

GIORGIO FUA¹

PROBLEMS OF LAGGED DEVELOPMENT IN OECD EUROPE : A STUDY OF
SIX COUNTRIES

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CONTENTS

<u>PART I : COMMON PROBLEMS OF LATER DEVELOPED COUNTRIES AND RELATED POLICY ISSUES</u>	7
1. Six later developed countries inside OECD Europe	7
2. Individual differences	7
3. Common characteristics	8
4. Typical features of early phases of development	9
5. Typical features of late comers	9
6. Analogous experiences in other countries	10
7. Recent aggravating factors	11
8. Capacity-and-income gap, and productivity-and-wage dualism	12
9. Demonstration effects and employment slack	14
10. Outlook for policies speeding up capacity growth	15
11. Outlook for policies alleviating the pressure of population and labour supply	16
12. Closing the income gap, a long term affair	17
13. Diffused vs concentrated development effort	19
14. Other issues in a strategy for living with the gap	22
15. Fiscal influences on relative factor costs	23
16. Issues of industrial policy with special regard to small business	24
17. Location balance and agriculture	28
18. Issues concerning earnings	31
19. Limited capacity of Government machinery and danger of over-ambitious policy targets	32
20. International co-operation needed	33
 <u>PART II : COMPARATIVE STATISTICAL ANALYSIS OF ECONOMIC STRUCTURE</u>	 35
1. Income level	35
2. Past income growth	37
3. Demographic movement	40
4. Geographical distribution of the population	40
5. Age and sex structure	47
6. Participation in the labour force	47
7. Population projections compared with past trends	49
8. Labour force composition	50
9. Employment by kind of economic activity	51
10. Past trends in employment	52
11. Labour productivity by kind of economic activity	54
12. GDP by kind of economic activity	55

13. Past growth of product and productivity by kind of economic activity	57
14. Firms' size and connected characteristics	59
15. GDP by kind of expenditure	64
16. An overall view of foreign transactions	66
17. Commodity trade composition	69
18. International specialization in manufactured goods	71
19. Composition of private consumption	75
20. Composition of gross capital formation	76
21. Financing of gross capital formation	77
22. Government finance	77
23. Price instability	79
24. Income distribution	80

ANNEXES

A. BASIC STATISTICAL TABLES

B. MONOGRAPHS

1. Agriculture in the six countries, by OECD, Directorate for Agriculture
2. Quelques idées sur le rôle des activités rurales dans les pays de l'Europe, par J.S. Sampedro
3. Industrialization in Portugal, by M.J. Constancio
4. Industrialization in Turkey, by B. Tuncer
5. Foreign investment in Irish industry, by D. McAleese
6. Co-operation between small industrial firms : A Spanish experience, by J.M. Oroval Planas
7. Lessons from the Italian experience concerning old-age pensions, by E. Guglielmino

LIST OF TABLES AND CHARTS

Chart 1	Hypothetical patterns of distribution of capital intensity in the economy	20
Chart 2	GDP per capita in real purchasing power, 1976	36
Table 1	GDP per capita (1976) and expectation of life (1975)	37
Table 2	GDP, annual rate of change (o/oo) at constant prices, 1938-1976	38
Table 3	GDP per capita, annual rate of change (o/oo) at constant prices, 1938-1976	38
Table 4	GDP per capita, comparative level in real purchasing power (other OECD Europe = 100) 1938-1976	38
Table 5	Population movement, annual rate per 10.000 inhabitants, 1961-1975	41
Map 1	Regional subdivisions adopted	42
Table 6	Regional distribution of population, 1950-1970	45
Table 7	Urban concentration, 1950-1970	46
Table 8	Age and sex composition, 1975	47
Table 9	Labour force as a percentage of population, 1975	48
Table 10	Annual rate of change (o/oo) of population 1960-1975, and projections 1975-1990	49
Table 11	Composition of civilian employment, 1977	50
Table 12	A synopsis of changes in population and employment, annual rate per 10.000 inhabitants, 1962-1975	53
Table 13	Value added per person employed by kind of economic activity, comparative level, 1970-1976	55
Table 14	Comparative level of GDP per capita, GDP per person employed, proportion of population in working age and employment ratio (France = 1), 1976	56
Table 15	Percentage composition of GDP by kind of economic activity, 1970-1976	57
Table 16	GDP by kind of economic activity, annual rate of change (o/oo) at constant prices, 1960-1976	58
Table 17	GDP per person employed by kind of economic activity, annual rate of change (o/oo) at constant prices, 1960-1976	58
Chart 3	Share of small establishments in total manufacturing employment, circa 1970	60
Chart 4	Labour productivity by size of establishment in manufacturing, circa 1970	61
Table 18	Sundry indications of the lower productivity and wage level of the smaller establishments in manufacturing, circa 1970	63
Table 19	Percentage composition of GDP by kind of expenditure, 1970-1977	64
Chart 5	Ratio of foreign trade to GDP, and population size, 1976	65
Table 20	GDP by kind of expenditure, annual rate of change (o/oo) at constant prices, 1960-1976	67
Table 21	Balance of foreign payments in o/oo of GDP, 1970-1977	68
Table 22-A	Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Exports	69
Table 22-B	Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Imports	69
Table 22-C	Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Trade balances	69
Table 23	Export diversification by commodity, 1970 and 1977	70
Table 24	Trade in manufacturing by main commodity groups : exports and trade balances in o/oo of GDP, 1974-1977	72
Table 25	Trade in manufacturing by main commodity groups : export shares (exports of aggregate OECD Europe = 1 000), 1974-1976	73

Table 26	A summary picture of international specialization in manufactures, circa 1975	74
Table 27	Private consumption by kind of expenditure in o/o of GDP, 1970-1975	75
Table 28	Gross fixed capital formation by kind of asset in o/o of GDP, 1970-1975	76
Table 29	Finance of gross capital formation by kind of source, 1970-1976	77
Table 30	General Government's current expenditure by main category in o/o of GDP, 1970-1976	78
Table 31	General Government's current receipts by main category in o/o of GDP, 1970-1976	78
Table 32	General Government's saving, borrowing and capital formation in o/o of GDP, 1970-1976	78
Table 33	Wages, unit labour costs and general price level, annual percentage rate of change, 1965-1976	80
Table 34	Percentage composition of Gross National Income, 1970-1977	81
Table 35	The relative level of compensation of employees, 1970-1977	83

Note

Unless otherwise stated, the data used in the tables and charts have been extracted from Annex A or from OECD files and publications. Minor discrepancies between the present tables and the sources used are due to rounding up.

Figures referring to a group of countries are a weighted average of the figures referring to the individual countries. In the tables covering more than one year, constant weights (generally based on 1970) are used.

Figures referring to a pluri-annual period are an unweighted average of the figures referring to individual years, save for tables 10 and 12. The average annual rate of change shown in the latter results from dividing the total change observed in the pluri-annual period considered by the number of years and by average population.

PART I

COMMON PROBLEMS OF LATER DEVELOPED COUNTRIES AND RELATED POLICY ISSUES

1. Six later developed countries inside OECD Europe

The process of sustained increase of GDP and GDP per capita, and of connected changes in the structure of employment and domestic product and expenditure, that has been conventionally called "Modern economic development", did not start simultaneously in all countries of OECD Europe.

The purpose of this study is to examine the present position of six countries, namely Greece, Ireland, Italy, Portugal, Spain and Turkey, which started developing later than the other ones. As will be shown, these countries have some basic problems in common. These can perhaps be traced back to their being late-comers, and seem to well deserve a special discussion.

2. Individual differences

As the present part of my report has to concentrate on identifying a number of problems which are more or less shared by all six countries, skipping over individual differences, I shall begin by warning the reader to keep such differences in mind. Many individual features will emerge from the comparative analysis in Part II, so a few hints may suffice here.

First, the process of modern economic development has gone a longer way in some of the six countries examined than in other ones : at one extreme there is Italy, where such a process started before 1900 ; at the other extreme Turkey, where it started only after World War II.

There are significant differences of size among the Six, in terms of both population and area : Italy, Spain and Turkey are comparatively large countries, while Ireland is very small.

Population density is much above the European average in Italy, but not in the other five.

The natural increase of population is a major source of difficulties in Turkey, where the annual rate is still around 25 per thousand, but not in the other four Southern countries where the rates are approaching the average of earlier developed European countries. Ireland is different in having experienced a recent rise of fertility and natural increase, which is posing some special problems.

Climate and soil conditions are not alike in all the Six. In most parts of Ireland fertile soils and abundant rainfall spread through the year favour grass-land-based livestock production ; while in the five Southern countries much of the area is mountainous and short of summer rainfalls, and coastal plains and hills are vocated to produce an exportable surplus of Mediterranean crops.

Considerable difference exists in the degree of "openness" and the pattern of integration in the international market, also due to different records of economic policy. Italy was one of the first countries in Europe to liberalise foreign trade after World War II, and international integration of the Italian economy has since proceeded far. Spain and Ireland have also since long adopted a determined "outward-looking" strategy, and the resulting degree of international specialization is most impressive in Ireland, even if this partly reflects the small size of the country. In Greece and Portugal the opening up of the economy is a more recent process, and in Turkey tight controls of foreign trade and payments are being maintained.

Finally, mention must be made of such a basic factor as the structure, style and standard of performance of the public administration, in which respect Ireland because of her adherence to the British tradition stands far apart from the other five.

3. Common characteristics

As will be apparent from the analysis in Part II, on many points concerning the structure and trends of the economy there is a systematic difference between the Six on one hand and earlier developed countries (1) of OECD Europe on the other hand. Not only does the average position of the Six deviate from that of earlier developed countries, but deviations with the same sign are generally found (with minor exceptions) in everyone of the Six. Moreover such deviations tend (though with considerable exceptions) to be larger in those of the Six which started developing later.

L t The question arises whether the structure and trends presently found in Later DCs just tend to replicate those which were observed at previous dates in Earlier DCs, when they were passing through the corresponding development phases. The answer is negative, as explained in an earlier study :

"There is a general reason for expecting that the structural evolution of the lagging economies will not be the exact replica of the evolution of the economies which have preceded them. Even if the endogenous forces of development were equal in both cases (a far-fetched hypothesis, indeed), the milieu with which these forces interact has been modified, if only because of the development which has taken place meanwhile in the advanced countries. Thus, to take the most obvious example, it is clear that we cannot expect a country, which is at present going through the initial phases of industrialization, to assume, in the international division of labour, a monopolistic role analogous to the one played by the early industrial countries in the corresponding phase of their evolution [...]

Hence, if it is thought useful (as I believe it is) to try and identify certain statistical laws of the growth and structural evolution of the economy, in the sense of functional relationships valid for several countries, we must admit that these functions are subject to shift over time (so that the further problem arises of identifying the laws governing such shifts)." (2)

(1) Henceforward I shall use the abbreviations Earlier DCs and Later DCs. Referring to OECD Europe, by Later DCs I mean the Six and by Earlier DCs all other member countries.

(2) G. Fuà, Lagged development and economic dualism, "Banca Nazionale del Lavoro Quarterly Review", June 1978, section 4.

Though all the common characteristics of the six countries result from the combination of a "phase of development" effect and of a "generation" effect, it may be practical to catalogue those characteristics in two separate groups, according whether the former or the latter effect prevails.

4. Typical features of early phases of development

The following is a list of relevant points regarding which the present experience^X of the Six is similar to (though not being an exact replica of) the past experience of Earlier DCs :

- a - low GDP per capita and low average productivity of labour ;
- b - low stock of capital per head (though the statistics collected in Part II scarcely touch this point) ;
- c - high share of agriculture and low share both of industry and of services in total employment and total production ;
- d - low share of manufacturing and correspondingly high share of construction in industrial employment and production ;
- e - low share of fabricated metal products in manufacturing employment and production ;
- f - high share of self employment in total employment ;
- g - high proportion of micro-firms in total employment ;
- h - strong productivity (1) differentials between agriculture (lowest productivity), industry, services (highest) ;
- i - high share of private consumption in GDP ;
- j - high share of food in total private consumption ;
- k - strong movement of population from rural areas to towns ;
- l - marked inequality in the distribution of incomes.

It

5. Typical features of late-comers

Some relevant points have now to be mentioned, regarding which the present experience of the Six is found markedly to diverge not only from the present, but also from the past experience of Earlier DCs.

As will be shown in the following, the main differences found may be all - largely - traced back to three major factors which do affect late-comers while they did not, of course, affect to a comparable extent the first-comers in their early development phases : namely the technology gap, the demonstration effect, the exposure to competition from more developed countries on the international market.

The main differences found may be condensed in three points as follows.

First, the Six show very strong productivity differentials not only between industries and between regions (which is not without precedents in Earlier DCs), but also between firms inside any given industry and region. In the following this feature will be conventionally indicated with the word "dualism".

(1) Average labour productivity, henceforward referred to as "productivity" for brevity's sake.

Second, the Six have a poor performance in finding regular employment for their potential labour supply, in the sense that in all these countries participation rates - at least as reported in official statistics - are either very low, or rapidly declining or in most cases both. In the following these features of the labour market will be conventionally indicated with the term "employment slack" (1).

It is remarkable that employment slack persisted in the Six even when, prior to 1974, these countries were having high rates of net emigration over protracted periods.

Third, the Six suffer from above-average proneness to price instability and to Government deficit, and from a special fragility of their balance of payments.

H DC Typically, a Later ~~DC~~ meets large chronic deficits in commodity trade (a consequence of her having a weak competitive position), and mainly relies for offsetting them on surpluses from emigrant remittances (a consequence of her having a labour surplus) and from tourism (which some authors consider to be a distinctive feature of "peripheral" economies) (2). Five of the countries under review fully conform to this picture, while in Italy commodity trade deficit and emigrant remittance surplus seem to have recently ceased to be a chronic feature.

6. Analogous experiences in other countries

The combined occurrence of productivity dualism, employment slack, proneness to price instability and Government deficit, balance of payments fragility, together with the common features of early phases of development, is not the exclusive lot of the Six.

A few analogous instances might be identified in limited periods of the past history of some Earlier DCs, but there is a significant difference insofar as those were scattered experiences, while the present one appears to be a massive experience involving all Later DCs in OECD Europe.

This massive experience is fully shared by the Six with the so-called Less DCs, but it makes a serious difference that the Six do not share with the latter the problems of extreme deprivation.

