fact not turn to protectionism in the mid and late 1970s? Was the lack of public and professional debate on this issue a typical case of the "pensons-en-toujours et parlons-en jamais" philosophy? Was protectionism really there at the national level, but hidden and new in its forms? Or was the protection afforded at the EC level sufficient for Italy?

This paper attempts to examine the commercial policies followed by Italy in the 1970s. It does so against the previous twenty years' experience, and taking into account the constraints to trade policies that stem from Italy's membership in the European Economic Community. The focus is on policies affecting those industrial products with actual or potential interest to the developing countries.

The first section briefly analyzes Italian industrial growth and trade trends until the second World War. The second looks at industrial performance and commercial policies in the post World-war II period. The third examines the system of protection currently in force in Italy. The fourth attempts to gauge the changes in commercial policies that have taken place in the 1970s at the European Community as well as at the national level. The fifth examines the trends in political economy of trade and industrial policies that have become apparent in recent years.

1/ See further, pp. 36-40.

2/ One exception was G.P. Casadio, "Neoprotezionismo e Libero Scambio: Il Ruolo dell'Europa, in Rivista di Politica Economica, No. 6 June 1979, pp. 3-42.

I. INDUSTRIAL GROWTH AND INTERNATIONAL TRADE IN ITALY UNTIL WORLD WAR II: A BRIEF REVIEW

The emergence of Italy as a modern industrial state is relatively recent. Manufacturing did not become the leading growth sector of the Italian economy until the turn of the nineteenth century. Until then, Italy's development had been largely tied to agriculture which in 1896 still made up 43% of the gross national product, while industry accounted for only 18%, and the tertiary sector (sellable and non-sellable services) for the remaining 39%. (Table I.1). The production of food, beverages and textiles was predominant within the industrial sector, accounting for about 55% of total value added.

The rapid growth of the manufacturing sector which lasted until 1908 (5.2% per annum, against a 2% per annum in the agricultural sector) not only led to profound inter-sectoral changes that affected the structure of the economic system, but also quite radically modified the composition of industrial output. The relative share of industry rose to 27%, while that of agriculture fell to 38%. The relative weight of metals, mechanical and chemical products increased from 11 to 24% within the industrial sector. The declining share of textiles in industrial output (from 31 to 29%), and the doubling of the share of mechanical goods (from 8 to 16%) that took place between 1896 and 1908 were also important. (Table I.2).

The interwar years were characterized by sharp cyclical movements of production: after the fast economic growth of 1922-25, the monetary deflation of 1926 ushered in a relatively long period of stagnation. This period, lasting roughly from 1928 to 1934 saw the early developments of those autarchic policies which were to become the trademark of the late 1930s. The economy grew again at a rapid pace from 1935 to 1939 stimulated by the expansion of public consumption, fostered by the military preparations undertaken by the government.

Despite the efforts made to develop farm production, the relative importance of agriculture continued to decline in the interwar years. The industrialization process continued between 1920 and 1930, helped by the protectionist policies adopted by the government, but its pace was far from dramatic. The relative share of industrial output increased by only about 5 percentage points,

Table I.1: LONG TERM TRENDS IN THE SECTORAL DISTRIBUTION OF REAL GROSS NATIONAL PRODUCT (°) IN ITALY

(%)

Years	Sectors: Agriculture	Industry	Services: Sellable	Services: Non-Sellable	Total
1861	46.0	18.4	30.5	5.1	100.0
1896	42.3	20.0	32.5	5.2	100.0
1908	37.6	26.6	30.8	5.0	100.0
1913	37.6	24.9	32.0	5.5	100.0
1925	33.0	29.7	30.9	6.4	100.0
1934	27.9	28.9	35.5	7.7	100.0
1938	26.5	30.2	31.8	11.4	100.0
1951	22.8	34.9	32.8	9.5	100.0
1961	15.8	39.9	33.6	10.8	100.0
1971	8.0	41.8	38.8	11.4	100.0
1978	6.7	41.8	40.2	11.3	100.0

(°) At factor costs until 1961; at constant 1970 market prices from 1971 to 1978.

Sources: P. Ercolani, "Documentazione Statistica di Base", in Lo Sviluppo Economico in Italia, Vol. III, ed. G. Fuà (Milano: Franco Angeli, 1969) pp. 401-402; Istituto Centrale di Statistica (ISTAT), "Conti Economici Nazionali 1960-78" (Nuova Serie; dati sommari), in Collana d'informazioni, Anno III, No. 6, 1979.

despite the progressively stronger import substitution policies that were followed. (Table I.1). 1/ Services, and particularly public administration services, also expanded quite considerably, reflecting again the policies of public employment followed by the government.

Within the industrial sector, the sharp fall in the relative size of textile production (from 22 to 14%) between 1922 and 1938 was accompanied by a stable share of food production (from 1925 onwards) and by a continued rise of the relative weight of mechanical and chemical products. (Table I.2). The mechanical industry, spurred by the war preparation efforts, saw its relative share of total industrial value added increase from 16 to 27%. The chemical industry--beneficiary of the strong import substitution policies followed by the government--also enjoyed a period of strong growth. Its share of industrial value added rose from 5% in 1922 to 11% in 1938. 2/

II. STRUCTURAL CHANGES AND TRADE POLICIES AFTER WORLD WAR II

It was in the 1950s and 1960s that the most profound structural changes occurred in the Italian economy. The economic growth that took place during these two decades was fostered by a "virtuous" combination of such factors as low wages, high export demand and improving barter terms of trade which allowed a fast rate of capital accumulation, a continuous rise of productive capacity and a progressively fuller utilization of the available factors of production.

1/ During this period imports fell from 20 to 8% of GDP.

2/ A good, short account of Italian economic development, including government policies, between 1861 and 1940 can be found in G. Toniolo, "Alcune tendenze dello sviluppo economico italiano, 1861-1940" in L'Economia Italiana: 1861-1940, ed. G. Toniolo (Rome: Laterza, 1978) pp. 3-45. A brief survey of the quantitative aspects of Italian economic development is contained in G. Fuà,"Breve sintesi statistica dello sviluppo economico italiano: 1861-1940", in L'Economia Italiana: 1861-1940, op. cit. pp. 47-66. For recent analyses of the commercial policies followed by government authorities during this period, see A. Pedone, "La politica del Commercio Estero", op. cit. pp. 242-256, and G. Toniolo, L'economia dell' Italia Fascista, (Rome: Laterza, 1980) pp. 269-342.

Table I.2: LONG TERM TRENDS IN THE SECTORAL DISTRIBUTION OF VALUE ADDED (°) IN THE MANUFACTURING INDUSTRY OF ITALY

(%)

Years \ Sector	Food, Beverages and Tobacco	Textiles	Metal Products	Mechanical Products	Chemicals	All Other Products	Total
1896	23.5	31.3	2.2	8.0	1.1	33.9	100.0
1908	25.5	28.5	3.7	16.4	3.6	22.3	100.0
1913	27.1	26.0	5.1	17.1	4.1	20.6	100.0
1922	25.9	21.5	4.9	15.6	5.4	26.7	100.0
1925	21.9	20.4	6.1	20.1	6.3	25.2	100.0
1938	21.9	16.1	7.2	26.5	10.5	17.8	100.0
1951	21.9	13.5	7.3	26.9	13.8	16.6	100.0

(°) At constant prices.

Source. P. Ercolani, "Documentazione Statistica di Base", in Lo Sviluppo Economico in Italia, Vol. III, ed. G. Fuà (Milano: Franco Angeli, 1969), pp. 411.

At the end of World War II Italy faced a fundamental choice: continue to foster domestic industry through import substitution or switch to export-led expansion. The decision to follow an export-based expansion was undoubtedly influenced by the internal and international political conditions of the time. Once made, this decision led Italian industry to specialize in primary transformation processes. This outcome was not random.

Lacking domestic sources of raw materials, Italy had to rely on imports for almost all non-labor inputs. The availability of raw materials on world markets at relatively low and declining costs, coupled with the low costs of domestic labor, favored the use of readily available low capital intensity production methods. The choice of labor intensive primary transformation processes, aside from leading to high private returns, was also in line with the overriding social and political objective of employment growth of the moderate parties that ruled the country. 1/

Heavy reliance on imports of non-labor industrial inputs meant that policy measures had to be taken to stimulate exports. In the late 1940s priority was given to the control of domestic inflation, the setting and maintenance of realistic exchange rates and the progressive relaxation of trade and exchange controls. In the early 1950s the government clearly took the road of progressive trade liberalization, which continued in the late 1950s. Italy adopted a new tariff system in 1950, based on ad valorem duties, in line with the post World War II international guidelines. In 1951, within the framework of GATT, Italy reduced by 10% its tariffs on a very large number of import products originating from the member countries of the Organization for Economic Cooperation in Europe (OEEC). The same tariff reduction was subsequently extended to all GATT member countries. Import quotas were also reduced sharply. The percentage of imports from OEEC countries not subject to licensing grew from 4% in 1946 to 50% in 1952 and to 99% in 1954. 2/ Italy joined the European Payments Union in 1950 and the European Coal and Steel Community in 1953, furthering the

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1/ See A. Graziani, (ed.) L'Economia Italiana dal 1945 a Oggi, (Bologna: Il Mulino, 1979), pp. 12-52.

2/ A. Graziani, (ed.), L'Economia Italiana dal 1945 a Oggi, op. cit. p. 26.

process of economic integration with Western Europe. Exports assumed an ever increasing importance for the industrial growth of Italy after 1957, when the European Common Market was established with Italy as a full member.

When the Common Market came into force, Italy had on average the second highest level of tariff protection for industrial products among the member countries: 18%, against the 18.5% of France, the 11.5% of Benelux and the 8.4% of Germany. 1/ The sector rates were fairly uniform, with the exception of the tariff on imports of transport equipment which was 31% on average, with a maximum of 41% on automobiles. (Table II.1). Tariff rates on Common Market imports were cut in half by 1962 and completely eliminated by July 1, 1968. 2/

The tariff reduction process vis-a-vis non Common Market countries was less straightforward since it had to take into account the obligations on a common external tariff assumed by Italy with the Treaty of Rome, as well as the results of the negotiations on trade liberalization undertaken internationally by all major industrialized countries within the framework of GATT. A relatively small reduction of tariff rates took place between 1957 and 1962. A more substantial cut occurred in 1968 and progressively smaller ones in 1970, 1971 and 1972. At the beginning of 1972, the average nominal tariff on imported industrial products from non-EC member countries had declined to 8.2%, from the 18% of 1957. Imports of clothing, textiles, pulp and paper, transport equipment and shoes were subject in 1972 to above average nominal tariff, while tariffs on mechanical products were substantially below average. (Table II.1).

The policies of trade liberalization and economic integration with the European countries that were followed by Italy provided a strong stimulus to domestic industry which was forced to compete with foreign imports and was at the same time assured of the benefits of large scale production deriving from

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1/ Nominal rates.

2/ See C.M. Pierucci and A. Ulizzi, "Evoluzione delle Tariffe Doganali per i Prodotti Manufatti nel Quadro della Integrazione Economica Europea", in Contributi alla Ricerca Economica della Banca d'Italia, No. 3, 1973, pp. 270-282.

Table II.1: ITALY: NOMINAL IMPORT TARIFF RATES (°) ON INDUSTRIAL PRODUCTS

	Against EC Countries			Against non- EC Countries		
	1957	1962	1968	1957	1962	1972
	ad valorem (%) rates					
Textiles	18.0	9.0	-	18.0	16.1	11.0
Clothing	22.5	11.2	-	22.5	20.2	14.0
Shoes	18.9	9.4	-	18.9	17.0	8.5
Hides and Skins	16.2	8.1	-	16.2	14.6	7.0
Furniture	18.9	9.4	-	18.9	17.0	8.0
Pulp and Paper	16.2	8.1	-	16.2	14.6	10.5
Non-ferrous Metals	18.9	9.4	-	18.9	16.2	5.5
Metallurgic Products	12.7	6.3	-	15.3	13.8	5.7
Electrical Machinery	18.9	9.4	-	18.9	16.7	6.5
Non-electrical Machinery	18.0	9.0	-	18.0	15.3	5.0
Machine Tools	20.7	10.3	-	20.7	18.3	8.0
Transport Equipment	30.6	15.3	-	30.6	26.3	10.0
Chemicals	15.3	7.6	-	15.3	14.1	8.8
Rubber Goods	17.1	8.5	-	17.1	15.4	7.5
Miscellaneous Manufactures	16.2	9.0	-	16.2	15.0	7.5
Average	18.0	9.0	-	18.0	16.1	8.2

(°) Sector rates represent averages of single product rates.

Source: C. M. Pierucci and A. Ulizzi, "Evoluzione delle Tariffe Doganali Italiane per i Prodotti Manufatti nel Quadro della Integrazione Economica Europea," in Contributi alla Ricerca Economica della Banca d'Italia, No. 3, 1973.

the access to larger markets. The effects of this trade posture on industrial production were most strongly felt from the early 1950s to the early 1960s, but they continued until the early 1970s.

In 1952 primary activities accounted for 49% of all commodity production, manufactured products at a lower level of transformation for 27% and manufactured products at a higher level of transformation for the remainder 24%. 1/ In 1962 the percentage share of primary activities had fallen to 36% of total commodity production, while that of manufacturing at lower levels of transformation had increased to 30% and the share of manufactured goods at higher levels of transformation had jumped to 35%. The growth in the share of mechanical and chemical goods was particularly strong among the latter category. (Table II.2).

Parallel to the relatively faster production growth of manufactures at high levels of transformation, the export importance of these products increased between the early 1950s and early 1960s. By 1962, they came to account for 57% of total exports against the 45% of 1952. The relative export importance of primary products and manufactures at lower level of transformation declined considerably, the former from 16 to 11% and the latter from 40 to 32%. However, the fall in the total export share of manufacturing activities at lower levels of transformation was largely due to the decline in the export weight of only two product categories: processed food and textiles, with the decline of textiles being partially compensated by the rise in the export share of clothing and shoes.

Despite the fall in their relative importance in total exports, manufacturing activities at lower levels of transformation became during this period progressively more export oriented. The ratio of exports to production rose in fact from 21% in 1952 to 28% in 1962. If processed food products are excluded from the total, the increase in the export orientation of these production lines

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1/ This classification follows the one first proposed by B. Balassa and P. Munthe, "The Structure of Protection in Norway", in The Structure of Protection in Developing Countries, ed. B. Balassa (Baltimore: The Johns Hopkins Press, 1971) pp. 290.

Table II.2: SECTORAL DISTRIBUTION OF VALUE ADDED AND EXPORTS (°) IN THE COMMODITY PRODUCING SECTORS OF ITALY

	1952		1962		1972	
	Value Added	Exports	Value Added	Exports	Value Added	Exports
			%			
A. PRIMARY ACTIVITIES						
Agriculture, Forestry, Fisheries	47.2	13.9	33.7	10.6	24.9	4.6
Mining	1.8	1.6	2.0	0.6	1.7	0.3
(Sub Total)	(49.0)	(15.5)	(35,7)	(11.2)	(26.6)	(4.9)
B. MANUFACTURED PRODUCTS AT "LOW" LEVEL OF TRANSFORMATION						
Processed Food and Tobacco	6.1	11.1	6.7	6.2	7.2	4.9
Textiles	5.5	19.8	6.2	14.1	5.7	11.3
Clothing and Shoes	5.0	3.6	4.5	6.1	5.0	7.7
Hides and Skins	0.4	0.5	0.4	0.8	0.7	1.1
Furniture and Wood Products	4.0	1.3	3.7	1.2	4.0	1.5
Pulp and Paper	3.5	1.0	3.7	1.1	3.8	1.7
Non-ferrous Metals	2.9	2.7	4.6	2.4	4.7	3.7
(Sub Total)	(25.4)	(40.0)	(29.8)	(31.9)	(31.1)	(31.9)
C. MANUFACTURED PRODUCTS AT "HIGH" LEVEL OF TRANSFORMATION						
Metallurgic Products	2.5	4.9	4.4	4.3	5.3	6.1
Mechanical Products and Tranport Equipment	15.7	23.0	20.7	34.2	23.3	40.0
Chemicals and Related Products	3.2	13.4	7.2	14.3	9.9	11.9
Rubber Products	0.5	1.1	1.0	1.3	2.4	1.5
Miscellaneous Manufactures	1.7	2.1	1.2	2.8	1.4	3.7
(Sub Total)	(23.6)	(44.5)	(34.5)	(56.9)	(42.3)	(63.2)
TOTAL (A + B + C)	100.0	100.0	100.0	100.0	100.0	100.0

(°) At constant 1963 prices.

Sources: P. Ercolani, "Documentazione Statistica di Base," in Lo Sviluppo Economico in Italia, Vol. III, ed. G. Fuà (Milano: Franco Angeli 1969), pp. 413, and Istituto Centrale di Statistica (ISTAT), Statistica Annuale del Commercio con L'Estero (various issues).

is even stronger: from 20 to 29%. The export orientation of manufacturing activities at higher levels of transformation also rose strongly during this period, with the ratio of exports to production going from 27% in 1952 to 47% in 1962, while primary activities, traditionally oriented towards the home market, became even more dependent on domestic consumption.

From the early 1960s to the early 1970s, the product transformation of the Italian economy continued along the same lines as in the previous decade, but at a slower pace. The relative importance of primary products in total commodity production continued to decline, while that of manufacturing activities at both lower and higher levels of transformation progressively increased (the latter much faster than the former). On the export side, the share of manufactured products at lower levels of transformation remained constant, while the rise in the importance of manufactured products at higher levels of transformation (which came to account for 63% of total exports in 1972) corresponded to the continuous fall in the export importance of primary goods. (Table II.2). As in the previous ten years the export orientation of all manufacturing activities continued to increase.

The economic structure of Italy thus changed profoundly in the 1950s and 1960s, progressively assuming the principal characteristics of industrialized countries. But the transition from a semi-industrial to an industrial stage of development occurred with peculiar traits that have to be kept in mind if the trade policies followed by Italy in the 1970s are to be understood. Production processes characterized by low value added have maintained a relatively greater importance than they have in other industrial countries and they have an even larger weight as export revenue earners.

III. THE SYSTEM OF PROTECTION CURRENTLY IN FORCE IN ITALY

The system of protection in force in Italy includes both tariff and non-tariff barriers. Tariffs are applied only to imports originating from non-EC countries. Two sets of import duties are currently applicable: (a) "autonomous duties"--established at the EC level and common to all member countries--applicable to imports from countries not tied to the European Communities by trade agreements, and (b) "conventional duties" applicable to

imports originating from countries enjoying a special status stemming from existing trade agreements. The latter are generally lower than the former. Variable levies--agreed upon at the EC level--are applied to certain non-EC agricultural products.