Considerable similarity is supposed to exist between the experience and problems of the Six, and those of the other countries outside OECD Europe having about the same seniority of development, which are not very many indeed. There might be a mutual interest in a joint analysis of the common problems, and this is recommended as a subject for further studies.

Finally, it must be noted that as soon as the analysis is shifted from country aggregates to regional subdivisions - which is beyond the scope of the present study because of the limited time and resources available - another pattern of analogies and contrasts appears. The six countries reviewed are found to include a small, but not negligible, proportion of regions having a quite mature economy ; while a considerable fringe of late developing regions is found in

(1) Some kind of employment slack is presently threatening also the generality of Earlier DCs, as a result of different orders of factors : the oil price rise and the adjustment crisis in the world economy ; the changing pattern of world trade ; the mismatch between the aspirations of the younger generations seeking jobs and the existing productive structure. In Later DCs such difficulties are superimposed on preexisting ones, of a more fundamental nature ; and the present study concentrates on the latter.

(2) See Underdeveloped Europe : studies in core-peripheral relations, edited by D. Seers and others, Harvester Press, 1978.

H Hove

the Earlier DCs.

Therefore some points about lagged development made in the present report may well be found to be more relevant for Scotland, or Corse, than for Lombardia or CatalunA. (u)

7. Recent aggravating factors

The problems of employment, balance of payments, public budget and price stability in the Six have been greatly aggravated by the changes in the international economy after 1973.

The direct burden of increased prices of energy and of other essential imports is comparatively heavier for the Six than for the average of Earlier DCs, but this is only one among many troubles.

No less important complications stem from the policies adopted by Earlier DCs following the oil crisis.

In commodity trade, such policies are hitting the Six on two levels. First, the stabilization policies adopted exert a general depressing impact on the demand for imports from the Six. Second, specific damages are caused by a revival of protectionistic practices intended to shelter the problem industries of Earlier DCs (such as textiles and clothing), which happen to coincide to a large extent with the typical export industries of the Six. Presumably least affected by these practices are Italy and Ireland - because of their participation in EEC and of their export composition¹ and most affected is Turkey. I -

The picture is further complicated by the rapid growth of competing exports from newly industrialising countries of other continents, and especially of the Far East (1).

All this doubly affects the Six, by causing not only immediate export difficulties, but also extreme uncertainty about the future prospects of international specialization, which hampers their industrial policy and industrial growth.

Other severe hardships are imposed on the Six (as traditional emigration countries) by the recent changes on the European migration scene, since most Earlier DCs have hastened the contraction in demand for foreign labour resulting from their general stabilization policy, by putting unilateral restrictions on further inflows of such labour. This has had the immediate effect of aggravating the pressure of labour surplus inside the Six, and therefore amounts - as the Kindleberger Report appropriately puts it - to redistributing "the burden of current unemployment to those countries least able to cope with the problem".

The impact is not equally severe in all the Six. Italy and Ireland, under this heading too, are likely to be least affected because of their participation in EEC and because in both countries net emigration was already tending to an end. Turkey and Portugal are most, the former because of the dreadfully high rate of natural increase of her population, and the latter because of the sudden repatriation in 1974 - 1975 of about 600.000 persons (which amounts to an increase of almost 7 % in her population) from her former colonies. In addition to their immediate effect on the employment situation, the restrictions are affecting the inflow of emigrants' remittances and thus causing new strain to the balance of payments of the Six (2).

(1) See OECD, The impact of the newly industrialising countries, Paris, 1979.

(2) On all this see the Kindleberger Report : OECD, Migration, Growth and Development, Paris, 1979.

Faced with severely strained balances of payments, the Six have all been led to adopt a more or less severe stabilization policy, also because no firm support for less restrictive policies has been coming via international co-operation. The stabilization policies adopted have been partly successful in meeting the balance of payments difficulties, but have exacerbated the employment situation and possibly delayed the solution of the basic problems of lagged development.

While stressing the need for a thorough discussion of all these recent complications and of the involved responsibility of the international community - a discussion which has already been opened by other works of OECD - I shall now aim at giving a clearer view of those basic, deep-seated tensions of lagged development, on which such recent complication did set in.

8. Capacity-and-income gap, and productivity-and-wage dualism

The lower income level of Later DCs, compared with Earlier DCs, can be attributed to many factors, ranging from a lower capital endowment per head (both productive capital and social infrastructure) to a lower average level of education (specially technological) and, in most cases, to a lower standard of performance of Government machinery. Some Later DCs happen, moreover, to have a specially poor endowment of natural resources.

I shall however concentrate on a single factor, namely the organizational and entrepreneurial capacity available at firm level - to be called henceforward, for brevity's sake, the O-E factor - which deserves special attention because it appears generally to act as the most stringent bottleneck limiting the growth of productive capacity, and because it provides an explanation of the peculiar dualistic features found in Later DCs (1).

In those countries which started developing early, the productive structure could progressively evolve so as to keep pace with the accumulation of the world store of technological knowledge, which was itself a gradual process. The adjustment between operating capacity and available knowledge, moreover, was working both ways, as new knowledge was being largely produced in these same countries, at least partly in response to the needs most felt there. Therefore Earlier DCs are found to have plenty of "modern" firms, by what I mean firms able to operate on the whole range of material and social technologies offered by the present worldwide store of knowledge. Such firms form there a front wide enough for absorbing all, or almost all, the local supply of labour and capital.

Quite a different picture is offered by those countries, which opened up to modernization only after the world frontier of new technologies had far outdistanced the traditional ones. They begin by having some firms able to take advantage of the whole of modern technology; subsequently, if the conditions are favourable, these nuclei of modern productive organization *eventually* gradually expand and spread until they cover the whole economy. But in any case such a process is subject to various constraints, including the fact that the organizational structures need a certain physiological time before they grow. Meanwhile, the front of the modern firms in Later DCs remains small, and is able to absorb only a fraction of the local supply of labour and capital.

Therefore ample room is left in Later DCs for the operation of those firms which are not yet up to take advantage of the whole of modern technology ("pre-modern" firms). It may be noted that the limitations met by these firms (being often due to family ownership, small size, traditional habits) are likely to be stronger regarding managerial, than technical change.

(1) The rest of this section is based on my earlier work Lagged development and economic dualism, cit., to which those wanting additional explanations are referred.

It has now to be seen how all this is reflected in productivity and factor earnings.

In Earlier DCs, as all the firms have a (tendentially) equal capability in switching from one technology and production line to another according to the convenience, and have to compete with each other for the supply of capital and manpower, the profit rates and the wage rates of the various firms must tend - also through adjustment in product prices - to level off. This amounts to saying that total factor productivity (measured on a net basis and at current prices) tends to be equal in all firms (1).

On the other hand in Later DCs, where modern and pre-modern firms operate side by side, as the latter can master only a fraction of the technological knowledge mastered by the former, and have therefore a narrower range of manoeuvre in choosing among productive opportunities, it is unlikely that pre-modern firms can pick up opportunities providing such high rates of reward to factors as modern firms. This amounts to saying that in Later DCs total factor productivity does not tend to level off as in Earlier DCs, but modern firms tend to have a higher productivity than pre-modern ones (2).

The lower total factor productivity of pre-modern firms means that in those firms either labour or capital or both will get a lower rate of reward than in modern firms, and it appears that in general it is labour that bears a heavier share, or the whole, of the difference (3).

Of course, the above provides a highly simplified model of the actual world. In the latter we do not observe such a neat split between two sets of firms; we find instead, in Earlier DCs as well as in Later DCs, that the existing population of firms is continuously distributed over a pretty wide range of productivity levels. But, significantly enough, recent research reported in part II (4) is showing that the shape of distribution systematically differs between the two sets of countries, in the sense that inequality of productivity among firms tends to be much stronger in Later DCs.

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- (1) The above is a crudely simplified statement, requiring some qualification for which I refer to Lagged development and economic dualism, cit.
 - (2) In the above, reference is implicitly made to the productivity measured taking as a basis the factor prices prevailing in modern firms. In the studies mentioned in the following footnote, instead, it has been found convenient to measure total factor productivity taking as a basis the average factor prices of all firms.
 - (3) Empirical studies referring to Italy appear to show, indeed, that smaller sized firms, though tending to have a comparatively low total factor productivity associated with a comparatively low rate of reward to labour, tend at the same time to have a comparatively high rate of reward to aggregate capital (see Part II, section 14). The inverse correlation is quite marked. This does not necessarily imply, however, that the rate of reward earned on net assets (i.e. the profitability) is also comparatively high, because the rate of charge borne on external financing may be suspected to be much heavier for these firms than for the other ones.
 - (4) Research in this field is still progressing. New significant findings are presented in M. Crivellini, I divari di produttività come misura del fattore organizzativo-imprenditoriale, in ISTAO and Centro Beneduce, "Lo sviluppo dei fattori imprenditivi e organizzativi dell'industria italiana", Ancona 1979.

Demonstration effects and employment slack

The earning level associated with the higher productivity of modern firms soon becomes a general aspiration in Later DCs. The same holds for the associated consumption levels and patterns of life and work. The demonstration effect comes both from the modernized areas (1) inside the Later DCs countries themselves, and from the surrounding Earlier DCs, and is quickly propagated by pervasive mass media and by easy transport. Large scale migratory movements and tourism contribute, and so do world-wide selling campaigns aimed at consumers, and possibly also misrepresented European ideals ("we are all alike").

The demonstration effect operates quicker in raising aspiration than in raising capacities. It becomes usual for young people to wait rather than accept jobs that are not up to their aspirations, though such waiting may be likely to end in disappointment. A trend sets in for employees to demand wages that pre-modern employers find hard to pay without letting their products become uncompetitive with those of modern firms favoured by higher productivity, and/or with those of less developed countries having a lower wage level, which finally results in pre-modern employers leaving the market. There is an increasing number of self-employed who leave low-rewarding jobs without having found more rewarding ones; other ones stay until retirement, but when that moment comes they have no successor willing to continue in running the shop or the farm.

In some cases the disappearance of a job makes other jobs disappear and such cumulative effect leads to the depopulation of entire areas, mainly rural areas.

The outcome of all this is emigration and/or an increase in numbers supported by the community.

The Welfare State helps the working of this process by providing "parking facilities" for redundant labour potential - such as extended schooling and extended pensions and other transfer payments - and by pushing up aspiration levels through illusory development plans and social programs (see section 19 below).

Two complications affecting the process outlined above are still to be mentioned.

First, in some Later DCs some jobs considered unrewarding by nationals end by being filled with immigrants from poorer countries. Where such is the case, the outcome of the demonstration effect raising the aspiration of nationals is not to have jobs disappear, but to have at the same time employment slack for nationals and additional employment for foreigners. There may be grounds for concern, specially insofar as the guest community ends by being fully identified with inferior jobs, which cannot but create social tensions with the host community.

Second, in some Later DCs, while official standards concerning wages, social security costs, labour legislation and all that are set too high compared with the capacity of the pre-modern sector in the economy, a parallel ("black") labour market, in which such norms are evaded, is tacitly tolerated. Where such is the case, the outcome of the demonstration effect is to make the working of the economy more confused, while possibly leaving the size of total employment unaffected insofar as the newly created irregular jobs offset the regular jobs destroyed.

In all the above, stress has been laid on how a disproportion between the aspirations whetted by demonstration effects, and the limited capacities available, may lead to employment

(1) As well as from certain areas where monopoly, rather than high productivity, causes earnings to be high. Such is the case, at least in some ones of the Later DCs, with the banking industry.

slack ; but before closing this section it must be reminded that such a disproportion helps to explain as well some other features characterizing Later DCs, namely the proneness to inflation, to foreign trade deficit, and to Government deficit.

10. Outlook for policies speeding up capacity growth

The question arises how long the gap, which is causing all the troubles described, may be expected to last, and what can be done to make it disappear sooner. The present section and sections 11-12 are intended to give an answer, which cannot but be very summary.

Most of the many factors currently taken into account for explaining the lower productivity and income level of Later DCs compared with Earlier DCs can be grouped, for a simplified treatment, under two general headings : O-E factor, and capital (1).

Therefore, in a simplified approach, one can say that the comparatively low productivity (or per capita income) found in Later DCs depends on a comparatively low ratio of O-E and of capital to working population (or to total population). So, reducing the gap comes to making the ratio rise quicker in Later DCs than in Earlier DCs, and the question to be answered can be split into two parts :

- a. what are the prospects in Later DCs for policies speeding up the growth of O-E and capital ? (I shall occasionally use the word "capacity" as a general expression covering these two different factors). In other words, what are the prospects for pushing up the numerator of the ratio ?
- b. what are the prospects for policies alleviating the pressure of population (or labour supply) ? In other words, for pulling down the denominator ?

The rest of this section is devoted to point a.

The main road is domestic-generated capacity, namely increased savings, quicker growth of domestic O-E, and more efficient allocation of these factors. It is generally admitted that all three points mentioned are sensitive to policy, and the rich literature studying what specific policies are more likely to favour growth is well-known enough and needs no reporting here. Most people will also admit that Later DCs have considerable margins for improving their policies in this respect in the next future. But the acceleration obtainable in the growth of domestic-generated capacity by adopting more appropriate policies meets, in any case, very narrow limits.

As concerns savings, such limits are set by social psychology and by the concern with political stability, which prevent carrying far any attempt to squeeze out additional savings through fiscal action, changes in income distribution, physical controls on consumption, etc. There are indeed extremely few experiences of countries having succeeded in raising for many consecutive years their net saving ratio above 20 per cent (2).

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- (1) Even the educational level of the population, and the standard of performance of Government machinery, might with some straining be described in terms of capital and organization.
 - (2) It is found, moreover, that the countries having the highest saving ratios have in most cases the lowest ICORs.

As concerns O-E, it has been already noted above that organizational structures need a certain physiological time before they grow, change and adapt ; attempts to force the pace may have the sole result of weakening or ruining them, as plenty of historical cases show. The creation of new firms must analogously respect certain physiological conditions, and therefore multiplication cannot be speeded up indefinitely.

The second road to be considered is import of foreign-generated capacity. This takes two alternative forms : savings dissociated from O-E (which is the case with foreign lending including portfolio investment, and with transfers from abroad) ; and O-E, generally associated with some savings (i.e. foreign enterprise, foreign direct investment). Under this heading too, there is certainly some scope for devising policies more favourable to the capacity growth in Later DCs than those adopted in the past, but little can be achieved by domestic action alone without international co-operation. I shall not dwell here on specific policy issues because many important indications are given in the monograph of Professor McAleese on Irish experience (1), and a few hints will also be found in subsequent sections of the present report, but two general points must be made.

First, on ground of simple arithmetic the chances that foreign-generated capacity can become an important addition (in quantitative terms) to domestic-generated capacity and can therefore substantially raise the rate of growth, may be supposed - ceteris paribus - to be the greater the smaller the country concerned. Think only that it would suffice that all other OECD countries shift to Ireland one thousandth of their total investment, to increase present Irish investment by 50 per cent ; while an analogous shift in favour of Italy would increase Italian investment by scarcely 3 per cent.

Second, before the limit set by available foreign supplies is reached, a limit to capacity import may be met in the fear that excessive foreign inflow endangers national identity. This of course applies to direct investment more than to pure debts and transfers. The McAleese monograph well illustrates how the policy of even such an open country as Ireland is dominated by the concern to achieve a balance between national and guest firms, and to prevent the former from being dwarfed by the latter.

11. Outlook for policies alleviating the pressure of population and labour supply

Three major points deserve discussion : a. family planning, b. net emigration, c. increased leasurs.

a. Family planning. Four out of the six countries under review have fertility rates and rates of natural increase only moderately above the average for Earlier DCs, and do not appear to need to stress family planning for quantitative control of aggregate population.

But in Turkey, where the fertility rate is presently estimated around 35 and natural increase around 25 per thousand per year, an energetic policy of family planning is very much needed. Indeed, until the present rates are considerably reduced, it will be difficult to obtain serious improvements in the ratio of capacity to population, no matter how ingenious and energetic the development strategy adopted may be.

Finally Ireland, where the rate of natural increase only recently exceeded 20, may have to examine whether a policy favouring stricter family planning will be needed in the future.

(1) Annex B-5

b. Net emigration. As already mentioned all the Six are alike in having had in the recent past a massive net emigration, which was of considerable help in alleviating the pressure of population and of labour supply, and in improving the foreign balance, though other facets of emigration may have been found less desirable. At present, however, the outflow from the Six is being restricted by unilateral action of the recipient countries. Whatever may be the outcome of unilateral restriction, some of the Six are unlikely to look at a resumption of large scale net emigration as a desirable component in their future development strategy. This does not conflict, of course, with their considering most desirable free movement, i.e. balanced two-ways movement as distinguished from massive net outflow. N

For some others of the Six, however, it may prove impossible to dispense with net emigration as an ancillary component in their development strategy. This applies to Turkey due to her rate of natural increase, and possibly to Portugal due to the pressure exerted by the population repatriated from the colonies.

c. Increased leasure. A considerable curp on the increase of labour supply has resulted from the trend to longer schooling and earlier retirement operating in Later DCs as well as in Earlier DCs (1). Developments in other fields of social policy have been acting in the same direction. Despite the high speed with which Later DCs have been recently raising their standards, the latter still lag in many cases much behind those of Earlier DCs, wick understandably enough whets the aspiration to further rapid progress. In this situation some people are led to point to further extension of schooling, pensions, etc. as one major factor which could contribute to overcoming the employment slack of Later DCs.

The point requires some discussion. The immediate outcome of reducing the number of workers associated with a given stock of O-E and capital is probably to raise product per worker, but at the same time to lower total product. In the case in point, however, the reduction in the number of workers is not matched by a reduction in the number of present population (as it is in the case of emigration), and therefore the per capita income of the population concerned is bound to decrease. Therefore, though productivity is improved, the immediate impact of shifting people from work to school or to retirement is to inflict a cost on total population, as concerns the amount of marketable commodities the population can enjoy.

Such a cost has to be weighed against the benefits provided by the shift considered, namely immediate and deferred improvements in the social conditions, and possibly also in the capacity to produce marketable commodities (e.g. due to better educated labour); and the balance may be favourable or not. 10

When making such an assessment of pros and cons with reference to specific projects for extending education, social security, free time and all that, the constraints imposed on Later DCs by the limited efficiency of their Government machinery must not be overlooked. Any step forward requires, in order to provide the benefits expected, considerable organization failing which it may result in frustration and even inequities and social damages, as some historical experiences show.

12. Closing the income gap, a long term affair

From available historical statistics it appears that variance among countries as concerns the rate of growth of GDP measured over long periods is not large.

- (1) In four of the Six (the exceptions being Portugal and Spain) the reduced labour supply due to such trend was not outbalanced, as it was in most Earlier DCs, by the increased supply due to women shifting from work for the family to work for the market. In the future, however, other members of the Six may have to face the latter shift.

Taking the period 1938-1976, the average annual rate of growth of aggregate GDP in OECD countries ranges from a minimum of 2.3 per cent (United Kingdom) to a maximum of 5.2 (Japan), the OECD average being 3.9.

On a per capita basis the range is still narrower : lowest rate of increase of GDP per head 1.9 (United Kingdom), highest 3.9 (Japan), OECD average 2.8.

Before 1938 available statistics are shakier and refer to a smaller number of countries. They seem to show that growth in the countries covered was generally much slower in the period 1918-1938, and also slower (but not as much) in the decades preceding 1913. But inside each of these periods variance among the countries covered is found again to be moderate (1).

All this is not surprising if one remembers the constraints operating in all countries alike on the growth of the capital stock and of the O-E factor, already mentioned in section 10 above, and if one thinks at the additional constraint coming from international trade. Indeed, the higher the rate of growth of GDP in one country, the higher tends to be the rate of growth of her imports, which normally requires, in order to preserve foreign balance, a correspondingly higher rate of growth of her exports. Thus for expanding her GDP much faster than world average a country has rapidly to expand her relative share in world exports, but the expansion of her share in the world market cannot be speeded up without meeting an increasing resistance from competing sellers (2).

In accordance with the above, past experience only exceptionally (3) records the case of lower income countries growing so much faster than higher income countries as to eliminate large income differentials in few years.

As concerns the Six taken as an aggregate, the experience regarding the period 1938-1976 can be summarized as follows. Their income per capita in 1938 was 45 % of that of Earlier developed OECD Europe (4). Their average yearly rate of growth over the period was ~~10.7~~ points higher than that of the latter, and consequently their relative income level in 1976 has risen to 53 %.

If the catching-up proceeds at this pace, it will take ~~69~~ years more to fulfil it.

Of course, it is to be hoped that the Six manage to improve their speed differential in the next future. Assume it is raised from ~~10.7~~ to 1.0. In this hypothesis the length of time required for catching up earlier developed OECD Europe would be 64 years for the Six as an aggregate. For Italy - the one among the Six that heads the line - it would be 42 years, and for Turkey, that comes last, 128 years.

If a speed differential of as much as 2 points is assumed - which would be an almost unprecedented achievement (5) - the corresponding figure becomes 32 years for the aggregate Six, 21 for Italy and 64 for Turkey.

- (1) Some figures are given in Annex A, table 3 as concerns period 1938-1976 and in G. Fuà, Employment and productive capacity in Italy, "Banca Nazionale del Lavoro Quarterly Review", September 1977, 231-235, concerning also previous periods.
- (2) Of course, under this heading too, the constraint is less stringent for a small country, insofar as large relative gains in her market share mean small relative losses in the share of competing sellers.
- (3) The main exceptions are due to those countries benefited by petroleum such as Libya.
- (4) Relative income level is here measured in real purchasing power. At current exchange rates the position of the Six would appear lower. See part II, sections 1-2.
- (5) Exceptionally high rates of increase in per capita income, indeed, are not inconceivable if one imagines a country losing through emigration a large share of her population, or a small country being flooded by foreign O-E and capital ; but these would not seem conditions to be aimed at.

The purely hypothetical figures above are quoted only in order to stress that, though the Six need devote their attention to the best strategy for speeding up growth, there must be full awareness that no strategy is likely to succeed in fulfilling the catching up before some decades, and therefore a complementary strategy must be devised for living with the gap during the decades to come.

13. Diffused vs concentrated development effort

As Later DCs cannot think of achieving in the near future productivity levels comparable with those of Earlier DCs for the whole of their potential labour force, they can only choose either to aim at tolerably moderate levels for the mass or at top levels for just a fraction.

The issue is visualized, in a greatly simplified form, by Chart 1. Let us consider, to begin with, only one component part of capacity, namely productive capital, and assume that in a Later DC the stock available is one half of that in an Earlier DC having the same number of workers (1). Now, assume that the pattern of allocation of the stock in the Earlier DC is that shown by curve A. Workers are ranked in decreasing order according to the amount of capital with which each is equipped; the rank occupied by the worker is read on the X axis, and the amount of capital on the Y axis.

The Later DC might choose to allocate sparingly her smaller stock all along the line, so that the equipment of each of her workers is exactly one half of that of the worker occupying the corresponding rank in the Earlier DC. This pattern is described by curve B.

Alternatively, the Later DC may choose to keep up with the Earlier DC as concerns the top section of the economy, which involves that the capital left for equipping the remaining workers - a large majority - is under one half of that in the Earlier DC. An instance of such a "concentrated" capital allocation is shown by curve C.

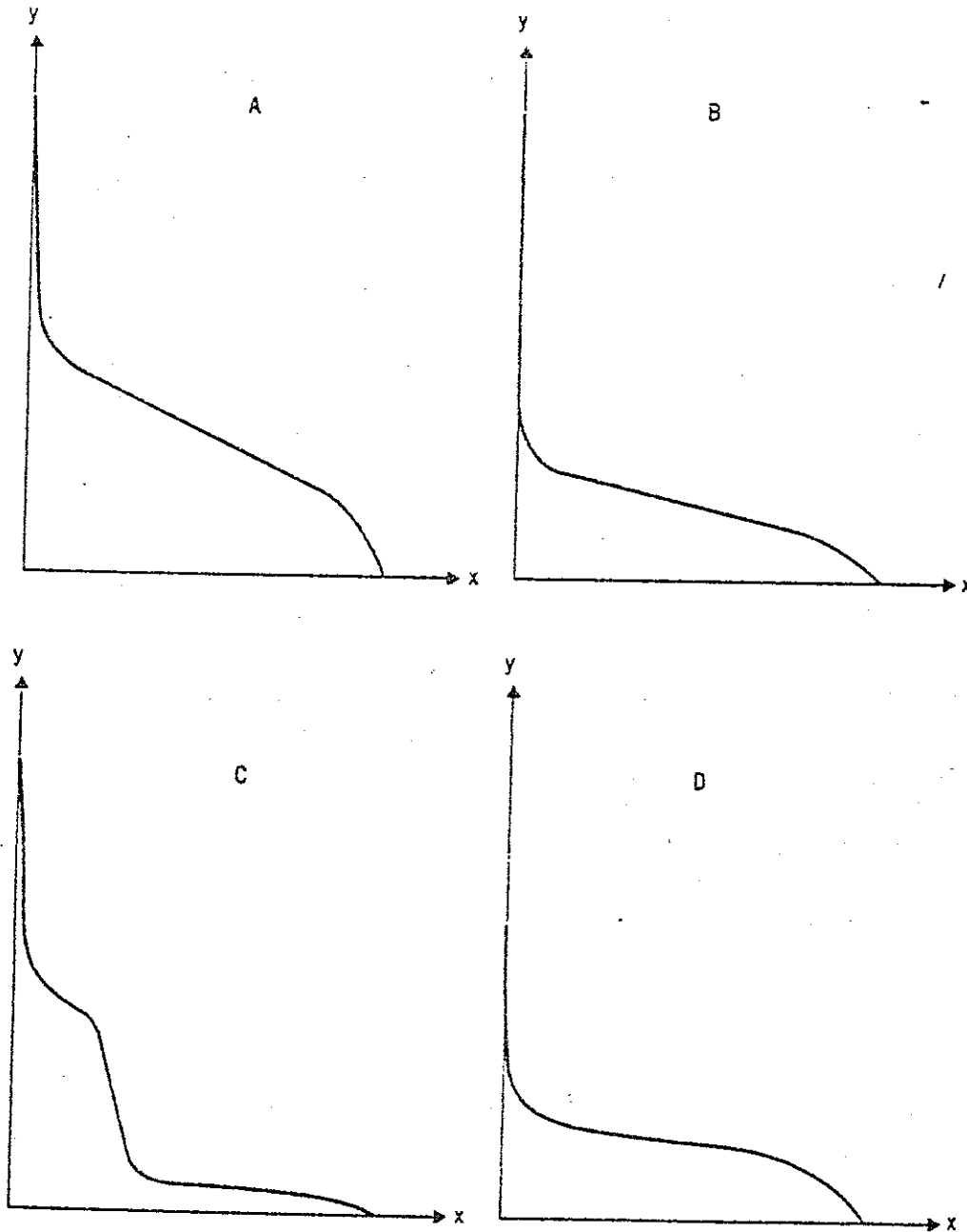
As a further alternative, the Later DC may choose to make comparatively larger cuts on capital intensive jobs so as to keep sufficient capital for preventing workers in lower ranks from being worse equipped than the corresponding workers in Earlier DC. An instance of such a "diffused" capital allocation is shown by curve D.

Of course, the range of choice actually open to policy makers among alternative patterns of capital allocation in the economy is not as wide as that, especially when the economy concerned is open and based on free enterprise. A limited margin of manoeuvre for making the existing pattern more concentrated or more diffused is however available - and is currently used - through such actions as forming the investment plans of public enterprises, granting investment incentives to private firms, etc.

The discussion above has been confined to productive capital because treating it as a quantity has wide currency (despite the Neo-Ricardian critique), while the same does not yet apply to the O-E factor. Leaving apart the issue of how the latter could also be quantified, it may suffice here to remember that considerable money is currently spent by Government in favouring the development of O-E through education and training, technical assistance, research, etc.

(1) Two possible complications are neglected in the following due to their limited relevance :
a) the dividing line between productive and other capital might be shifting ; b) the size of the stock might not be independent from the allocation chosen.

Chart 1
HYPOTHETICAL PATTERNS OF DISTRIBUTION
OF CAPITAL INTENSITY IN THE ECONOMY



It makes a difference how these resources are distributed between two alternative tasks, (a) that of accelerating the further progress of the most modern firms (which to a large extent coincide with those having higher capital intensity and more complex organization), and (b) that of promoting the first steps to modernization in the mass of the other firms. Any shift of resources from (a) to (b) may be said to favour a more diffused allocation of the O-E factor, any shift from (b) to (a) a more concentrated allocation (1).