As indicated, import duties--particularly on non-agricultural products--have drastically declined over time. Table II.2 shows that tariff rates on non-EC industrial imports varied in 1972 from 5 to 14% and were on the average 8.2%. They have since fallen further. Since the Tokyo Round Agreements the average nominal tariff on imported industrial products has fallen to about 6%. 1/ Although effective protection rates--as opposed to the nominal rates to which reference was made above--are likely to be considerably higher and to offer strong protection to domestic manufactures for some products 2/, import tariffs have long lost in Italy much of their previous importance as barriers to trade. The border adjustment taxes applied to a handful of products that are subject domestically to fabrication taxes are also not of great value. 3/

A host of non-tariff measures that are generally applicable to imports from non-EC countries appears to be of considerably greater protective value. The most important are quantitative restrictions on imports (import quotas), administrative forms of import controls, and the border tax adjustments used to

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1/ Another indication of the progressive tariff liberalization is the fall of the ratio of tariff revenue to the value of imports; it went from 0.081 in 1962 to 0.22 in 1976.

2/ An estimate of effective protection rates is not available for Italy. The author of this paper has work in progress which will lead to an estimate of effective protection rates for the industrial products included in the common list of the market penetration study.

3/ Mostly agricultural products (except for spirits and petroleum products). Border adjustment taxes are usually cataloged as non-tariff barriers, but the importance of those used to equalize domestic fabrication taxes is so small in Italy that they can be for all practical purposes disregarded.

neutralize the effect of domestic value added taxes on internal prices. 1/

Quantitative restrictions have traditionally been used by Italy to regulate some imports from Japan and the centrally planned economies. A few quantitative restrictions have also remained applicable to imports originating from other countries. Italian quantitative restrictions still in force are now integrated in the EC trade policy framework, and the EC now has the primary authority to set up new import quotas or to modify existing ones. Their management however, is, within certain limits, still left to the member countries which establish their own administrative procedures.

The Italian import licencing system was recently overhauled. The new regulations issued in May 1976 2/ unified and systematized the existing import regime according to the areas of origin of the products. The new system also harmonized the numerous, but fragmentary, measures taken previously. Two types of import licences were established: general and specific. The former operate with regard to import quotas (specified by quantity or value) that can be filled by any importer and which are normally administered. The latter are specific authorizations to import certain products (within specified limits) issued *ad hoc* to a single applicant.

1/ Very many legal, administrative and policy measures can be considered non-tariff barriers to trade, even if for some of them the protective or trade distorting relevance is open to question. For a comprehensive analysis of many of these measures see: R. Baldwin, Non-Tariff Distortions of International Trade, (Washington D.C.: The Brookings Institution, 1970). A systematic attempt to catalog these non-tariff barriers to trade can be found in I. Walter, "Non-Tariff Barriers and the Free-Trade Area Option", in Banca Nazionale del Lavoro Quarterly Review, No. 88, March 1969. The same author has provided empirical evidence on their application in industrial countries. See, I. Walter, "Non-Tariff Protection Among Industrial Countries: Some Preliminary Evidence", in Economia Internazionale, Vol. XXV, No. 2, May 1972. Additional evidence was provided by V. Roningen and A. Yeats, "Non-Tariff Distortions of International Trade: Some Preliminary Empirical Evidence", in Weltwirtschaftliches Archiv, Vol. 112, 1976.

2/ Ministerial Decree 6/5/76.

At the end of 1977, import licencing included products in 208 of the total 1,096 four digit categories of the Italian tariff list. The sectors most affected, in terms of the number of four digit import categories covered by quantitative controls, were textiles (including clothing), chemicals, machinery and transport equipment and non-ferrous metals. In terms of the countries of origin of the products concerned, East European centrally planned countries and Japan were the most affected; developing countries appeared to be the target of a relatively large number of import quotas only in the case of textiles and clothing products (Table III.1). The value of the imports subject to quantitative restrictions leads to similar conclusions. Import licences covered 30% of Italian imports from East European centrally planned countries and 4% of imports from Japan in 1976, but an insignificant share of imports from developing countries. The total value of imported goods subject to quantitative restrictions was no more than 3% of Italian imports in 1976. 1/ Even if this coverage measure is biased, because the more restrictive a trade barrier applied by a country, the smaller will be the quantity of goods imported under it, and, therefore, the smaller the relative share in the total imports of that country, it nonetheless gives a rough idea of the magnitudes involved.

The system of administrative controls in force in Italy was also reformed in 1976. The import surveillance regime established in December of that year 2/ includes measures that can be classified into four main types (which are not, however, mutually exclusive): 1) import declarations, 2) import certificates, 3) import visas, and 4) authorizations to import. Administrative controls on imports are applied on a larger number of products than import quotas. As shown in Table III.2, at the end of 1977 various types of controls were in force for products included in 312 four digit tariff categories, while import quotas at the same date covered 208 items.

1/ See V. Barattieri, A. Della Gherardesca, F. Galdi, "Problemi dei Contingenti all'Importazione", in Moneta e Credito, No. 122, June 1979, p. 177. Some import quotas are, nonetheless, very restrictive in specific product categories (e.g. those which regulate imports of automobiles and some electronic products from Japan).

2/ Ministerial Circular No. 22, issued by the Ministry of Foreign Trade on November 30, 1976.

Table III.1 COVERAGE OF IMPORT QUOTAS IN ITALY IN 1977

(Number of four digit tariff items)

Commodity Group	No. items in each group	No. items subject to import quotas	No. Items Subject to Import Quotas by Origin				
			EC Countries	EC-Associated Countries	Non-Associated Countries	Japan	Centrally Planned Countries
Food and Beverages	178	14	-	2	2	3	13
Minerals	52	7	-	-	-	-	7
Chemicals	180	50	-	-	3	3	45
Rubber Goods	23	8	-	-	-	2	6
Hides and Skins	20	1	-	-	-	-	1
Wood Products	35	5	-	1	-	1	5
Pulp and Paper	34	2	-	-	-	-	2
Textiles and Clothing	113	37	-	2	18	14	34
Shoes	21	4	-	-	1	4	4
Iron and Steel Products	40	18	-	-	1	2	18
Non-Ferrous Metals	67	18	-	-	-	-	18
Machine Tools	30	2	-	-	-	-	2
Machinery and Transport Equipment	127	27	-	-	2	15	24
Miscellaneous Manufactures	176	15	-	-	1	8	11
TOTAL	1 096	208	-	4	28	52	190

Source: Ministry of Foreign Trade, Ministerial Decree of May 6, 1976, Annex I and subsequent amendments.

While the protectionist significance of import quotas is clear, that of administrative controls is notoriously difficult to evaluate. Applied fairly and without covert intentions, they constitute at least a hindrance to trade. Whenever introduced ex novo, they carry, in addition, an unmistakable political meaning. A product is put under administrative control (i.e. on a surveillance list) only to send a warning message to the exporter. The intensity of the message obviously depends on the type of control that is established, but the meaning of the decision is clear in all cases. Applied unfairly, administrative controls probably constitute the worst form of protectionism, since lack of transparence is their dominant characteristic; the means as well as the ends of the actions taken lose their contours of certainty; legal and moral obligations can be disregarded and trade can be slowed down at will, often without the exporter being able to resort to any given authority.

In Italy import surveillance procedures can be classified into two main types: a) those autonomously adopted by domestic authorities to control the importation into Italy of certain specific products (import declarations, import visas and authorizations to import), and b) those foreseen at the Community level to control the importation into the EC of certain agricultural products (import certificates). The latter category of surveillance measures is regulated by the Community and Italy simply enforces the common EC procedures.

Within the Italian control category, import declarations constitute the most common form of import surveillance. They are officially designed to "control the evolution of imports of sensitive products". It is clear, therefore, that the extension of this procedure to a certain product carries in itself a presumption of possible future stronger forms of import restrictions. A graduation of administrative requirements, whose fulfillment, depending on the product concerned, exists, moreover, within this same procedure. This form of surveillance may involve a simple declaration, which may be followed by a declaration accompanied by administrative documents, and this may lead to a declaration accompanied by technical documents.

Apart from the clear political meaning assumed by the extension of this procedure to a certain product, the fact that the Ministry of Foreign Trade has to check the conformity of the declaration to the administrative rules that are in force and the propriety of the enclosed documentation before accepting it, leaves the receiving authority with a large degree of discretionary leeway which can be utilized at least to delay unwanted imports.

The objectives of import visas are similar to those of import declarations. The two procedures are also similar from the administrative standpoint. The only formal difference between these two autonomous forms of import surveillance lies in the accepting authority, which is the Italian Foreign Trade Institute for import visas instead of the Ministry of Foreign Trade.

Authorizations to import apply to products originating from countries against which a regime of discretionary import controls is in force. Whenever the true origin of these products is obscured by their introduction into Italy through an EC member country, the government can invoke article 115 of the Treaty of Rome and request the application of the safeguard clause. In fact, for all those products to which the import authorization regime is applicable, there is a strong presumption of trade deflection and the national authorities almost automatically invoke the safeguard clause. 1/

Analysis of the coverage of the various types of import surveillance measures in force in Italy at the end of 1977 indicates some important characteristics. Unlike import quotas which tend to be applied against imports coming from a certain country or small group of countries, surveillance measures tend to be applied horizontally. From a regional standpoint (5 regions of origin) the coverage of import surveillance measures in terms of four digit tariff items was more than double that of the direct product coverage. (Table III.2). At the same date, the regional coverage of import quotas was only 30% wider than the direct product coverage.

1/ See, Banca Commerciale Italiana, Regime degli scambi con l'Estero, (Milano: Banca Commerciale, 1977), pp. 70 and 174.