Actually, there seems to be a trend in Later DC to adopt policies - as concerns both capital and O-E - favouring concentration rather than diffusion. Such a feature is detected in such disparate fields as fiscal and monetary policy, research policy, public enterprise, and some instances are to be discussed in later sections.

Sometimes the pro-concentration bias is not unconscious, but declared and an interesting illustration from Portuguese history is found in the monograph of M.J. Constancio (2).

The reasons leading policy makers to favour concentration may be various.

In certain cases policy makers may feel that diffusion, if attainable, would be a preferable aim, but that limitations inherent in the existing Government machinery prevent going that way.

In other cases their bent toward concentration may result from an insufficient realization of the peculiar problems of lagged development, and a consequent readiness uncritically to adopt the same policy formulas that are already proving successful in Earlier DCs.

More frequently, however, concentration is chosen on the declared ground that it is more likely than its opposite to result in an economic structure capable of confronting international competition.

Such an argument requires clarification. It is self-evident that by combining with a limited fraction of the labour force a very large share of available capital and O-E, such a fraction can be enabled to enjoy at the same time high earnings and a strong competitive position in the international market; but this cannot be considered a sufficient argument, and two further questions are to be answered.

First, it has to be proved that all the rest of the labour force, being left with a correspondingly lower endowment of capital and O-E, will not have to accept (in order to remain competitive in its turn) such a cut in earnings as to more than offset the gain accruing to the most productive section (3). This comes to asking, with reference to each concrete policy measure favouring concentration, whether such measure really causes an immediate increase in total GDP or at least a deferred increase in its rate of growth.

The answer may well be positive in particular cases. One must bear in mind, for instance, that the customary lot of Later DCs is to have an exportable surplus in traditional products, which is quite uncomfortable because such products meet a buyers' market and high protectionist

(1) Those wishing to visualize the issue about concentration vs diffusion with reference to all factors affecting productivity taken together are invited to imagine a chart analogous to chart 1, save that on the Y axis value added per worker is read instead of capital per worker.

(2) Annex B-3.

(3) Instead of a cut in earnings - to be compensated, as said below, through some kind of transfer payment from the most productive sector - one could think of a direct subsidy to firms in the less productive sector. This would not change the basic logic of the argument.

farmers. In such a situation, some policy scheme concentrating the available resources on that minority of firms already capable of innovative productions may possibly be found to give higher immediate results - in terms of GDP - than alternative schemes spreading the available resources in an effort gradually to modernize all firms.

The second question to be answered regards the preservation of an acceptable balance between the two sections of the economy. Will there be compensatory income transfers from the gaining to the losing section? Can all the unfavourable consequences of aggravated dualism really be offset? Or, insofar as they cannot, are they considered to be a price worth paying for additional GDP?

It is the feeling of this writer that, in the actual experience of Later DCs, there are not many concrete policy measures favouring concentration that can pass the two tests above (1). In most other cases the pro-concentration bias presently found is difficult to justify. As a general principle (allowing of course for limited exceptions) the opposite bias would seem more justified, namely public action should tend to attenuate rather than aggravate productivity dualism, the more so as spontaneous forces already tend to aggravate it.

14. Other issues in a strategy for living with the gap

A comprehensive review of the main issues of economic policy confronting the Six cannot fit in the present report, but there is room for touching a few points. Among many themes that the Six must urgently consider, I shall pick out four, not because they are more urgent than other ones, but because they are peculiar to a country having to live with the gap. The four themes selected may be summarized as follows:

a) As long as labour tends to be redundant and capital scarce, which is a common experience in Later DCs, those fiscal measures that lower the cost of capital relative to labour and therefore put a premium on more capital intensive production need re-examination. There seems to be considerable scope for improving the fiscal practice in the Six under this angle, and some specific issues will be outlined in section 15.

b) Considering the limited speed with which new O-E and capital can be created, Later DCs must do their best to turn to account that part of the existing capacity which operates at comparatively low productivity levels, such as is found in large sections of small business and of agriculture, and in declining regions. It is indeed most unlikely that, if such capacity was left to be discarded through the play of spontaneous forces instead of being made viable through appropriate policies, the employment lost there could be offset by new employment elsewhere. Some policy issues coming under the present heading will be set out in section 16 with reference to small business, and in section 17 with reference to agriculture and to ~~territorial~~ *location* balance.

c) Even if the present pro-concentration bias of the development policy of the Later DCs is reversed, and productivity dualism is attenuated, it is unlikely that the latter can be wholly eliminated. In this situation earning dualism is likely to be unavoidable, and the

(1) It may be that some authors who advocate concentration without regard to the tests above intend by that to provide a solution only for a fraction of the labour force, assuming that the remaining fraction will solve its problems through emigration. If such is the intention, it is important to make it explicit.

refusal to acknowledge it would only make the situation worse. A realistic policy for meeting the difficulties raised by earning dualism must therefore be devised, and some of the issues involved will be outlined in section 18.

d) There is the danger that, under the pressure of the demonstration effect coming from Earlier DCs, policy makers in Later DCs are led to overlook the limitations inherent in the available Government machinery and in local conditions, and to set over-ambitious policy targets, which may do evil. Some specific points where caution seems to be most needed will be mentioned in section 19.

15. Fiscal influences on relative factor costs

Only exceptionally some of the Six happened to be net exporters of saving (1), which may indicate a situation in which not only labour, but also capital is redundant, O-E alone being scarce and actually operating as a bottleneck. The most frequent situation in the Six, however, seems to be one in which capital is scarce too, and only labour is redundant.

This makes one feel that there must be something wrong with existing relative factor prices, and that firms might be induced to employ more labour with the limited capital available if they were charged a higher relative price on the capital - as compared with the labour - they use. Some authors tend to drop this point as irrelevant by arguing that - due to discontinuity in available techniques - the price-elasticity of substitution between capital and labour is negligible. However, even if inelasticity was assumed to apply to the choice between alternative techniques for producing a specified output (which is far from granted), the same assumption could not be extended to the choice between alternative lines of production. Therefore in such open economies as the Six, where the range of choice offered for international specialization in more and less capital intensive lines is undoubtedly wide, the case for bothering about relative factor pricing is quite strong. X

Present fiscal practice deserves scrutiny from this angle.

The disproportionate size in some of the Six of social security contributions assessed on wages and employment (2) is certainly very objectionable as it puts a huge penalization on higher labour intensity. However, the situation would not be much improved by replacing this source of revenue with general income taxation, so long as the income tax continues to impinge de facto more severely on wages than on other incomes because the latter are given greater opportunities for evasion or avoidance. Taxes on capital would be an ideal alternative, but the margins - political and administrative - for manoeuvre in that direction may be quite narrow. Finally, also indirect taxes might be considered among the alternatives less detrimental to employment, specially if they are not reflected in wages through escalator clauses.

While there may be only limited scope for really feasible improvements through substitution of one category of taxes for another, by far more relevant improvements are obtainable by remoulding the formulas of "tax expenditure" (exemptions, allowances, reduced rates, etc.) and of subsidies presently in use. The wide array of financial measures adopted in the Six - as well as in most other countries - for promoting productive activities and/or for making firms go to or stay in selected areas or industries, largely consists of tax expenditures or subsidies related to investments, such as capital grants, low-interest loans, accelerated

(1) The most notable case is found in Italy.

(2) See the monograph by E. Guglielmino (Annex B-7) as concerns Italy.

depreciation allowances, tax allowances on invested profits, and all that. This involves a bias in favour of more capital intensive techniques and lines of production, that may well be acceptable in countries not affected by employment slack, but is utterly undesirable in Later DCs. Devising an alternative system of incentives, straightforwardly based on employment instead of investment, is therefore an urgent task for them (1).

Besides the general bias favouring a higher average level of capital intensity in the economy, the present system of incentives - at least in some of the Six - is also biased so as to aggravate dualism. This results from the fact that those firms which are more modern and have a higher productivity, are normally in a position to get a comparatively larger share of the subsidies, which further strengthens their ability to pay higher wages than other firms.

There are other fields of public action where special attention is required in order that perverse influences on relative factor costs are avoided. One is exchange rate policy. Indeed, there have been some experiences of overvalued exchange rates undesirably favouring displacement of labour by capital by keeping the cost of imported equipment unduly low. An illustration from recent Turkish history is given in the monograph by Professor Tuncer (Annex 8-4).

Still greater care is needed in the field of labour policy. It must be kept in mind that employers have already a bias for substituting capital for labour because, in the present social and institutional context, machinery causes them less headaches than does manpower. Thus, one must avoid further aggravating the situation by charges on the use of labour rising out of proportion with those on the use of capital. This refers not only to money costs, such as wages and social security contributions, but also to non-money burdens such as restrictions on hiring and firing, concerning which there are greater risks of overdosing, because the weight of these burdens cannot but be a matter for subjective judgement, and because no analogous burdens exist on the use of capital.

16. Issues of industrial policy with special regard to small business

In Earlier DCs, where the share of SBs in total employment is comparatively small, there has recently been an increasing interest in taking care of existing SBs and in promoting new ones. It is argued that such firms are specially desirable because they play a useful role in increasing the flexibility of the aggregate productive structure, because they are apt to have smoother industrial relations, because they provide an opportunity for mass training in initiative and responsibility, etc. etc..

In Later DCs there is an additional, and by far more decisive, argument for cherishing SBs, namely their irreplaceable role in providing employment. The present share of SBs in the aggregate employment of those countries is so considerable, that the highest conceivable speed of growth of firms of large size could not offset more than a fractional decline in the employment provided by SBs. The argument is further reinforced by noting that capital used per job is

(1) Some recent Italian provisions, granting partial exemption from social security contributions ("fiscalizzazione degli oneri sociali") in lieu of subsidy, can be considered as a step in this direction.

In Ireland the system of capital grants in force is flexibly administered, and higher rates of grant tend to be accorded on labour intensive investments, but as shown in the monograph by Professor McAleese (Annex 8-5) this only results in attenuating, not in reversing the capital-using bias inherent in the system. The impressive Irish scheme of Export Profit Tax Relief (EPTL) described in the same monograph has no labour-using bias any more.

generally lower in smaller-sized firms.

It is therefore specially important for Later DCs to have a policy apt to favour the viability of existing SBs and the breeding of new ones. Active policy is needed, because a large fraction (though not the whole) of SBs belong to the lower productivity section of the economy and are in danger of being cut off from the market.

A policy specially aimed at SBs can follow two main lines. A first line consists in reserving certain benefits - most often monetary transfers such as grants, subsidies, tax facilities, reduced charges for public utilities, low-interest loans, etc. - to firms under a certain size. A second line of policy consists in offering to the public at large, without any rigid discrimination based on size, such services that are likely to be exclusively or principally needed and demanded by SBs.

The first line of policy requires simpler decisions, is more likely to capture the political favour of small businessmen, and is indeed often applied, but it can result in an inducement to firms to misbehave. Large firms may find an interest in splitting up in smaller legal units just in order to reap the subsidy, and successful ~~X~~ small firms may find it unprofitable to pursue their expansion once they have reached the maximum size beyond which the subsidy ceases (1). It is sometimes argued that, despite these inconveniences, money grants to firms up to a certain size are a necessity because such firms suffer from insufficient access to money and capital markets. A better solution than grants would consist, however, in providing a mechanism through which smaller firms are enabled to borrow on the same terms as larger ones, which leads to the second policy line.

The guiding principle of the latter is to sort out those functions in which economy of scale is significant and in which therefore SBs find themselves at disadvantage, and to have such functions performed for them on an economical scale by appropriate agencies private or public, thus letting SBs wholly concentrate on those functions for which their scale of operation is most suited.

The services needed by SBs may range from book-keeping to financial advice and intermediation, legal advice, specialized engineering assistance, design, procurement of inputs, marketing, etc. More special services can be devised, such as the "Project Identification Programme" operated by IDA in Ireland, by which a specialized staff is engaged in identifying and channeling to existing firms new business opportunities arising in such fields as substitute products for present imports, spin-off from and building components and factory services for new industries setting up in the country.

A point deserving special consideration is international marketing and the creation of selling networks abroad, because the inherent shortcomings of SBs on this front are a major factor of weakness in the international trade position of Later DCs. One solution is to promote co-operative organizations or trading corporations or other agencies for performing these jobs to the benefit of SBs.

(1) In Italy such undesirable side-effects have been caused on a large scale by a norm exempting firms with less than 15 employees from restrictions on dismissals and some other legal burdens. There have also been some conspicuous cases of large firms splitting up in smaller legal units in order to qualify for subsidies.

)(There may also be a need to help EEC to find the way to productive specialization and reciprocal integration, and an appropriate strategy in the placing of orders by large buyers - such as the trading corporations just suggested, the State-owned industries, the Health Service, etc. - could serve the purpose.

Another strategic point in industrial policy of Later DCs - besides treatment of small firms - is treatment of foreign enterprise. The point is thoroughly discussed in the monograph by Professor McAleese (1), to which the reader is referred, and only a few hints will be given here.

The Irish experience in this matter must be considered exceptionally favourable as concerns both the willingness of foreign firms to go there (on account of language, social and political climate, etc.), and the efficiency of Government machinery in managing the inflow according to the public interest. Therefore the Irish experience is for the other five countries only a rich source of lessons, not a ready-made model to adopt. For instance, the discretionary powers of public officers in fixing case by case the rate of grants, which proved so appropriate in Ireland, might be found inappropriate in a different context. It is also disputable whether the preferential treatment granted, in Ireland as well as in other countries, to export-oriented producers at the expense of home-market producers has sufficient justification.

Among the lessons emerging from the experience of Ireland and other countries, two deserve special emphasis.

First, an essential prerequisite for the inflow of foreign firms is stability in the policy of the recipient country. As Professor McAleese puts it, "Governments should try to evolve explicit policies toward foreign investment and then adhere to them consistently. Frequent changes in industrial policy tend to be counterproductive". Of course, countries with general political instability may be unable to put into practice this advice.

Second, there is a serious risk that the increasing competition among countries seeking to attract foreign direct investment results in the host country paying for it more than is worth. Professor McAleese's monograph gives striking illustrations of such overbidding. Action is required both at international and national level. At international level, there is a need for effective guidelines on incentives, and such action might appropriately take place in OECD (2). At national level, a reconsideration of the different kinds of incentives in use is desirable. It may be more desirable for the host country to try to outbid competing countries by providing better infrastructure, than by paying higher subsidies. The least convenient kind of competition is likely to be that consisting in less stringent ecological norms (to which unfortunately Later DCs are prone).

(1) Annex B-5.

(2) There are already guidelines applying to EEC, but apart from the limited number of countries covered, it can be noted that such guidelines have not proved sufficient to prevent some striking cases of excessive overbidding reported in Professor McAleese's monograph.

As for the treatment in Later DCs of other categories of firms, which include such operation as the creation and running of public enterprises, and the rescue of collapsing private corporations, only one point is made here. There is a feeling that the amount of resources devoted by the Six to the operations just mentioned may be more than adequate, but that a greater diversification might be desirable : for instance more could be done for promoting enterprises of the co-operative type (1), and something could possibly be learnt from the positive experiences in Germany and in Israel with trade-union owned corporations (2).

The connected themes of education, training and technological policy are still to be mentioned, but two preliminary remarks can be made with respect to some conditions that affect the basic orientation of people toward productive activities.

First, in most Later DCs it is noted that the proportion of gifted people willing to engage in productive enterprise is not as high as desirable, because many are attracted by intermediation business offering higher rewards. Such a disproportion of rewards and of appeal may be rooted in some deep-seated features of the social structure and take long to eliminate, but policy makers can at least be careful not to aggravate it. Not only is inflation an aggravating factor by increasing the opportunities for speculation, but also many policy measures may be, as for instance the granting of building or import permits or of subsidies, insofar as they open up opportunities for profitable lobbying.

A second remark concerns the present state of mass culture as regards technology. There is a vacuum in this respect since the masses have ceased to be familiar, through daily routine, with the traditional technology of agriculture, crafts, and domestic production of old times. It has to be found how the educational system, starting from primary school, can help to fill the vacuum, by developing, emphasizing and spreading a modern conception of "homo faber" and making the masses interested in and equipped to grasp modern technology.

Coming to the specialized education and training for management careers, it is found that most existing institutions have been designed prevalently to suit the requirements of larger firms, and do not adequately meet those of SBs. Some authors suggest that there may be reasons for shifting the emphasis from pre-career qualification to a system based on apprenticeship and selection by job performance, plus possibly mid-career qualification (3).

Technological policy in the Six has been largely based on technology transfers from Earlier DCs under various forms, from direct acquisition of patents and know-how, to attraction of technologically advanced foreign firms, to training of personnel abroad. All this has given positive results and deserves further development but has to be complemented by increased and more systematically oriented efforts in applied research at home. These ought to be concentrated on those demands - like the national need of keeping average capital intensity low, the search for technologies most appropriate for the mass of micro-firms, the development of peculiar

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- (1) There are a few success stories to be studied, one of which refers to the Mondragon group of co-operatives described by R. Oakeshott in "Lloyds Bank Review", n. 127 (January 1978) ; other ones refer to Italy. A less glamorous, but also positive Spanish experience is thoroughly analyzed in the monograph by J.M. Oroval Pianas (Annex B-6).
 - (2) This suggestion is made by K.A. Kennedy, Job creation since the foundation of the State, The Economic and Social Research Institute Memorandum Series, n. 119, Dublin 1977.
 - (3) See R. Dore, The late development effect, IDS (Institute of Development Studies) Discussion Papers, Brighton 1971.

local resources such as Mediterranean agriculture - that, while pressing in the countries concerned, are likely to have attracted less attention in the major technology-producing countries.

The method currently adopted in some countries for promoting domestic technological research, and consisting in financial support for research projects carried on in industrial firms, may not suffice for filling the gap, because it is unlikely that by that way the need of research regarding agriculture and micro-firms can be fully met. Co-operative research organizations or other agencies may have to be set up.

What is required is a comprehensive strategy based on the concept that the country has to adapt world technological knowledge to her needs, instead of accepting a passive role (1). Just in order to exemplify what that might mean, it has been suggested that some of the Six might include in their research strategy such items as specific projects for developing bio-industry on the basis of domestic crops and with a preference for processes suitable for location in rural zones, so as to lead to a symbiosis between agriculture and industry. Those putting forward this suggestion think that technology might open new perspectives to some Mediterranean crop, in the same way as it has just succeeded in using sugar cane as a basis for producing besides sugar, which meets a sluggish demand, also detergents and motor fuel.

X 17. Location, balance and agriculture

Massive population shifts from declining to booming districts, and rush to large towns, have been in recent times a typical feature of Later DCs. This process requires the creation in the areas of inflow of new structures, both physical (housing, public works) and organizational (business, public administration, community life), while pre-existing structures in the areas of outflow are left unused.

There is, therefore - in addition to the possible loss of cultural values, which may be non-negligible - a wastage of capital and O-E, exactly the two factors that are in short supply in Later DCs.

Moreover, as it proves generally difficult to provide in due time all the additional structures required in the areas of inflow, it follows that a proportion of the immigrants cannot be adequately accommodated and ends by swelling urban unemployment and displaced population.

There appear to be, therefore, good reasons for Later DCs to put greater emphasis on a location policy aimed at preventing as far as possible those movements; the more so, as the current experience in Earlier DCs shows that after a while such movements may reverse direction.

Many kinds of policy tools have been, or could be used for making the districts that tend to be depopulated more attractive. The simplest measures consist of tax rebates or exemptions and subsidies granted to those people (investors, producers) staying in, or going to the district considered. Probably more efficient are those measures which consist in providing suitable physical infrastructure to firms, and raising the standards of transport, communication, housing, health service, education, recreation, etc. to the benefit of all inhabitants of the district. It is assumed, of course, that - depending on local conditions - the rural population is either

(1) The trend to accept a passive role - unless an alternative strategy is explicitly designed - is strengthened by the fact that Later DCs' intelligentsia is largely formed in the world centers of learning and also by the selling pressure from large international manufacturers of investment goods.

attracted to set in the nearby small or medium-sized towns where the services mentioned are made available, or is given facilities for commuting. Note that, in order to make the declining districts attractive, social policy standards should actually be set higher there than in the rest of the country, which is quite different from the situation prevailing to-day (1). Other kinds of policy measures might be discussed, but this would take too long, and I shall end by just mentioning one deserving special consideration : namely, decentralization to declining districts, whenever possible, of Central Government offices, universities, colleges, research institutions, military bases, etc. (2).

Unfortunately the implementation of a consistent location policy is in no way an easy task. For instance there may be a contradiction between the requirement of ~~X~~ location balance and the pressing demand for more public investment and services to alleviate hardship in congested towns, insofar as this is likely to attract further urbanization. Crudely stated, the principle guiding Government action should be to take a greater care of the places the population is coming ~~(down X from)~~ from, than of those it is going to, i.e. to direct attention upstream, not downstream the population flow. This is the opposite of current practice, and would require indeed a stern determination in policy makers. X

The problems of agricultural policy coincide to some extent with those discussed above. The outflow of labour force and population from agriculture involves reduced utilization of capital, O-E and natural resources there, while requiring additional capacity to employ labour and to accomodate population elsewhere. As shown in Part II, in most Later DCs the reduction of employment in agriculture has been actually proceeding much faster than the expansion of employment in non-agricultural activities, with a consequent strong decline of aggregate participation rates, which was not generally the case in the history both recent and remote of Earlier DCs.

It must be a major concern in framing the agricultural policy of Later DCs to avoid as far as possible that such net loss of aggregate employment and wastage of scarce resources continue. But two other considerations have also to be kept in mind.

One - applying both to Later DCs and to Earlier DCs - refers to the role of agriculture in providing essential non-market services. A minimal density of rural population and an appropriate pattern of agricultural activity are required for preserving the environment (soil conservation, water control, etc.) to the benefit of the whole community, including non-rurals, not to speak of the conservation of cultural values connected with agriculture.

Another consideration refers to the balance of payments, due to the fact that the market position of Later DCs as exporters of manufactures tends to be rather weak because they are not generally technological leaders, and are confronted by strong competition and severe protectionist barriers. In order to compensate for such a weakness, Later DCs might possibly find it convenient to cover as much as possible domestic requirements of agricultural goods with domestic production, even if the costs are somewhat above international prices. Far from that, I the Six have recently become heavily dependent on net imports of foods, as shown in Part II. I some o

(1) In the monograph of M.J. Constancio (Annex B-3, p. 16) there is an impressive illustration of the present situation in Portugal under this respect.

(2) This kind of measures, as well as other ones mentioned in the following, are suggested by Professor Sampedro in Annex 3-2 (Some ideas on the role of rural activity in European countries). His paper has to be considered a significant addition to the present section, as it gives more details on policy tools and puts the role of rural policy in a wider perspective.

It follows from the above that agricultural policy in Later DCs must aim, at the same time, at increasing production, at keeping fairly high numbers in agricultural employment and in rural zones, at preserving the environment. Maximization of land rent is not to be considered as an aim.

The relevant policy measures include, to start with, actions directed to improve technology and actions directed to improve farm structures. Under the first heading, Later DCs are characterized by large differences of technological level among farmers. Under the second heading, most are dominated by two extreme types of structure - on one hand very large estates with extensive farming, on the other hand very small holdings often fragmented into separate plots - which both set serious obstacles to technological improvement.

Policy measures for technological improvement and structural change have a long history and a rich literature, and here it may suffice to stress that Later DCs ought to prefer those solutions that are consistent with a comparatively high density of agricultural population.

Much less experience and literature are available as concerns other actions for making agricultural activity gratifying and attractive, especially to young people. The ageing of agricultural population due to the outflow of the young is already producing unfavourable effects, and threatens to jeopardize any project for future development or rationalization of agriculture; in some zones, indeed, the process has already gone so far as to be irreversible.

The attractiveness of agriculture might be somewhat improved by fixing higher standards of social policy to the benefit of rural districts, as suggested above when discussing location balance.

But the social standing connected with agricultural jobs must also be raised. The national community must explicitly acknowledge the essential role of agricultural work, and policy measures can be devised to that purpose. For instance, exemption from military service could be granted to young people as long they are engaged in agricultural jobs, on the ground that this is a kind of social service. Free university education for those wishing to learn agricultural techniques is another instance to be considered.

In any case, it is unlikely that any acceptable solution of agricultural problems can involve profitable employment in actual agricultural work for more than a fraction of the aggregate labour force of the families living in the farms. Agro-tourism, agro-industry and more generally rural industry (possibly including cottage industry) and other appropriate activities have therefore to be developed, with a view to provide complementary employment, also on a part-time basis.

There are a few areas in the Six where such well-balanced rural communities based on a mix of agricultural, industrial and service activities are already developing spontaneously. These are all areas benefiting from long-dated traditions of bourgeois culture, and it needs investigating whether and how a similar process could be induced in areas having different historical antecedents, e.g. feudal legacies.

Before ending this section, touristic resources deserve a hint on the ground that they bear some analogy to agricultural resources, but are exposed to quite a different danger. While the danger to be prevented in Later DC for agricultural resources is wastage by neglect, for tourist resources it is wastage by shortsighted hasty exploitation, as the present rush of tour-operators is resulting both in deterioration of the environment and in cut-throat price competition. It is to be considered whether a cartel of the countries selling tourism could improve the situation.

18. Issues concerning earnings

Though appropriate policies for SEs, agriculture, declining regions, etc. may succeed in progressively reducing the present differences among firms as concerns productivity and connected capacity to reward labour, substantial differences are likely to persist in the foreseeable future. Resort to fiscal equalization (1) in massive doses for offsetting them does not appear to be a reasonable remedy.

In such a situation, a unified labour market having a unified wage level is no practical proposition. If wages (and other items affecting employment costs) were all aligned on a level corresponding to the paying capacity of the higher productivity firms, the lower productivity firms would be put off the market, leading to unemployment or - more probably - to the spreading of black markets for labour, i.e. to the reappearance of wage dualism in a concealed form, which is certainly no better than open dualism. On the other hand, if wages were all aligned on a level corresponding to the paying capacity of the lower productivity firms, excessive profits would accrue to higher productivity firms, which would justify reactions by organised labour.

Of course, a distinction must be made between the case in which the ability to pay above-average wages is found in firms selling at world market prices and having superior efficiency, and the case in which such ability is found in firms benefiting from protection and monopoly pricing (which applies to banking firms in some of the countries under review). In the latter case there is indeed a justification for a policy intended to keep down wages and selling prices, while in the former there is not.

It follows from the above that a dualistic (or rather multiple) labour market has not only to be accepted as unavoidable, but purposively to be shaped with a view to making it as efficient and orderly as possible, and machineries for wage bargaining and for the determination of working conditions have to be geared to that purpose. It may be worth exploring, for instance, whether the needs of a dualistic economy would better be met by shifting the emphasis from wage bargaining on a country-wide basis, to wage bargaining at enterprise level (2).

A multiple wage structure raises of course equity problems, as people doing a specified job in less productive firms get lower material reward than people doing a similar job in more productive firms.

Personal income taxation, positive and negative, may provide some corrective, but there are practical limits to using the income tax for income equalization.

Some corrective might also be provided by an appropriate pattern of distribution of Government services. If the poorer districts were reserved in the future a better treatment than the richer districts (which, as already noted, does not generally apply to-day) as concerns public expenditure in health, education, housing, etc., this could compensate to some extent for the lower level of money earnings prevailing there.

A more fundamental answer to the equity problem has, however, to be sought on a different ground, which unfortunately does not easily lend itself to formal treatment. Namely, stressing the quality of life and work, as opposed to quantity of commodities, might become a leading theme in a strategy directed to undramatize the tensions (and to brake the inflationary spiral) caused in Later DCs by income gaps, both domestic and international.

(1) i.e. additional taxation on higher productivity firms, to the benefit of those with lower productivity.

(2) The point is discussed by R. Dore, op.cit.

In this perspective it is important to try and design specific policy measures apt to favour a greater development (and to educate the masses to a greater appreciation) of such non-monetary features of the working life as initiative, responsibility, participation in control, independence, community life, etc. These features, indeed, might prove easier to cultivate in those sections of the economy that are affected by lower productivity and earning level because of sub-optimal size, low capital intensity, absence of complex organization, and/or peripheral location. Progress in the aforesaid direction has largely to depend on co-operative movements, but Governments must provide the appropriate framework (1).