Table III.2: COVERAGE OF IMPORT SURVEILLANCE MEASURES IN ITALY IN 1977

(Number of four digit tariff items)

Commodity Group	No. Items in Each Group	No. Items subject to Surveillance	No. Items Subject to Surveillance Measures				
			EC Countries	EC-Associated Countries	Non-Associated Countries	Japan	Centrally Planned Countries
Food and Beverages	178	59	12	47	44	45	48
Minerals	52	6	6	-	-	-	4
Chemicals	180	62	51	2	3	3	16
Rubber Goods	23	14	9	-	-	10	-
Hides and Skins	20	1	1	-	-	-	-
Wood Products	35	5	5	-	1	-	-
Pulp and Paper	34	3	3	3	3	3	-
Textiles and Clothing	113	51	42	19	32	32	28
Shoes	21	4	3	-	1	-	-
Iron and Steel Products	40	16	16	10	9	8	-
Non-Ferrous Metals	67	18	19	-	-	-	-
Machine Tools	30	2	-	-	1	1	-
Machinery and Transport Equipment	127	41	36	5	3	9	3
Miscellaneous Manufactures	176	30	16	2	3	16	2
TOTAL	1 096	312	216	88	100	127	101

Source: Ministry of Foreign Trade, Ministerial Circular of November 30, 1976 and subsequent amendments.

Again, unlike quotas that are chiefly directed against imports from East European centrally planned countries and Japan, the surveillance measures enforced by Italy are more concentrated against imports from EC and developing countries. This concentration appears even more evident if food and beverage products are excluded from the totals shown in Table III.2, since the surveillance measures applied to these imports (import certificates) reflect mostly EC regulations.

If food and beverage products are excluded, the product distribution of import surveillance measures becomes similar to that of import quotas: the products most affected are chemicals, textile and clothing and machinery and equipment. This correspondence clearly suggests the existence of a graduation of non-tariff import barriers used to protect the same sectors from foreign competition in domestic markets. Miscellaneous manufactures represent the most significant exception to this apparent correspondence in the product coverage of import quotas and surveillance measures. This sector ranks fourth in terms of number of surveillance measures, but only sixth in terms of quantitative restrictions applied to it. 1/

Aside from import quotas and administrative import control procedures, border tax adjustments constitute the third most visible type of non-tariff barrier. Since 1973, with the entry into effect of a value added tax on domestic sales, an equivalent border tax has been levied by Italy on imports from all sources. Applied to the c.i.f. value of imports (including import duties whenever applicable) this tax is rebated on exports. In 1977 the value added tax rate on imports of most products was 12%. A reduced rate of 6% was applied to a fairly large number of agricultural and food products, while a much steeper rate (30%) was applied to a relatively short list of "luxury" consumer goods. 2/

1/ Always excluding food and beverage products.

2/ Ministero delle Finanze, Tariffa dei Dazi Doganali di Importazione della Repubblica Italiana, (Roma: Instituto Poligrafico dello Stato, 1977).

Membership in the European Community (EC) limits Italy's freedom to adopt autonomous non-tarrif protective trade measures. The extension of the EC common import regime to import quotas and surveillance measures that began in 1968 has reduced over time the previously existing opportunities for a national trade policy. Until 1979, for example, safeguard measures under Article XIX of GATT for all products inlcuded in the EC common import liberalization list originating from GATT or GATT assimilated countries could only be taken with EC approval, no matter whether these measures applied to imports into the EC as a whole or into a single member country. Only for products not included in the common liberalization list could member countries invoke Article XIX of GATT at the national level. 1/ Even the modification of quantitative restrictions still existing at the national level, was subject to conditions. 2/ Safeguard actions against products originating from East European centrally planned economies were regulated in a similar fashion. 3/

New regulations concerning safeguard and surveillance actions were established in 1979. They apply to all imports, whether included in the common liberalization list or not, originating from GATT and GATT assimilated countries. 4/. Surveillance measures are, according to the new regulation, generally taken by the EC Commission after Committee consultations. Even if established at the Community level, they can cover either the whole Community or single member states. Only after these consultations, whenever the Commission decides not to adopt a surveillance measure, can a member country adopt one at the national level. In cases of extreme urgency member countries can adopt national surveillance procedures before consultations take place, but they must previously inform the Commission.

1/ EC regulation No. 1439/74 (Official Journal of the European Communities No. L 159, June 15, 1974).

2/ Council decision of December 19, 1972 (Official Journal of the European Communities No. L 299, December 31, 1972).

3/ EC regulation No. 109/70 (Official Journal of the European Communities No. L 19, January 1, 1970).

4/ EC regulation No. 926/79 (Official Journal of the European Communities No. L 131, May 29, 1979). The extension of the new regime to products not included in the common liberalization list will begin on January 1, 1982.

Safeguard measures are normally adopted by the EC Council, upon a proposal of the Commission. In cases of urgency the Commission itself can take temporary action, which must be confirmed by the Council within three months. Grave injury from import competition to EC producers must be present. When a member country finds the same condition of grave injury to producers present at the national level, or when a safeguard measure is justified on the basis of a specific clause included in a bilateral agreement between the member and a third country, it can take a temporary safeguard action, after consulting the competent Committee. The Commission, however, must ultimately decide on the measures taken at the national level. A similar safeguard regime was also extended to the East European centrally planned economies in 1979. 1/

Antidumping and countervailing actions 2/ were also regulated at the EC level. 3/ These regulations conform to the GATT agreements on an antidumping code to which the EC subscribed in 1967. The Commission decides on these cases, with the help of a competent Committee. Complaints regarding dumping may be submitted by persons or associations representing a certain sector to the member countries or directly to the Commission. Whenever the complaint is sufficiently substantiated by evidence, an investigation is started. This must verify the simultaneous existence of dumping and of injury to domestic producers (actual or potential). Notice of the starting of an investigation is given through the Official Journal of the EC. Interested parties who so desire must be given a hearing. In emergency cases, the Commission may impose temporary antidumping duties for a period of three months, which are definitely imposed if a positive finding is made. Similar procedures--if somewhat less precise--apply in the case of subsidized imports that become subject to countervailing duties.

1/ EC regulation No. 925/79 (Official Journal of the European Communities No. L 131, May 29, 1979). The surveillance regime for imports originating from centrally planned countries established with this regulation is also similar to that foreseen for GATT and GATT assimilated countries, but the Commission has in these cases the power to impose stronger surveillance measures.

2/ Countervailing measures are taken against products that are subsidized by the exporting country.

3/ EC regulation No. 459/68 (Official Journal of the European Communities No. L 93, April 17, 1968), amended by EC regulation No. 1681/79. (Official Journal of the European Communities, August 2, 1979).

Finally, "voluntary" export restraints are usually negotiated at the EC level, with the Commission taking the lead. Those included in the Multifiber Arrangement constitute perhaps the best known example of these types of non-tariff trade measures. Despite the established practice of EC leadership in these matters, no clear definition of reciprocal spheres of competence between Community and national authorities seems to exist in these cases.

IV. ITALIAN TRADE POLICIES IN THE 1970s

Since the oil price increases of 1973 and the subsequent world recession of 1974-75, trade and industrial policies in industrialized countries seem to have been characterized by a return to non-tariff restrictions to trade, the concession of increasing amounts of government assistance to national industries (in various forms and with different policy justifications) and the resurgence of attempts to regulate international trade through market share agreements. These instruments (or sets of instruments) were not new, but their seemingly concomitant use, together with the increasing frequency with which the various industrialized countries appeared to resort to them, led such scholars as H.G. Johnson and A. Lindbeck to fear the threat of a "new mercantilism" or "new protectionism". Analysis of recent developments in the trade policies of industrial countries 1/ conclude that "new protectionism" is a real possibility

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1/ B. Nowzad, The Rise in Protectionism, Washington D.C., the International Monetary Fund, Pamphlet Series No. 24, 1978; B. Balassa, "The New Protectionism and the International Economy", in Journal of World Trade Law, Sept.-Oct. 1978, pp. 409-436; L.G. Franko, "Tendenze Protezionistiche nei Paesi Industrializzati", in Rivista di Economia e Politica Industriale Vol. 5, No. 3, Sept./Nov. 1979, pp. 317-338. Franko rightly emphasizes the possible distortions to trade originating from non-commercial policies (industrial policies, regional and sectoral support policies). However, note that not all studies have reached a common conclusion about the size of the negative effect that the rise in industrial protectionism has had on developing countries' trade. In a recent analysis, for example, Jim Riedel and Linda Gard come to the preliminary conclusion that "outside of textiles and clothing, recent protectionism in the US and the EC in the form of official changes in import barriers does not appear to constitute a serious obstacle to continued expansion of LDC manufactured exports." In addition, the same authors point out that "the apparent trend is one of trade liberalization in Japan, an enormous, but yet almost untried market of LDC exports". See J. Riedel and L. Gard, "Recent Changes in Industrial Protectionism", Washington D.C., World Bank, October 1979, (draft paper: mimeo), pg. 25.

though the actual effects are hard to quantify. The danger is not only to the trade and economic growth of the industrial countries, but also--and perhaps most strongly--through "trade pessimism" on the trade and growth of developing countries. That is, even if protectionist action against these countries is limited, the fear of it is likely to constrain export investment in developing countries.

The first question that arises here is how well the commercial policies followed by Italy in the 1970s fit this overall trend. The answer to this question is more complex than it would first appear, as Italy's membership in the EC requires a joint analysis of EC and Italian policies. Integrating the two levels of analysis--national and EC--is, unfortunately, very difficult because reciprocal spheres of competence between national and community authorities are not always very clear and have, in addition, shifted over time. Moreover, the transparence of some policy decisions particularly (but not exclusively) in the field of trade is no greater at the community than at the national level.

It has been correctly pointed out 1/ that neither the resort to non-tariff measures, nor the propensity to deal with sectoral problems by resurrecting cartel-type arrangements is a new phenomenon. The International Cotton Textiles Agreement and the successive Multifiber Arrangements were a feature of the pre-1973 international trade situation. The European Coal and Steel Community Treaty foresaw (Art. 58 and Art. 74) strong market intervention powers for the community authorities. 2/ Some of these powers had been exercised in 1959 and 1964. The shipbuilding industry in Europe has also been traditionally inclined to seek protection through market share arrangements.