19. Limited capacity of Government machinery and danger of over-ambitious policy targets

The lagged development of Government machinery and of public organization at large is no less fundamental in characterizing most Later DCs than the lagged development of business organization.

This raises different sets of issues.

First, one must discover what policy measures are most suitable to favour the improvement of public organization, which anyway cannot but be a long term process. Just as an illustration, consider the following three questions :

- (a) In some countries such autonomous or semi-autonomous public bodies as the Central Bank and some public enterprises (but certainly not all) have attained a higher level of development than the average Government machinery. Is any wider application of this experience conceivable ?
- (b) There are some instances of public functions entrusted to efficient private agencies (e.g. resort to the baking system for tax collection). Could a similar solution be satisfactorily applied to other functions ?
- (c) It is argued that the chances of success would increase if the efforts for improving public organization were first concentrated on a narrow sector (e.g. the establishment of a cabinet office manned with the best available people), which could subsequently exert a leading influence on the rest. Is this a practical suggestion ?

A second set of issues refers to the tasks that can be properly set to the public machinery of Later DCs in present conditions. Tasks cannot be an identical replica of those performed in Earlier DCs, insofar as there are significant differences both in the level of development of the public machinery, and in the economic, social and political context. When this is forgotten - as sometimes happens - failure and frustration follow.

It may be feared that such a danger is threatening the current endeavour in some Later DCs to imitate the patterns of personal income taxation and of value added taxation adopted in Earlier DCs. This raises serious difficulties, because such tax patterns imply not only a highly developed civil service, but also a private sector largely based on firms having a formalized book-keeping, and are likely to fail and to result in inequity where one of these prerequisites, or both, are missing.

(1) From a comparative study regarding Italy just published it would appear, prima facie, that in 1975-1977 co-operative firms there grew faster and gave better financial results than other firms, but further analysis is needed for reaching significant conclusions. See Lega Nazionale Cooperative e Mutue, *Indagine su 225 cooperative 1975-1977*, Roma 1979.

Other - and far more obvious - instances of over-optimistic policy targets leading to frustration are easily found in the field of social programs. One is illustrated by the monograph of E. Guglielmino (Annex B-7), telling the story of the progressive extension of the old-age-and-disablement pension scheme in Italy. It emerges how the Government lost control of the forces unchained in this process, which finally resulted in an absurdly high number of pensions granted, distributive inequity, and unmanageable public deficit. No less impressive instances could be quoted from other countries and other branches of social policy, ranging from rent controls to education expenditure and to health service.

This leads to a more general issue, concerning the ratio of total Government expenditure to national income. In current debates it is sometimes assumed that it would be physiological for Later DCs to raise such a ratio to levels comparable with those of the average Earlier DCs, but this is highly disputable. A high ratio is not to be desired per se (as the few Earlier DCs having a low ratio, such as Japan and Switzerland, show), and is the least justified in those countries where the efficiency of the Government machinery - and therefore its ability properly to allocate expenditure - is supposed to be low.

Finally, there is great need for soberness also in those official documents setting out projections or plans for national economic development, though the figures in them may have no direct operational implication.

Such documents may be a useful exercise, provided those engaged in preparing them do not yield to the temptation - which is understandably stronger the poorer the country - of bidding for more and more ambitious targets. When indeed the exercise results in an over-optimistic assessment of the speed of future development, its publication with Government endorsement may do harm by spreading illusions, raising expectations and fuelling inflationary forces.

20. International co-operation needed

In all the above there is one recurrent theme : that even by adopting the best imaginable domestic policies the Later DCs cannot get far in overcoming their difficulties, if international co-operation is lacking or half-hearted.

Some points on which co-operation has been found to be most urgent deserve recalling here :

- Present protectionist trends must be reversed and a common strategy of "positive adjustment" has to be implemented.

- Multilateral discussion must take place on the evolving patterns of the international division of labour, not of course with a view to drawing rigid plans, but to reducing through the confrontation of national strategies and forecasts the uncertainty presently hampering the development policies of weaker economies.

- A solution acceptable to all parties concerned must be found for the issue raised by unilateral restriction on migrations.

- International co-operation in organizing the world movement of saving, enterprise, and technology must be strengthened and extended. There are many specific gaps to be filled, such as the need for effective guidelines on incentives, mentioned in section 16. But a more general problem has also to be squarely faced. It must be clearly realized that it would be physiological for Later DCs to have a deficit on current transactions over a long period ahead, provided of course that the capital import involved does not cost them too much in terms of debt service and of national self-reliance. Symmetrically, it might well suit Earlier DCs to have a long period ahead of surplus on current transactions. A co-operative effort for planning international investment on a long term basis could meet such complementary interests.

Not only the action taken, but also the ideological climate prevailing in the international community significantly conditions policy and achievements of Later DCs.

As long as conventional wisdom expects that all well-behaved countries will adopt the same development cliché, Later DCs are at a disadvantage for the reasons explained in previous sections. What is needed, is a widespread recognition that each country should adopt the development variant really suited to her.

Indeed, the ideology of a unique development model and pattern of life to which all countries are expected to conform has been with us only for some decades (an insignificant fraction of human history) and there are no grounds for assuming that it has come to stay for ever. On the contrary, the arguments for the co-existence of many variant patterns are strong enough, because such co-existence extends the range of choices open to individuals and provides mankind with a wider experience.

As Later DCs, besides having many individual differences, have also a series of common problems unparalleled in Earlier DCs, the development variants most suited to them are likely to be characterized by a series of common features. Later DCs could therefore fruitfully co-operate, through exchanges of experiences and joint research work, in finding the most appropriate solutions to their common problems.

*H
Location* Following from hints given in previous sections, the development formulas proving most appropriate for Later DCs are likely to involve a special emphasis on small business, co-operative firms and groups, agriculture, ~~territorial~~ balance, which - besides minimizing the evil of unemployment and depopulation - offers a chance for preserving and cultivating those non-monetary values that other countries largely spoiled through their industrialization process and would like now to restore.

Thus, far from there being anything humiliating in the fact that Later DCs cannot thread the same paths of Earlier DCs, their search for new paths may well be conceived as a challenging task from which also Earlier DCs can possibly draw useful suggestions in the future.

PART II

COMPARATIVE STATISTICAL ANALYSIS OF ECONOMIC STRUCTURE

1. Income level

Chart 2 shows the level of GDP per capita in all the countries of OECD Europe, except those with less than 400.000 inhabitants (1). GDP is measured in real purchasing power equivalent units, which in present days are likely to provide a more significant indication than current exchange rates (2). Countries are ranked from left to right in decreasing order, according to their income level. Each country is represented by a rectangle, the basis of which is proportional to the population size.

It appears that the Six form the bottom of the income scale. Italy is the least depressed, followed at short distance by Greece, Ireland and Spain, all three practically on an equal level. Turkey is by far the most depressed. Portugal comes mid-way.

Table 1 complements the picture above in two ways. First, it shows how different the comparative positions would look if income was measured at current prices and current exchange rates, instead of in real purchasing power. The income gap between each one of the Six, on one hand, and the aggregate Earlier DCs of OECD Europe, on the other hand, would appear much larger. The distances between the individual Six would also appear somewhat different (Turkish

- (1) In 1979 the Italian Central Statistical Institute produced new national accounts figures for the years 1975-1978, up-valuating Italian GDP by about 9 % (see *Relazione generale sulla situazione economica del paese*, Rome 1979, Part I). Such a revision cannot be used in the present study because no comparably revised figures have yet been made available for the rest of the period to be studied here, and no satisfactory answer has yet been given to some puzzling questions concerning the interpretation of the newly issued figures (the unanswered questions are summarized in : Centro Torre Argentina and CESPE, *La revisione Istat dei conti nazionali : una prima disamina sul metodo e sui risultati*, Rome 1979). Anyway, it is widely accepted that the pre-existing Italian official national income estimates, used here, may be under-assessed, and that the same is likely to apply to other countries where the "parallel" sector of the economy looms large, as is the case in most Later DCs.
- (2) The units used here result from extrapolations based on the well-known work of I.B. Kravis and associates. (Cfr. specially I.B. Kravis, A.W. Heston, R. Summers, *International comparison of real product and purchasing power*, Baltimore 1978, p. 8, table 1.1 ; the same, *Real GDP per capita for more than one hundred countries*, "Economic Journal", 88, June 1978 pp. 215-242). Only Belgium, France, Germany, Italy, the Netherlands and the United-Kingdom - among the countries shown in Chart 1 - were included in the international comparison of domestic prices made by Kravis and associates. From such a direct comparative study it emerged that the deviation between real purchasing power and exchange rate is stochastically related to three main variables : GDP per capita, level of protection, ratio of foreign trade to GDP. The deviation for the other countries shown in the chart was estimated by applying to such variables the econometric function "c" suggested by Kravis and associates. Alternative functions suggested by the same authors lead to slightly different results.

Chart 2
GDP PER CAPITA IN REAL PURCHASING POWER, 1976

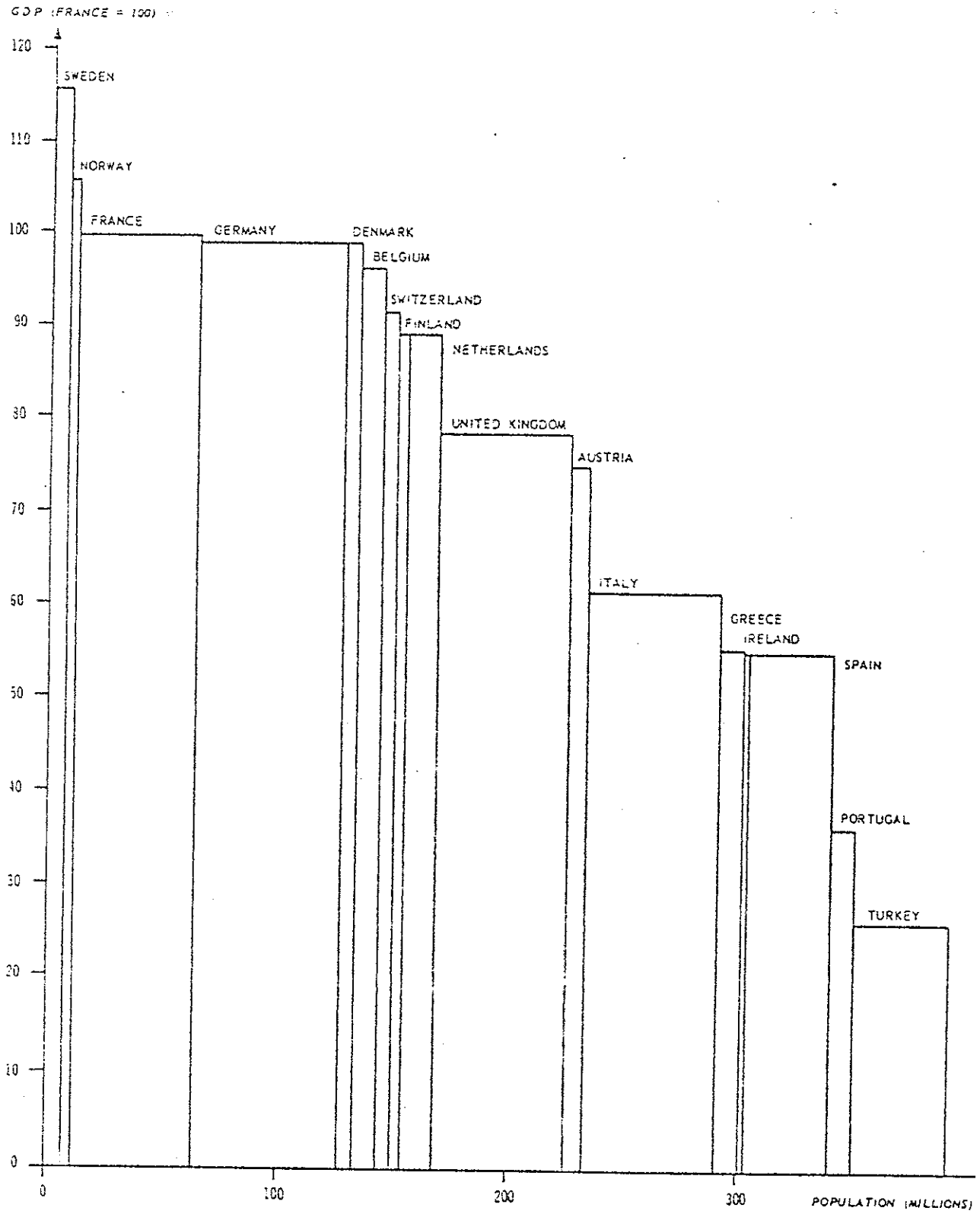


Table 1 - GDP per capita (1976) and expectation of life (1975)

	GDP per capita, 1976			Expectation of life at birth, 1975
	Expressed in 100 U.S. \$ at current exchange rates	The same, other OECD Europe = 100	Expressed in real purchasing power other OECD Europe = 100	
Greece	2.4	39	59	72
Ireland	2.5	40	59	71
Italy	3.0	49	66	72
Portugal	1.6	25	39	69
Spain	2.9	46	59	72
Turkey	1.0	15	28	61
Total of the above	2.4	38	53	69
Other OECD Europe	6.2	100	100	72

income per head is 33 per cent of the Italian one at current exchange rates, while it is 42 per cent in real purchasing power), but the ranking of the countries would undergo no significant changes (1).

Second, the table shows that the large differences found in income level are only partly reflected in life expectancy. In Greece, Ireland, Italy and Spain, the life expectancy at birth is as high as in average Earlier DCs. Portugal is slightly below, and only Turkey is much lower.

In Annex A (Table 1) various physical indicators of production and consumption levels are also shown. Individually considered, some of them point to anomalies worth noting: for instance Italy is not below the average Earlier DCs as concerns the use of motor cars. Considered all together, however, the physical indicators available confirm at large the relative positions emerging from the figures of GDP per head in real purchasing power.

The picture emerging from this section can therefore be summarized as follows. From the viewpoint of "Western" production and consumption standards, all the Six (with the individual ranking stated above) are considerably below the average of Earlier DCs; but with regard to those essential goods on which the length of human life depends, at least four among them appear to be on an equal footing with Earlier DCs.

2. Past income growth

Tables 2, 3, 4 give an overall view of the changes from 1938 to 1976 (2).

- (1) There is only an exchange of ranks between those three countries - Greece, Ireland, Spain - which were said above to be practically on an equal level.
- (2) As in 1938 Spain had civil war, it has been conventionally assumed here that Spanish (potential) GDP per head was the same in that year as actual GDP per head in 1935.

Table 2 - GDP, annual rate of change (o/oo) at constant prices, 1938-1976

	1938-1950	1950-1960	1960-1970	1970-1973	1973-1976	1938-1976
Greece	- 25	60	77	77	27	36
Ireland	10	19	43	46	16	24
Italy	11	58	57	39	20	38
Portugal	27	36	69	83	10	43
Spain	22	51	75	72	26	42
Turkey	18	64	56	66	87	49
Total of the above	~~19~~	56	64	58	32	41
Other OECD Europe	14	49	45	44	14	33

Table 3 - GDP per capita, annual rate of change (o/oo) at constant prices, 1938-1976

	1938-1950	1950-1960	1960-1970	1970-1973	1973-1976	1938-1976
Greece	- 30	50	71	72	18	29
Ireland	10	20	39	34	4	22
Italy	4	51	49	31	12	31
Portugal	17	31	66	86	- 15	36
Spain	- 6	42	53	60	14	32
Turkey	1	35	30	40	60	25
Total of the above	-	45	51	45	17	30
Other OECD Europe	7	39	36	37	13	26

Table 4 - GDP per capita, comparative level in real purchasing power (other OECD Europe = 100) 1938-1976

	1938	1950	1960	1970	1973	1976
Greece	53	35	37	53	58	59
Ireland	69	72	59	62	61	59
Italy	56	54	61	58	67	66
Portugal	27	30	28	37	43	39
Spain	48	41	42	55	58	59
Turkey	29	27	26	24	25	28
Total of the above	45	42	44	52	52	53
Other OECD Europe	100	100	100	100	100	100

The margin of error involved in these statistics must be considered quite substantial, but some conclusions can nevertheless be cautiously drawn. Taking the period as a whole, five of the Six (the exception being Ireland) appear to have had a higher rate of increase of total GDP than average Earlier DCs. Four of the Six (the exceptions being Ireland and Turkey) appear to have had a higher rate of increase of GDP per capita than average Earlier DCs. Such an average is depressed by the inclusion of some slow-growing economies, notably the United Kingdom; if, instead of the average, a single country like France was taken as a term of comparison, only Portugal among the Six would be found to have a higher rate of increase (see Annex A, table 3). It has moreover to be noted that the official figures shown in the present tables may be suspected to overstate the rates of growth of some of the Six, in particular Portugal (1) and Turkey (2).

It also appears from the tables that none of the Six was consistently a ground-gainer or a ground-loser, as concerns comparative income per head, through the whole period. Greece and Spain have been gaining much ground since 1950; but had previously lost a lot. Turkey lost continuously for a while, but became the largest gainer from 1973 to 1976. Italy was a large gainer from 1950 to 1970, but a loser before and after.

Statistical information on the period before 1938 is much scantier and, of course, less reliable. Estimates available for Italy (3) indicate that GDP per capita did not significantly increase until around year 1900. Subsequently GDP per capita increased - as a long run trend - roughly in line with the world average of Earlier DCs, which implies that Italy has been catching up the United Kingdom and losing ground to Japan. For Spain there are estimates stretching back to 1906 (4), from which it appears that by that time Spanish GDP per capita was already growing, and was about of the same size as the Italian one.

Other facets of past evolution are illustrated in Annex A, with reference only to the period 1960-1976. It emerges (Annex A, table 2) that relative income levels measured at current exchange rates had a jumpier movement than those measured in real purchasing power, due to leads and lags in the process connecting changes in comparative domestic price levels with changes in exchange rates. This amounts to saying that comparative price levels, measured at current exchange rates, have been briskly changing through the period. But, though strongly fluctuating, the price level measured at current exchange rates remained in each one of the Six during the whole period considerably lower than in average Earlier DCs.

(1) For instance, Portuguese official statistics show an unusually high rate of increase of gross product per person employed in community, social and personal services. The annual percentage rate from 1960 to 1975 is as much as 7.0 in Portugal, while the 13 other OECD countries for which comparable statistics are available give an unweighted average of just 1.4, with a minimum of -0.7 for the United Kingdom and a maximum of 2.8 for Germany. This leads one to suspect that the estimating methods adopted in Portugal may differ from those in general usage.

(2) Some authors suggest that the relative price of non-agricultural production, as opposed to agricultural production, has been kept artificially higher in Turkey than in the rest of the world. This implies that, when measuring the growth of aggregate GDP at Turkish constant prices, the faster growing sector of the economy is given a heavier weight than it would get by adopting international prices. X

(3) G. Fuà (ed.), *Lo sviluppo economico in Italia*, Milano 1979 (3rd ed.).

(4) P. Schwartz (ed.), *El producto nacional de España en el siglo XX*, Ministerio de Hacienda, Madrid 1977.

It also emerges (see Annex A, table 1) that the gap between the Six and average Earlier DCs as concerns the physical indicators of production and consumption level mentioned in section 1 has in most cases narrowed from 1960 to 1976. This does not apply to Ireland, which had however a comparatively small gap since the beginning of the period.

3. Demographic movement

As shown in table 5, all the Six have higher birth rates than average Earlier DCs. The difference is moderate in Greece, Italy, Portugal and Spain, but quite marked in Ireland and enormous in Turkey. The exceptional levels in Turkey and Ireland are explained only to a minor extent by the age structure of the population, and to a larger extent by very high age-specific fertility rates. Birth rates have been declining from the Sixties to the Seventies both in average Earlier DCs and in the Six - with the notable exception of Ireland-, but the decline has been stronger in Earlier DCs and therefore the differential between the two groups of countries has been increasing.

Death rates have been almost stable since the Sixties and are somewhat lower in all the Six than in average Earlier DCs. This results from age-and-sex-specific rates not far different from those of Earlier DCs (except in Portugal and Turkey, where they are considerably higher), and from a lower proportion of aged people in total population (such a proportion being lowest in ~~Portugal and~~ Turkey).

Consequently the rate of natural increase is in all the Six above average Earlier DCs, the differential being quite high in Ireland and enormous in Turkey. The differential has also been increasing from the Sixties to the Seventies.

In the Sixties, and until 1973, all the Six had a substantial rate of net emigration. As a result, Greece, Ireland and Italy had rates of total increase lower than average Earlier DCs, and Portugal had actually a population decrease. Spain had a rate of total increase somewhat higher, and Turkey enormously higher than Earlier DCs.

Since 1973, with the crisis of emigration outlets in Europe, the position has radically changed and all the Six are increasing their population considerably faster than average Earlier DCs. In Portugal the position is aggravated by the repatriation of some 600.000 persons from the former colonies.

4. Geographical distribution of the population

The average density of population is considerably lower in the Six - excepting Italy - than in average Earlier DCs. Also the ratio of population to cultivated land is lower, again with the exception of Italy (see Annex A, table 4). The picture would look less favourable for Mediterranean countries if the quality of land could be taken into consideration.

Comparisons concerning the distribution of population by regions are much affected by the regional subdivision adopted, which involves some arbitrariness, as there are not well established international conventions on this matter. The following is based on a research covering all European countries including USSR recently conducted by three members of the Secretariat of the U.N. Economic Commission for Europe (1). The regional subdivision adopted for the Six is shown in Map 1.

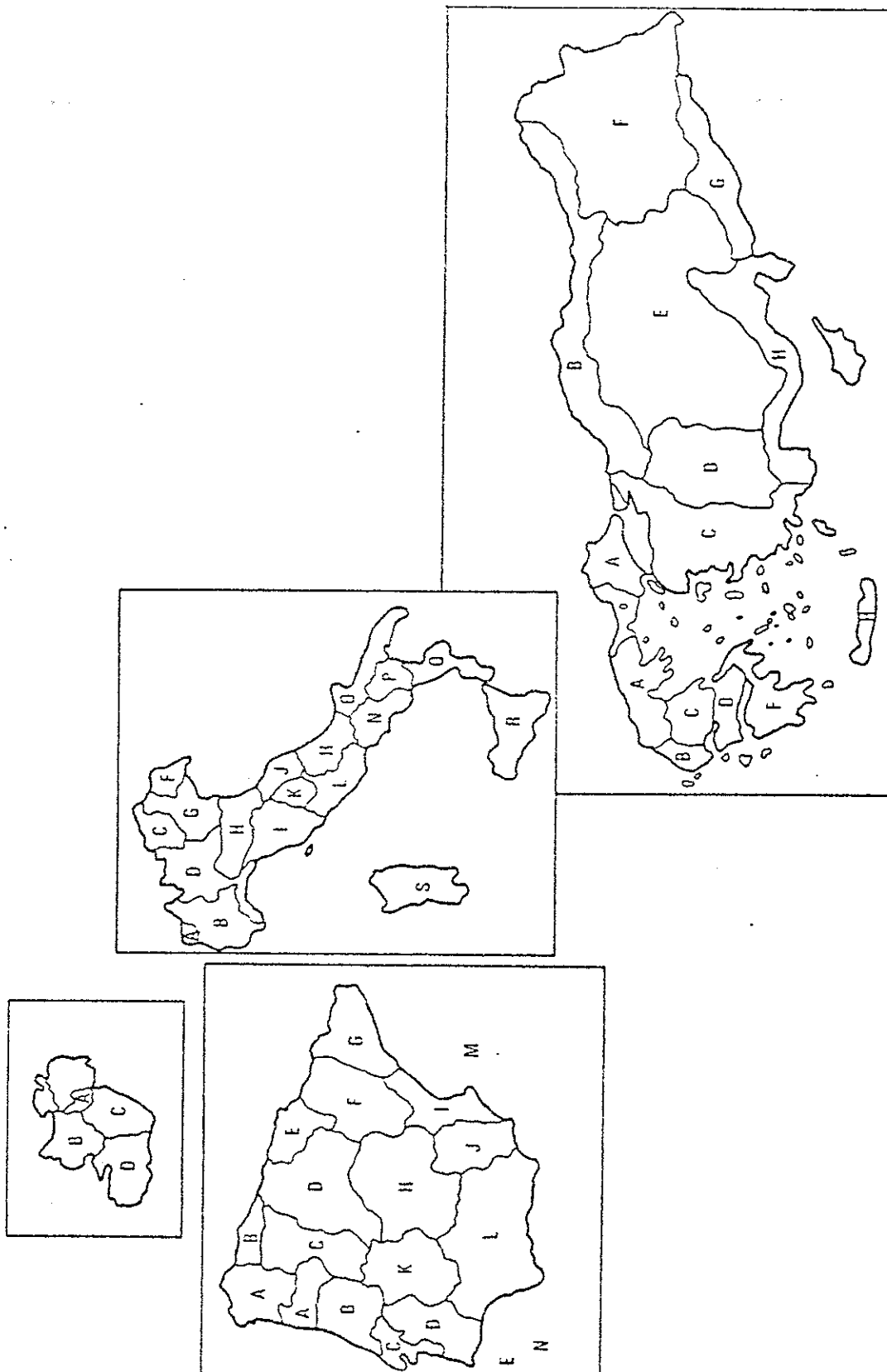
(1) T. Arnold, L. Danieli and C. Zacchia, Regional concentration of population and inter-regional migration in Europe, 1960-1970, paper presented at the 17th European Congress of Regional Science Association in Cracow, August 1977. Forthcoming.

Table 5 - Population movement, annual rate per 10 000 inhabitants, 1961-1965

	1961-1970					1971-1975				
	Births	Deaths	Natural increase	Net migration	Total increase	Births	Deaths	Natural increase	Net migration	Total increase
Greece	178	81	97	- 39	58	153	86	72	- 6	66
Ireland	216	117	99	- 51	48	223	109	114	4	118
Italy	186	98	88	- 21	67	161	97	64	16	79
Portugal	226	108	118	- 125	- 7	194	105	89	45	133
Spain	206	85	121	- 16	105	192	84	108	11	118
Turkey	..	..	..	..	250	(360) ¹	(100) ¹	(260) ¹	(- 10) ¹	250
Total of the above excluding Turkey	193	93	100	- 31	69	173	92	81	15	96
Other OECD Europe	173	112	61	26	87	136	112	24	13	38

¹ estimated

Map I
REGIONAL SUBDIVISIONS ADOPTED



Denomination of regions shown in Map 1

Greece	
A	Macedonia
B.1	Thrace
B.2	Epirus
C	Thessaly
D	Central Greece - Euboea
E	Attica - Piraeus
F	Peloponnesus
G	Ionian Islands
H	Aegean Islands
I	Crete

Ireland	
A	Ulster
B	Connacht
C	Leinster
D	Munster

Italy	
A	Valle d'Aosta
B	Piemonte
C	Liguria
D	Lombardia
E	Trentino - Alto Adige
F	Friuli - Venezia Giulia
G	Veneto
H	Emilia - Romagna
I	Toscana
J	Marche
K	Umbria
L	Lazio
M	Abruzzi - Molise
N	Campania
O	Puglia
P	Basilicata
Q	Calabria
R	Sicilia
S	Sardegna

Portugal	
A	Norte
B	Centro
C	Lisboa
D	Sul
E	Açores - Madeira

Spain	
A	Galicia
B	Oviedo - Asturias
C	Leon
D	Castilla la Vieja
E	Vascongadas - Navarra
F	Aragon
G	Cataluña
H	Castilla la Nueva
I	Valencia
J	Murcia
K	Extremadura
L	Andalucia
M	Baleares
N	Canarias

Turkey	
A	Turkey in Europe
B	Black Sea Coasts
C	Marmara - Aegean Sea Coasts
D	Western Anatolia
E	Central Anatolia
F	Eastern Anatolia
G	South-East Anatolia
H	Mediterranean Sea Coasts

Population density is found considerably to vary among regions inside each European country, but the degree of unevenness strongly differs between countries. No systematic association emerges between the degree of unevenness and the income level of countries.

The Six are far from uniform as concerns their present degree of unevenness. If such a degree is measured by the coefficient of variation of regional population density (as in the right hand section of Table 6), Greece has the greatest unevenness in OECD Europe (followed by France), while the other five rank among the countries of OECD Europe having the least uneven distribution.