1/ See B. Balassa, "The New Protectionism and the International Economy", op. cit. 413-414; and J. Tumlir, "Le Nuveau Protectionnisme, les Cartels et l'Ordre International", in Revue d'Economie Politique, No. 6, 1979, pp. 725-735.

2/ Art. 58 enables the High Authority to establish, with the consent of the Council, production quotas to deal with crisis situations. Art. 74 enables the High Authority to take all necessary steps to defend the community against dumping, to sustain the Common Market against pressures deriving from unfair trade practices, and from internal market disruptions originating from excessive imports.

The tightening in 1977 of EC textiles and clothing imports through the new (1978-82) Multifiber Arrangement and the adoption during the same year of reference prices for all major steel products (after the more limited trigger price system set up in 1976) represented in more than one respect a continuation of existing tendencies, even if the protective intensity of the new measures taken was considerably increased. 1/

The Italian industry seems to have benefited substantially from the restriction imposed through the Multifiber Arrangements on EC imports of clothing. Italy's share in total EC clothing imports which had been declining in the early seventies--from 24% in 1970 to 16% in 1974--recovered steadily in the latter part of the decade, to reach 18% in 1977. Judging by the export performance of 1978 and 1979, the Italian clothing industry seems to have further improved its position in the EC markets protected by the new Multifiber Arrangement, which in effect set EC import growth at rates much below the 6% per annum official global target. Of special interest to Italy were the 8 items included in the first group of textile products regulated through the arrangement, which represented at the time about 60% of total EC imports and for which import market penetration was close to 50%. 2/ In 1979, the share of Italy in total EC imports of clothing reached almost 20%, and that of textile products recovered 3 percentage points from 1977 to 1979.

More difficult to evaluate are the effects on the Italian industry of the EC measures in regard to steel. The minimum prices set for reinforcing bars in May 1977 and the subsequent production allocations hurt the interests of the very efficient small domestic producers (the so-called Bresciani) who

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1/ With the new Multifiber Arrangement the EC negotiated some 25 bilateral agreements based on "self limitations" of exporting countries (8 more than under the previous arrangement). All these countries except 3 (Roumania, Hungary, and Poland) are developing countries. Some 17 bilateral agreements with other developed, developing and centrally planned countries were negotiated after 1977 to regulate steel imports into the Community (two of these agreements regarded developing countries: South Korea and Brazil).

2/ See: Il Sole--24 Ore, December 22, 1977 and Gazzetta del Popolo, December 22, 1977.

bitterly resented the measures taken. 1/ The extension of the reference prices to all bars, to coils and laminated products taken by the EC at the end of 1977, together with the production quotas fixed thereafter, seems to have given only a limited respite to the larger producers, afflicted in most cases by low productivity, large overcapacity and imbalances in their productive structures. 2/ After a 4% recovery in 1978, total production of steel remained virtually constant in 1979 (a year of world output recovery), while the import to consumption ratio increased by 4.5 percentage points.

Italy, with the heavy overcapacity in its synthetic fiber industry 3/ supported the EC plan to create a European synthetic fiber cartel in 1978. 4/ Despite lack of official EC endorsement, given its non-compatibility with Article 85 of the Treaty of Rome, the fiber cartel based on a concerted reduction of productive capacity and production quota allocations, continued its semi-official life, functioning as an informal understanding among 11 large firms. 5/ The Italian fiber industry has nonetheless remained in a critical situation: between 1973 and 1979 employment, real investment and value added all fell, making it the worst performing sector in Italian industry. 6/

1/ See: Corriere della Sera, October 7, 1977; Il Sole--24 Ore, March 10, 1978; La Stampa, June 20, 1978.

2/ The large public sector producers (the Finsider Group) were also afflicted by serious imbalances in their financial situations, due in part to the high debt service ratios deriving from investments just completed before the crisis that hit the entire sector, and in part to heavy short-term borrowings piled up to cover operating losses.

3/ The existing overcapacity resulted only in part from depressed world market conditions. The major four firms, all directly or indirectly helped by the Government had followed a capacity expansion policy inspired more by political than by economic considerations. Their expansion plans, uncoordinated despite the massive public assistance that they received, called for another 28% capacity expansion between 1978 and 1981.

4/ See: Corriere della Sera, January 11, 1978; La Republica, February 4, 1978. According to La Republica, the major push towards a fiber cartel had come from the four largest Italian firms which in 1977 had utilized on average only 55% of their productive capacity.

5/ According to some sources an informal agreement covering prices also existed among the signatories. See, Corriere della Sera, January 16, 1980.

6/ Employment fell by 32% (16,000 units), real investment by over 60% and value added--at constant prices--by 6.5%.

Despite their somewhat checkered experience, the market share arrangements put in operations at the Community level highlight the product orientation of EC import restriction policies. It is evident from Table IV.1 that two broad Commodity Groups, textiles and clothing, and steel and other metals, have by far been the principal target of EC non-tariff barriers in the 1970s. The largest number of EC import restriction measures appears to be concentrated in these two commodity groups, and the number of protective measures has grown at the fastest pace. The cartel-type arrangements in the textiles-clothing and steel sectors were supplemented by other import restricting measures, as shown by the positive difference between the number of all EC actions in these two sectors and the total number of those taken under bilateral agreements that found their origin in these cartels. 1/

If the concentration of EC non-tariff restrictions to imports in textiles-clothing and steel is quite clearly shown in Table IV.1 and is confirmed by more detailed analysis 2/, the extent of these new restrictions cannot be precisely gauged by looking at the yearly frequency of types of import measures 3/ which are non-homogenous, and for which range of application, severity and duration are not considered. It is clear, in fact, that the simple numerical aggregation of these measures without an appropriate weighting system is based on (implicit) assumptions which are quite unrealistic. Frequencies can only give an indication, albeit an incomplete one, of tendency. Aside from textile-clothing and steel, the product categories that have the preferred target of EC non-tariff trade restrictive measures in the 1970s appear to be chemicals and leather products. Pulp and paper products seem to have attracted attention only in 1978 and 1979.

1/ This difference is consistently positive, indicating that bilateral trade actions in textiles-clothing and steel were integrated with other restrictive measures. The difference in number of actions becomes very large from 1977 to 1979.

2/ See, for example, B. Balassa, "The New Protectionism and the International Economy", op. cit., pp. 414-416 and B. Nowzad, "The Rise in Protectionism", op. cit., pp. 8-21.

3/ Safeguard actions, surveillance procedures, bilateral trade agreements and antidumping duties.

Table IV.1: EC NON-TARIFF IMPORT RESTRICTION MEASURES (°) BY MAIN TYPE AND PRODUCT DESTINATION: 1971-79

(Number of measures)

Commodity Group	1971	1972	1973	1974	1975	1976	1977	1978	1979
Textiles and Clothing	4	1	8	3	31	19	39	22	29
Chemicals (incl. fertilizers)	-	-	1	1	2	6	6	1	6
Steel and other metals	1	2	7	-	3	6	6	48	12
Machinery and Appliances	-	-	1	-	-	1	4	-	-
Electrical and Electronic Products	-	1	6	4	-	2	2	-	2
Leather Products	-	-	-	-	4	10	2	3	1
Rubber Products	-	-	-	-	-	-	2	1	-
Wood Products	-	-	3	-	-	5	-	-	-
Pulp and Paper Products	-	-	4	-	-	1	-	3	5
Others	-	-	2	-	2	2	1	1	-
TOTAL	5	4	32	8	42	52	62	79	55
of which:									
Safeguard Actions	1	-	11	2	21	36	23	19	15
Surveillance Actions	-	3	18	4	7	4	15	14	12
Bilateral Trade Agreements	4	1	3	2	14	11	19	11	15
Anti-dumping Actions	-	-	-	-	-	1	5	35	13

(°) Duration not taken into account

Source: Official Journal of the European Communities.

Safeguard actions have been the most numerous over the 1973-79 period, followed by surveillance measures and import-restricting bilateral agreements. Antidumping actions have increased substantially in the last few years, but the rise in the number of antidumping procedures that were initiated at the EC level has been more dramatic: 19 in 1977, 64 in 1978 and 38 in 1979. About 45% of these were on the average followed by the imposition of import restrictions. 1/

Analysis of the geographical destination of these non-tariff import restrictions shows that from 1973 to 1979 developing countries (particularly East Asian countries) have been the target of the largest number of EC actions, followed by other industrialized countries (with Japan at the head), East European centrally planned economies and southern European semi-industrialized nations (Spain, Portugal, and Greece). (Table IV.1).

Developing countries appear to be the prevalent objective of restrictive trade actions in textiles and clothing and leather products, followed in these product categories by the East and South European countries. Japan and other highly industrialized countries have been the preferred target of restrictive actions in steel and other metals, though in 1978-79, EC attention in this sector seems to have shifted towards centrally planned economies and Southern Europe. (Table IV.2). The protective actions taken by the EC in the chemical sector appear to be more evenly distributed. 2/

Within the limits imposed by its membership in the EC Italy followed a rather moderate national import restriction policy in the 1970s. It appears to have been mostly directed at complementing the degree of protection received at the Community level. Apart from the 13 safeguard actions authorized by EC

1/ In the previous 6 years, only 20 antidumping procedures had been initiated at the EC level: 2 in 1971, 6 in 1972, 1 in 1973, 2 in 1974 and 1975, and 7 in 1976.

2/ Based on the distribution of protective measures, aggregated as if they had equal weight.

Table IV.2: EC NON-TARIFF IMPORT RESTRICTION MEASURES (°) BY MAIN GEOGRAPHICAL AND PRODUCT DESTINATION: 1971-1979

(Number of measures)

	1971	1972	1973	1974	1975	1976	1977	1978	1979
Textiles and Clothing									
Japan	-	1	-	1	3	1	-	1	1
Other Industrialized Countries	-	-	4	-	1	1	1	2	1
Centrally Planned Countries	-	-	-	-	1	3	3	4	4
Southern Europe	-	-	3	1	2	3	3	7	4
Developing Countries	6	-	4	3	28	12	36	13	25
Chemicals (incl. Fertilizers)									
Japan	-	-	-	-	-	-	2	1	1
Other Industrialized Countries	-	-	1	-	-	-	2	1	4
Centrally Planned Countries	-	-	-	-	1	-	2	1	4
Southern Europe	-	-	-	-	-	-	2	1	1
Developing Countries	-	-	-	1	1	6	6	1	1
Steel and other metals									
Japan	-	2	1	-	1	-	4	13	2
Other Industrialized Countries	-	2	6	-	1	1	1	16	3
Centrally Planned Countries	1	1	1	-	2	1	1	24	2
Southern Europe	-	2	1	-	1	1	1	11	12
Developing Countries	-	2	1	-	2	4	3	9	5
Machinery and Appliances									
Japan	-	-	-	-	-	-	2	-	-
Other Industrialized Countries	-	-	1	-	-	-	-	-	-
Centrally Planned Countries	-	-	-	-	-	-	-	-	-
Southern Europe	-	-	-	-	-	-	-	-	-
Developing Countries	-	-	-	-	-	1	2	-	-
Electric and Electronic Products									
Japan	-	1	5	3	-	-	1	-	-
Other Industrialized Countries	-	-	1	1	-	-	-	-	-
Centrally Planned Countries	-	-	-	-	-	2	1	-	2
Southern Europe	-	-	-	1	-	-	-	-	-
Developing Countries	-	-	4	2	-	-	-	-	-
Leather Products									
Japan	-	-	-	-	2	4	-	1	1
Other Industrialized Countries	-	-	-	-	3	6	1	1	1
Centrally Planned Countries	-	-	-	-	2	6	1	2	1
Southern Europe	-	-	-	-	2	6	1	3	1
Developing Countries	-	-	-	-	3	6	1	3	1
Rubber Products									
Japan	-	-	-	-	-	-	-	-	-
Other Industrialized Countries	-	-	-	-	-	-	-	-	-
Centrally Planned Countries	-	-	-	-	-	-	1	-	-
Southern Europe	-	-	-	-	-	-	-	-	-
Developing Countries	-	-	-	-	-	-	1	1	-
Wood Products									
Japan	-	-	-	-	-	-	-	-	-
Other Industrialized Countries	-	-	2	-	-	1	-	-	-
Centrally Planned Countries	-	-	1	-	-	-	-	-	-
Southern Europe	-	-	1	-	-	1	-	-	-
Developing Countries	-	-	1	-	-	4	-	-	-
Pulp and Paper Products									
Japan	-	-	-	-	-	-	-	-	-
Other Industrialized Countries	-	-	4	-	-	1	-	3	5
Centrally Planned Countries	-	-	-	-	-	-	-	-	-
Southern Europe	-	-	-	-	-	1	-	-	-
Developing Countries	-	-	-	-	-	-	-	-	-
Others									
Japan	-	-	-	-	-	-	-	-	-
Other Industrialized Countries	-	-	1	-	-	-	-	-	-
Centrally Planned Countries	-	-	-	-	1	-	-	-	-
Southern Europe	-	-	1	-	-	1	1	1	-
Developing Countries	-	-	-	-	1	1	-	-	-
TOTAL									
Japan	-	4	6	4	6	5	9	16	5
Other Industrialized Countries	-	2	20	1	5	10	5	23	14
Centrally Planned Countries	1	1	2	-	7	12	9	31	13
Southern Europe	-	2	6	2	5	13	8	23	18
Developing Countries	6	2	10	6	35	34	49	27	32

(°) Safeguard and surveillance actions, bilateral agreements and anti-dumping measures (duration not taken into account).

Source: Official Journal of the European Communities

authorities, Italy, between mid-1976 and the end of 1979 1/ established less than 30 import quotas and took only twice as many autonomous surveillance measures.

Quantitative restrictions were mostly used against imports from East Europe and centrally planned countries and secondarily against imports from developing and non-EC industrialized countries. They were directed against a fairly narrow range of products: synthetic rubbers and intermediate steel products from centrally planned countries and articles of clothing from developing countries (particularly from Taiwan, Hong Kong, Singapore, Brazil and the Philippines).

Surveillance measures were directed chiefly against imports from non-EC industrialized countries, with Japan at the top of the list. Developing and centrally planned countries shared the remainder in almost equal proportion. Again, textiles and clothing imports were the target of most surveillance measures, followed by steel and metal products and miscellaneous manufactures.

On the whole, the product destination of autonomous import restriction measures taken by Italy followed the EC pattern rather closely. Also the trend in the number of actions taken by Italy resembles that of the entire EC: a fairly strong escalation is noticeable in 1977 and 1978, followed by a slackening in 1979. (Table IV.3). The total yearly number of non-tariff measures taken by Italy seems to be inversely correlated with the domestic economic cycle. 2/ On the whole, the autonomous contribution of Italy to the rising trend in non-tariff measures applied by the EC seems to have been quite modest.

1/ A complete analysis of non-tariff measures was virtually impossible in Italy until the reorganization of the import licencing and import surveillance system of 1976.

2/ Real GNP growth fell in Italy from 5.9% in 1976 to 1.9% in 1977. It remained low in 1978 (+2.6%), to recover strongly in 1979 (+5.0%). Industrial production followed a similar, if more pronounced, pattern: +12.4 in 1976, +1.1 in 1977, +1.9 in 1978 and +6.4 in 1979.

Table IV.3: ITALY'S AUTONOMOUS NON-TARIFF IMPORT RESTRICTIONS MEASURES (°) BY MAIN TYPE AND PRODUCT DESTINATION: 1976-1979

(Number of measures)

Commodity Group \ Years	1976	1977	1978	1979
Textiles and Clothing	4	6	14	6
Chemicals (incl. fertilizers)	1	1	1	-
Steel and other metals	1	8	11	1
Machinery and Appliances	1	1	2	1
Electrical and Electronic Products	2	4	1	-
Leather Products	-	-	1	-
Rubber Products	-	3	-	-
Pulp and Paper Products	3	2	-	-
Others	3	2	5	2
TOTAL	15	27	35	10
of which:				
Import quotas	0 1/	14	8	7
Surveillance measures	15	13	27	3

1/ June-December 1976 only

(°) Duration not taken into account

Source: Ministry of Foreign Trade (Ministerial Decrees and Circulars)

V. THE POLITICAL ECONOMY OF TRADE AND INDUSTRIAL POLICIES IN ITALY

A high degree of social and political consensus over trade policies seems to have materialized in Italy in the post-war period. The economic profession, a good portion of which had remained solidly in favor of free trade even during fascism, contributed to the creation of a favorable intellectual climate to the early reversal of the protectionist trends that had set in during the interwar period. Italy pursued a consistent policy of gradual trade liberalization and economic integration with Europe from the 1950s, when the newly dominant Christian Democratic party accepted and carried on the liberal trade philosophy and policies of the prefascist tradition. All major decisions concerning the trade and economic development of Italy were in fact taken with the active support of other center parties, which also traced their roots to those traditions. However, the market-oriented economic policies followed during the 1950s and part of the 1960s were almost always, and often bitterly, opposed by the left which went so far as to oppose the Treaty of Rome. Against this background, the degree of political consensus over trade policies apparent in the 1970s represents at first sight a surprising, if not astonishing, achievement.

The basic posture of private entrepreneurs in Italy has long been and remains solidly liberal. Even in the middle of one of the worst economic crises of the 1970s, the General Confederation of Italian Industries--the umbrella organization that represents most private industrial concerns--stated in a document concerned with short and medium term trade policies that, "despite the persistent weakness of internal demand, the deterioration of industrial activity, the fall in employment and the poor profit performance of the Italian industry, trade policies oriented towards protectionism and beggar-my-neighbor exchange rate policies have no part in the industry-proposed therapy to face the crisis situation." 1/ Similar positions have been

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1/ Confederazione Generale dell'Industria Italiana, Prospettive e Linee per una Politica delle Esportazioni nel Breve e Medio Periodo", Rome, June 1976 (mimeo), p. 1.

repeatedly expressed by the Confindustria's leadership. 1/ It should be noted, however, that such liberalism did not prevent Italian industry from utilizing such protection as the EC tariffs and other protective measures offered.

It is not surprising also to find liberal statements in government documents, given the clear official free trade position of all post-1948 governments. 2/ The similarity of the Italian Communist Party's position, also expressed at the time of the 1976 crisis, with that of Confindustria is, however, striking. The Secretary of the Economic Policy Research Center of the Italian Communist Party, dealing with the economic crisis of Italy, declared, "the adjustment of [the Italian] balance of payments cannot be reached by reverting to a protectionist policy. We believe that--because of the trade system to which it belongs, its geographical collocation, its resources and the ideals of peace and international cooperation that it cherishes--Italy cannot find the solution to its problems by making narrow-minded choices leading to nationalistic shut-downs". 3/

Only a portion of the Socialist left looks favorably at forms of "selective protectionism" that find their intellectual origin in the work of

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1/ See, for example, the speech by G. Carli, President of Confindustria, made at the World Business Conference on "Finance and Trade in the 1980s" held in Frankfurt, on February 15, 1979 and a recent paper by P. Savona, Director General of Confindustria: G. Carli, "Quali Azioni si Richiedono per Promuovere la Rigenerazione Economia Europea", Frankfurt, February 1979 (mimeo) and P. Savona, "La Struttura Industriale Italiana: Analisi dei Problemi e Prospettive", in Economia Italiana, No. 1, 1979, pp. 43-65.

2/ To verify this continuity of thinking over the past 30 years, it is sufficient to peruse the programs of the various governments that have followed each other (with considerable frequency) in the post-war period. See, Centro Romano Editoriale, I Programmi dei Governi Repubblicani dal 1946 al 1978, (Rome: CRE, 1979).

3/ See, E. Peggio, "Crisi e Condizionamenti Internazionali", in Crisi Economica e Condizionamenti Internazionali dell'Italia, (Rome: Editori Riunuti, 1977), Vol. I, p. 24.

the Cambridge Economic Policy Group. 1/ The economists who articulate these positions 2/ are doing so without much hope of influencing government decisions. 3/ The Italian labor unions maintain a somewhat ambiguous position over trade issues, but "unholy" alliances, such as those common in the United States, between labor unions and industry over import restriction measures have so far been virtually non-existent.

The consensus rejecting protectionist trade policies has a fairly clear economic rationale. A relatively small economy, devoid of natural resources, which has found it possible to develop industrially only by resorting to labor-intensive transformation processes producing heavily for the export markets, can hardly think of reducing its degree of opennes to international trade, when the oil-induced worsening of its terms of trade requires that increasing amounts of productive resources be devoted to exports. 4/

However, its very production and trade specialization puts Italy in a rather peculiar position among industrialized countries. The weight of manufactured products at "low" level of transformation in Italian exports, already higher than in most industrialized countries, increased further in the 1970s. While the structure of world exports of manufactures was changing

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1/ See, for example, F. Cripps and W. Godley, "Controls of Imports as a Means to Full Employment and the Expansion of World Trade", in The Cambridge Journal of Economics, Vol. 2, No. 3, September 1978, pp. 327-334. These authors propose fiscal expansion, accompanied by direct import controls, as policy mix to expand industrial production and employment.

2/ In particular, a group of economists of the University of Modena.

3/ That even those economists who look favorably upon the "selective protectionism" advocated by the Cambridge Group, feel almost besieged by the anti-protectionist majority can be clearly deduced from the debates on this issue published in Mondoperaio (an independent Socialist magazine). See, Mondoperaio, No. 2, February 1979; No. 4, April 1979; No. 5, May 1979, No. 10, October 1979 and No. 12, December 1979.

4/ In fact the share of exports in the total of available resources (production + imports) has increased from 15% in 1973 to 20% in 1979.

in favor of mechanical and chemical products 1/, Italy lost market shares in both these commodity groups during the 1970s, improving its position only in first-transformation manufactures and miscellaneous manufactures 2/, finding itself going in the same direction as developing countries, particularly the newly industrialized among them.

Increasing dependence on products subject to competition from developing countries in export markets have reduced the practical usefulness of national protectionist measures. Given the growing productivity of developing countries in such competing products, and their growing volume of output, Italy could not effectively handle either the short-term, or the long-term problems originating from such competition in the international economy by protection.

Theoretically, Italy could have adopted a "strong" protectionist posture inside the EC (to which an increasing share of its exports went), 3/ reinforcing the existing propensities in that direction of France and Great Britain. Instead, Italy remained, on the whole, fairly moderate in its protectionist bent at the EC level. Advantage was taken of existing impulses towards shielding some key sectors from outside competition (textiles and, partially, steel), but aside from chemical fibers, Italy has not been very active in sponsoring additional EC policies aimed at protecting community

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1/ Machinery and transport equipment (SITC 7) and chemical products (SITC 5) which in 1970 accounted respectively for 47 and 12% of world manufactures' exports, reached 49% and 12% of the world total in 1978. The share of miscellaneous manufactures (SITC 8) remained unchanged while that of first-transformation manufactures (SITC 6-68) registered a 2% decline.

2/ Exports of miscellaneous manufactures (SITC 8) which accounted in 1970 for 24% of Italy's total (against an average of 12% for OECD countries), rose to 25% in 1978 (against 13% for the OECD average). Similarly exports of manufactures in the SITC (6-68) category, which made up for 24% of Italy's total in 1970 (against an average for OECD countries of 27%) reached 28% in 1978 (while the average for OECD countries fell to 24%). Correspondingly, while in Italy the relative weight of mechanical (SITC 7) and chemical (SITC 5) products exports fell from 44 to 39% and 8.3 to 7.9% respectively, for the OECD average the share of the former rose from 12 to 13% and that of the latter from 49 to 51%.

3/ From 39% in 1961, to 47.5% in 1970, to almost 50% in 1979.

Table V.1: EXPORT CREDIT IN ITALY: 1974-1979

(billion Lire)

	1974	1975	1976	1977	1978	1979
Credit to Exporters	249.0	363.0	433.0	856.0	979.0	852.0
Credit to Importers	253.0	314.0	614.0	698.0	709.0	999.0
TOTAL	502.0	677.0	1 047.0	1 554.0	1 688.0	1 851.0
Credit as % of Total Exports	2.53	2.96	3.35	3.88	3.55	3.12
Credit as % of Exports of Investment goods	9.3	11.9	15.5	17.7	18.2	17.6

Source: Banca d'Italia, Relazione Annuale, various issues.
ISTAT, Statistiche Annuali del Commercio con l'Estero, various issues.

markets, siding, more often than not, with the Federal Republic of Germany in resisting stronger protectionist policies.

At the domestic level the main thrust of Italy's commercial policies took more and more the form of increased indirect support to exports: export credit was increased, greater government encouragement was given to bilateral export deals (particularly with OPEC countries) and budgetary transfers to industry were stepped up. For some of the crisis sectors the government devised an ambitious adjustment assistance scheme, which has not, however, yet come into full operation.

Increasing the amount of credit was the most obvious way of giving modest general assistance to exporters. Government efforts in this direction were stepped up beginning in 1974. In the following five years, the total amount of export credit nearly quadrupled (from 502 to 1,851 billion lire). As a percentage of total value of exports, the credit granted increased from 2.5% in 1974 to 3% in 1979 (Table V.1).

Credit, moreover, was increasingly directed to sustain exports of investment goods, as witnessed by the relatively faster growth of the share of total export credit granted to buyers. If measured against exports of capital goods, credit rose from 9.3% of such exports in 1974 to 18% in 1979.

Analysis of the geographical distribution of export credit also shows another important aspect of credit policy. In the second half of the 1970s Italy aimed mostly at financing sales to OPEC countries. The flows of credit to non-OPEC developing countries and centrally planned countries continued at virtually constant rates between 1974 and 1979 (Table V.2), while OPEC's share rose from 11% to 20%. Officially sponsored bilateral trade deals, played a major role in this outcome.

Budgetary transfers to industry also increased substantially in the 1970s. Assistance to industry had traditionally played a development role in the 1950s and 1960s, having been largely directed to the industrialization of the relatively under-developed Southern regions and/or to the support of key industrial sectors mostly covered by publicly owned or publicly controlled enterprises, (steel, chemicals, fibers and shipbuilding).

Table V.2: GEOGRAPHICAL DISTRIBUTION OF ITALIAN EXPORT CREDIT (°): 1974 AND 1979

	1974	1979
	------ %	------
Industrialized Countries	16.9	7.3
Centrally Planned Countries	29.1	30.0
Developing Countries	54.0	62.7
Of which:		
OPEC	(11.0)	(19.7)
Others	(43.0)	(43.0)

(°) Credit outstanding, end of year.

Source: Banca d'Italia, Relazione Annuale, various issues

In the second half of the 1970s, the crisis situation that hit some of the basic sectors of the Italian industry (mainly those with state owned or state controlled firms) forced a sharp increase in direct capital transfers to these firms. The eight-fold rise in direct capital transfers that took place over this period to a large extent grew from the need to keep these firms afloat, by covering their operating losses and to ensure them a minimum of capital for investment purposes. (Table V.3).

Together with higher capital transfers, progressively larger direct and indirect contributions towards interest payments also went to the industry. 1/ By reducing the costs of borrowing for firms the government aimed at sustaining industrial investments over the support levels reached with capital transfers. Only special capital transfers--that is general government contributions for industrial adjustment--failed to register any increments during this period, as a consequence of the failure to even elaborate a comprehensive strategy until 1977. The direct resource costs of the policy of industrial support increased appreciably in the second part of the 1970s: total budgetary transfers to industry as percentage of GNP rose from 0.9 in 1974 to 2.2% in 1978, mostly as the result of direct capital transfers to state owned or state controlled enterprises. (Table V.3).

By increasing export credit, and above all, budgetary transfers to industry, government authorities aimed at alleviating the serious balance of payments constraint faced by Italy after the oil price increases and at sustaining employment, thereby reducing social and political pressures for direct, protectionist interventions on imports. These pressures were also cushioned by a liberal resort to existing social security mechanisms.

The government thus authorized the use by industry of the short-term supplemental pay fund (Cassa Integrazione Guadagni), an unemployment insurance scheme which provides, for a period of three to twelve months, an almost complete wage coverage for workers temporarily laid off by firms facing production

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1/ The former went from 104 to 490 billion lire from 1974 to 1978, the latter increased from 268 to 595 billion lire over the same period.

Table V.3: BUDGETARY TRANSFERS TO INDUSTRY IN ITALY: 1974-1978

(billions lire)

	1974	1975	1976	1977	1978
A. Direct Capital Transfers 1/	403.1	561.4	867.8	1 488.5	3 326.0
B. Indirect Capital Transfers 2/	110.1	198.7	216.4	268.3	270.0
C. Direct Contributions towards Interest Payments	104.0	247.4	255.8	341.1	490.4
D. Indirect Contributions towards Interest Payments 3/	268.0	218,7	479.6	225.5	594.7
E. Special Capital Transfers 4/	81.3	61.6	220.7	91.0	90.0
TOTAL	966.5	1 287.8	2 040.3	2 414.5	4 771.1
(Total as % of GNP)	(0.87)	(1.02)	(1.30)	(1.27)	(2.15)
(B+C+D+E as % of GNP)	(0.51)	(0.58)	(0.75)	(0.49)	(0.65)

1/ Includes transfers to State owned and State controlled industries.
2/ Transfers made through the Cassa per il Mezzogiorno (Develoment Agengy for Southern Italy).
3/ Includes contributions paid through the Cassa per il Mezzogiorno, Mediocredito and Artigiancassa.
4/ Capital transfers foreseen by special laws concerning the industrial restructuring and conversion of specific industrial sectors or regions.

Source: Ministero dell'Industria, Relazione Sullo Stato dell'Industria Italiana, Rome, November 1979 (mimeo).

difficulties. This type of instrument was used intensively in 1975-76 and again in 1978 (Table V.4), allowing firms to reduce their production temporarily, without creating "official" unemployment. In fact, Italy was one of the few industrialized countries where employment in industry remained virtually unchanged between 1973 and 1979.

Even more important was the deliberate use of the supplemental pay fund to deal with longer term problems 1/ in critical sectors--such as textiles and clothing, chemicals, machinery and equipment--where the number of wage hours paid by the Fund steadily increased throughout the 1974-79 period from 30.5 to 115.6 million. (Table V.4). This type of special relief, critical to firms facing longer term problems, went a long way to avoid tactical alliances between labor and management to seek increasing tariff and non-tariff protection against "foreign competition", even when entire industrial sectors were hit by severe and long lasting crisis situations.

The attitude of labor unions stimulated the use of support policies. Their "defence at any cost" of existing employment when it did not force government authorities to pursue industrial salvage policies well beyond the point of economic rationality, provided strong social support for industrial policies aimed more directly at managing crisis situations than at solving them.

Analysis of the ways in which Italy avoided resorting to strong and openly protective trade policies makes the social and political consensus over free trade look more apparent than real. Moreover, the industrial policy measures used to avoid a break down in the free trade consensus served to manage the structural problems without going very far towards their solutions. A clear indication of the uncertainty existing at the policy making level over longer term industrial policy can be found in the long debate over the industrial restructuring and reconversion plan which was not approved until 1977 2/ and did not become operative until 1980, the year in which its provisions in favor of the industry should have expired.

1/ The supplemental pay fund can be used to cover the wages of workers unemployed because of longer term problems in firms, sectors or regions. The "extraordinary" interventions became more and more important in the late 1970s.

2/ Law No. 675, approved on August 12, 1977, which set up a 3 billion dollar fund aimed at the restructuring and reconversion of crisis sectors.

Table V.4: SHORT-TERM PAY SUPPLEMENTATION FUND: Interventions by Sector (°)

(million hours)

Sectors \ Years	1974	1975	1976	1977	1978	1979
Textiles and Clothing	32.778 (16.441)	71.795 (21.312)	43.943 (19.177)	59.405 (19.931)	78.202 (29.240)	49.196 (37.217)
Chemicals	10.073 (7.432)	25.978 (8.067)	21.116 (10.676)	21.450 (14.226)	22.685 (14.114)	21.423 (17.007)
Steel and other Metals	773 (130)	12.683 (1.851)	7.552 (1.664)	5.363 (1.259)	10.696 (5.096)	8.365 (4.964)
Machinery and Appliances	28.365 (5.366)	104.757 (14.768)	73.408 (27.788)	46.939 (20.201)	66.072 (27.337)	65.534 (47.707)
Leather Products	2.845 (549)	7.161 (1.018)	7.152 (823)	8.368 (386)	9.641 (193)	5.097 (1.066)
Wood Products	2.016 (273)	13.340 (2.384)	6.308 (1.602)	4.999 (654)	8.492 (2.888)	4.834 (2.742)
Pulp and Paper Products	1.941 (316)	12.892 (800)	6.501 (630)	6.618 (969)	7.000 (2.912)	6.538 (4.914)
TOTAL	78.791 (30.507)	248.606 (50.200	165.980 (62.360)	153.142 (57.626)	202.788 (81.780	160.987 (115.617

(°) Data in brackets indicate interventions related to crisis situations in firms, sectors, or regions (gestione ordinaria: interventi straordinari)

Source: Istituto Nazionale Previdenza Sociale (INPS)

The underlying philosophy of the plan, if somewhat confused, showed, moreover, a mercantilist bent which, though virtually undetected at the time, runs against the official free trade professions that government authorities and social forces were making almost simultaneously. The first long term objective of industrial policy, as indicated in the plan, was the reduction of net imports, to be achieved "through expansion of exports or import substitution". 1/ The semi-official report on the state of the industry that followed parliament's approval of the plan toned down the importance of this objective considerably, but its location at the top of the list of goals that the "new" industrial policy was supposed to pursue indicates the precarious balance between strongly conflicting trade postures that existed at the time at the policy making level.

CONCLUSIONS

Like most industrialized countries, Italy has faced difficult adjustment problems in the 1970s. Notwithstanding its very high dependence on imported oil and raw materials, Italy managed to cope with the worsening of its barter terms of trade without resorting at the national level to strong inward-looking trade policies, whose usefulness is generally recognized to be limited for a country that exports almost half of its industrial value added.

Domestic industry took advantage of the protectionist impulses emerging at the EC level, without playing a particularly active role in encouraging them. EC protection, concentrated in commodity sectors where traditional manufactures are prevalent, suited Italy's interests well, supporting the relatively large and increasing weight of exports of traditional manufactured products--textiles, clothing, leather products, furniture, paper products--have assumed in the 1970s 2/, and the growing importance of EC markets as their outlet.

1/ Art. 2, of Law No. 675.

2/ Changes in the composition of exports correspond to changes in the structure of production over the same period. They are, however, probably emphasized at the export level, by the growth in importance of the so-called submerged economy, which at the industrial level appears to be stronger in traditional commodity groups.

The Italian government took a rather moderate position at the Community level in matters concerning trade restrictions. At the national level it limited itself to complementing EC non-tariff protection with a relatively small number of import restrictions directed, from the product standpoint, towards a fairly narrow range of industrial goods and from the geographical standpoint, mostly against centrally planned and non-EC developed countries. Developing countries' exports were the target of a very limited number of quantitative restrictions, but more numerous surveillance measures.

The relative moderation shown by government authorities in resorting to non-tariff measures to control imports was, however, accompanied by a strong and growing bent towards industrial support policies, which, if not directly aimed at deflecting trade flows, nonetheless have distorting effects on resource allocations and often an indirect negative impact on trade. Industrial subsidies increased considerably and so did interventions aimed at maintaining employment, without much thought for even the short and medium term cost of these policies. The apparent large degree of social and political consensus over "liberal" trade policies, if based on a correct perception of Italy's long-term economic interest, appears to have been held together in the 1970s by progressively more interventionist industrial policies chiefly aimed at saving existing jobs.

For how long hidden protectionist impulses can be held in check and at what costs is a critical question. The future direction of trade policies in Italy hinges on the answers to it.

Confronted with prospects of a further deterioration in barter terms of trade, growth in world demand for its exports continuing and probably deepening structural problems in such key sectors of industry as chemicals, fibers, steel and shipbuilding, Italy's eoonomy faces an uncertain future. Low productivity growth, insufficient investments and growing labor costs are also reducing the ability of Italy to compete in export markets.

The 1978-79 recovery of the Italian economy was marked by the remarkable export performance of small and medium size productive units operating in traditional product sectors (textile-clothing, furniture, leather

products, paper products), while large public and private industries performed rather poorly.

However, recent analyses indicate that the efficient performance of small to medium sized industries in the late 1970s has not significantly changed the structure of output. 1/ It is also questionable whether the emergence of this new dynamism in small-medium industry can constitute the basis for continuous growth of the economy.

Export-oriented small to medium sized industries have constituted the most solid obstacle to protectionist impulses in the past few years. The large industries dominate sectors facing serious and continuing structural problems. They also have a more limited export orientation, but they have in essence refrained from pushing for more restrictive trade policies because of the direct and indirect government subsidies they receive. Insofar as this allowed them to maintain employment virtually unchanged, they were supported by the labor unions in their quests for government aid.

The next few years are very likely to witness a resurgence of requests for industrial adjustment policies which could become a vehicle for mercantilist tendencies. While the external political and economic environment will certainly play a role in shaping future trade and industrial policy changes, the relative ease with which mercantilist tendencies were introduced into the 1977 industrial reconversion and restructuring plan, indicate that internal impulses--particularly during periods of economic recession--could become predominant in shaping government policies. Without the solid support of small to medium sized industries for liberal trade policies and confronted with continuing structural problems in the large ones--the government may have to yield to pressure for more interventionist import policies. Should the industrial outlook also worsen appreciably in other EC countries Italy's switch to a more protectionist posture at the Community level could tip the scale in favor of the group of member countries that are pushing to increase EC restrictions against outside competition.

1/ See, Centro Studi Confindustria, Terzo Rapporto CSC sull'Industria Italiana, (Rome: Confindustria, 1980), pp87-96.

Future developments in trade policies are difficult to predict. Yet, judging from the experience of Italy, the potential for a further expansion in the 1980s of what has been called the "new protectionism" of the 1970s seems to be still quite high.

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