There is however considerable uniformity as concerns time trends. The right hand section of table 6 shows that in all the Six unevenness increased not only during the Fifties (when a similar trend was prevailing through all OECD Europe), but also during the Sixties, when aggravation ceased to be a common trend in OECD Europe with the notable exception of the three Northern countries (Finland, Norway and Sweden).

Still more significant than increasing unevenness, is the occurrence of actual population decrease in individual regions, because this may involve serious evils in the shape of wastage of resources, decay, desertification. From the central section of Table 5 an impressive contrast emerges, under this respect, between the Six on one hand and the Earlier DCs on the other hand. Out of 60 regions making up the Six, as many as 17 lost population in the Fifties, and 23 in the Sixties. The corresponding figures were 1 and 6 out of 18 in the Northern Countries, and only 6 and 3 out of 31 in the other Earlier DCs. As for the Six, each of them had some losing regions with the sole exception of Turkey (which is not surprising if the extremely rapid rate of total population increase in that country is considered).

The contrast between the Six and Earlier DCs, and the aggravation of the trends in the Six from the Fifties to the Sixties, are even more impressive if the attention is focussed on those regions where population declined at such a high rate as 1/2 per cent per year or more. Some figures can be read in Table 6 and more detailed information is given in Annex A, tables 5-10. The latter also illustrate the respective contribution of natural and migratory movement to actual changes in regional population. As could be expected, it emerges that emigration has played an overwhelming role in regional depopulation.

The distribution of population by type and size of cities also deserves analysis, but only a few hints can be given here.

As concerns the type of cities, it has been noted by various authors that in Later DCs, and specially in Mediterranean countries, a recurring urban type "is the one based on tertiary activities : public administration, personal services, retail trade, tourism and so on. Even if these cities have some manufacturing industries and tertiary functions of a higher level (banking, wholesale, etc.) the core of their economy is based on tertiary non permanent jobs and low-productivity Government employment.

"This is a very specific type of city, half-way between the "parasitic" cities of the underdeveloped world and the modern industrial and tertiary metropolises of developed countries. Recent studies have shown how the survival of these cities is connected both with a very large and complex system of transfer payments, and with work in the home." (1)

(1) P. Ceccarelli, Some notes on the need to examine differences in urbanization processes, 1979, unpublished document.

Table 6 - Regional distribution of population, 1950-1970 ¹

	Number of regions into which the country has been subdivided	Number of regions where total population is decreasing				Coefficient of variation of regional population density (%)		
		Total		of which with a yearly rate of decline of 5 o/oo or more				
		1950-1960	1960-1970	1950-1960 ²	1960-1970 ³	1950	1960	1970
Greece	10	3	9	2	6	130	153	186
Ireland	4	4	2	3	2	46	52	62
Italy	~~10~~ 19	7	4	1	1	53	57	60
Portugal	~~6~~ 5	1	3	1	3	49	50	53
Spain	14	2	5	0	2	45	49	58
Turkey	8	0	0	0	0	57	61	69
Total of the above	60	17	23	7	14	57	62	69
Finland, Norway and Sweden	18	1	6	0	2	113	118	124
Other OECD Europe	81	6	3	0	0	79	82	81

² The regions are : Aegean Islands and Peloponnesus in Greece ; Connacht, Ulster and Munster in Ireland ; Abruzzi-Molise in Italy ; Sul in Portugal.

³ The regions are : all save Attica-Piraeus, Macedonia and Thessaly in Greece ; Connacht and Ulster in Ireland ; Basilicata in Italy ; Sul, Centro and Acores-Madeira in Portugal ; Extremadura and Leon in Spain ; Centre-East in Finland ; Middle-North in Sweden.

¹ Data refer to the Census Years closest to 1950, 1960, 1970. The coefficient of variation shown for individual countries is unweighted ; the average for groups of countries is weighted by population.

Source : based on T. Arnold, L. Danieli, C. Zaccchia, cit.

I Central Greece - Euboea,

As concerns the size, some figures currently used for international comparison are shown in Table 7, but a preliminary note of warning is due. The criteria adopted in delimiting the geographical units may differ among countries and may not coincide with those wished by the economist : for instance, parts of a metropolitan area may appear in the statistics as separate cities of small or medium size.

The picture emerging from the figures available can be summarized as follows. As concerns the present position, all the Six still have a much higher percentage of total population living in rural districts or small cities (up to 20.000) and a much lower percentage living in large cities (above 100.000) than average Earlier DCs. The difference from Earlier DCs is largest, under both respects, for Turkey and Portugal ; and smallest for Greece. The percentage living in medium-sized cities (from 20.000 to 100.000) is comparatively very low in Portugal and Turkey, while in the other four it is about equal to the average Earlier DCs.

As concerns time trends, from 1950 to 1970 all the Six - as well as average Earlier DCs - had a decline of the proportion living in small localities and an increase of the proportion living in large cities. The shift to large cities was exceptionally strong in Greece (Athens) and very moderate in Portugal. The proportion living in medium-sized cities was stable or slightly increasing in all the Six from 1950 to 1960, but from 1960 to 1970 the trend reversed, except in Portugal and Turkey. The shift away from medium-sized cities was strongest in Greece.

Data for the most recent years not shown in the table indicate that the trend to concentration in large cities is subsiding in some Earlier DCs. Also Italy had from 1970 to date a decline of 1/2 point in the percentage of population living in cities above 100.000, while the percentage living in cities from 20.000 to 100.000 increased by almost 2 points. The increase extended to the range 5.000-20.000, and only under 5.000 the proportion declined.

Table 7 - Urban concentration, 1950-1970

	Percentage of total population living in cities of the size specified								
	Rural districts and cities up to 20.000 inhabitants			Cities from 20.000 to 100.000			Cities of more than 100.000		
	1950	1960	1970	1950	1960	1970	1950	1960	1970
Greece	49	43	37	29	30	23	22	27	40
Ireland	59	55	49	16	18	20	25	27	31
Italy	56	52	49	24	24	22	20	24	30
Portugal	69	66	64	10	11	12	21	23	24
Spain	51	46	41	25	26	25	24	28	34
Turkey	78	74	69	14	14	13	8	12	18
Total of the above	61	57	52	21	21	20	18	22	28
Other OECD Europe	34	30	25	21	22	22	45	48	53

5. Age and sex composition

The present position is summarized in Table 8. It emerges that the ratio of population in working age (15-64) to total population is comparatively small in Turkey and Ireland, while in the other four it is roughly in line with average Earlier DCs. The proportion in lower age brackets (0-14) is in all the Six save Italy larger than in average Earlier DCs, the difference being strongest for Turkey and Ireland. The proportion in higher age brackets (over 64) is smaller in all the Six than in average Earlier DCs. The difference is very strong for Turkey, not for Ireland where high natural increase is but a recent phenomenon.

As for the sex ratio, the only point to note is the unusually high proportion of males in Turkey and Ireland. This apparent oddity is easily explained by remembering that everywhere males exceed in number females at birth and tend to die sooner; therefore the proportion of males in total population tends to be higher the "younger" the age structure of the population concerned.

Age and sex structure has not considerably changed over time and the description above applies as well to 1960 (see Annex A, table 13).

Table 8 - Age and sex composition, 1975

	Age composition (%)			Percentage ratio of male to female population
	0-14	15-64	65+	
Greece	24	64	12	96
Ireland	31	58	11	101
Italy	22	66	12	95
Portugal	28	62	10	90
Spain	28	62	10	96
Turkey	40	55	5	103
Total of the above	28	62	10	97
Other OECD Europe	23	63	14	94

6. Participation in the labour force

It is a common finding that specific participation rates of males of age 25-54 have a small variance, being everywhere around 95 %; and the Six are no exception. But some peculiar features are found in other age brackets (Annex A, table 14). Italy has very low specific rates, by international standards, for males of age 15-19, 55-64, 65 and over. Such differences were aggravated from 1960 to 1975 and may be explained by the exceptional diffusion of irregular and hidden employment in that country. Greece has comparatively low specific rates for males of age 20-24. Turkey and Portugal, on the other hand, have comparatively high specific rates for males of age 15-19 and 65 and over, which may be connected with their having the highest share of agricultural population in OECD Europe.)C

Table 9 shows that - as a combined result of age structure and age-specific participation rates - the overall ratio of male labour force to total male population is slightly lower in average Six than in average Earlier DCs. Turkey is much below, due to the heavy weight of the younger age class, and only Portugal is above. The ratio of male labour force to male population in working age is almost equal in average Six and average Earlier DCs, but Portugal, Turkey and Ireland are considerably above the average, and Italy and Greece considerably below. From data shown in Annex A it emerges that this ratio has been declining since 1960 in all the Six, as well as in average Earlier DCs.

Table 9 - Labour force as a percentage of population, 1975

	Labour force/population in age 15-64			Labour force/Total population		
	M	F	M + F	M	F	M + F
Greece	83	31	56	53	20	36
Ireland	92	34	63	54	19	37
Italy	81	31	56	53	20	36
Portugal	94	32	61	58	20	38
Spain	88	33	60	55	20	38
Turkey	93	53	74	52	29	41
Total of the above	87	37	62	54	22	38
Other OECD Europe	87	51	68	55	32	43

As regards female population, age-specific activity rates tend to be below the average of Earlier DCs in all the Six except Turkey. In Italy rates are comparatively low in all age brackets without exception. In the other four countries there are a few exceptions, but only one - age bracket 20-24 in Ireland - is relevant, while all the others refer to age brackets below 20 or above 64, where quantities affected are small and international comparability is dubious. Coming to the special case, Turkey, female participation rates are found to be higher or not much lower than in average Earlier DCs in all age brackets except 20-24. The explanation of these high rates is to be sought, again, in the agricultural characteristics of the country.

As a combined result of age structure and age-specific participation rates, the ratio of female labour force to total female population is considerably lower in all the Six than in average Earlier DCs. The ratio to population of working age is also lower, except in Turkey where it is marginally higher. From data shown in Annex A it emerges that in 1960 the differences between the Six and average Earlier DCs as regards these ratios had the same sign as in 1975. Since 1960 the ratios have been increasing only in Portugal and Spain - roughly in step with average Earlier DCs, though at a wide distance - while they have been falling in the other four countries.

Taking both sexes together, all the Six have a lower ratio of labour force to total population than average Later DCs ; and all except Turkey have a lower ratio of labour force to population in working age.

It emerges from data shown in Annex A that since 1960 the comparative position vis-à-vis Earlier DCs has deteriorated in Greece, Ireland, Italy and Turkey and but slightly improved in Portugal (1) and Spain.

7. Population projections compared with past trends

As already seen (section 4), in the recent and less recent past all the Six had a rate of natural increase of population higher than average Earlier DCs, but also had a substantial rate of net emigration.

Consequently, over the period 1960-1975 taken as a whole, only in Turkey the rate of total increase was much higher than in average Earlier DCs. Ireland and Italy had a rate approximately in line with that average, Spain was somewhat above, and Portugal much below.

As can be seen in Table 10, population of working age in all the Six increased slower or not faster than total population, also due to emigration. Only in Spain and Turkey the rate was higher than in average Earlier DCs.

Table 10 - Annual rate of change (o/oo) of population 1960-1975 and projections 1975-1990 (*)

	1960 - 1975			Projections 1975-1990 (assuming no net migration)	
	Total population	Population in age 15-64	Labour force	Total population	Population in age 15-64
Greece	6	4	- 7	7	9
Ireland	7	6	1	11	14
Italy	7	5	- 4	4	5
Portugal	2	2	11	11	10
Spain	11	9	8	10	9
Turkey	25	25	15	22	28
Total of the above	12	11	5	11	13
Other OECD Europe	7	6	4	0	4

(*) Based on Demographic Trends 1950-1990, OECD, 1979. Note that there is an inconsistency between this source and the demographic statistics reported in Table 5 as concerns the rate of population increase in Portugal from 1960 to 1975.

But while average Earlier DCs expanded their labour force at a rate only slightly lower than population of working age, four of the Six failed to do the same. In Greece and Italy labour force actually declined, and in Ireland and Turkey it increased much slower than population or working age ; only in Spain it increased almost in line, and in Portugal faster.

Considering past performance, the demographic projections 1975-1990 shown in the right hand section of Table 10 are a source of worry. The projections shown take account of natural movement only, because any forecast about net migration movements would be unwarranted. It emerges that, in the absence of substantial net emigration, the rate of increase of population of working age will be higher in 1975-1990 than it was in 1960-1975 in Greece, Ireland, Portugal and Turkey and in the Six as an aggregate (2), while the reverse will apply to average Earlier

(1) Portugal had actually a slight increase in the ratio of labour force (out not of civilian employment, as will be shown later) to both total population and population in working age, while all the other five - as well as average Earlier DCs - had some decline.

(2) The rate is expected to rise during the first part of the period considered and to decline subsequently.

DCs. The rate will be actually higher in each of the Six than in average Earlier DCs (1). There cannot be large errors in the estimate, as practically all people belonging to the age bracket concerned were already born at the moment of making the projection (2).

The question arises how it will be possible to accommodate such a comparatively heavy increase of the potential labour force.

8. Labour force composition

The statistics available (3) indicate that during the last two decades the share of unemployed in total labour force has been consistently higher in average Six than in average Earlier DCs, while there has been no significant difference between the two groups of countries concerning the share of armed force. The statements above equally apply to the shares in total population, but it must be stressed that international comparability of both unemployment and armed forces statistics is quite weak.

Civilian employment has been consistently lower in average Six than in average Earlier DCs not only in relation to labour force, but also in relation to population, which is more significant because the latter ratio is but marginally affected by the doubts regarding unemployment and armed forces statistics.

Table 11 highlights the composition of civilian employment. The left hand section shows the share of employees (either wage or salary earners) in total civilian employment. On this matter too the international comparison involves sizeable margins of error, but nevertheless a distinctive feature of the Six comes safely out. They all have a comparatively low share of employees, ranging from under 30 per cent in Turkey to 70-71 per cent in Ireland, Italy and Spain, while the average of Earlier DCs is above 85. From Annex A (table 15) it emerges that the trend since 1960 has been increasing, both in the Six and in Earlier DCs.

Table 11 - Composition of civilian employment, 1977

P_y

	Wage and salary earners as a percentage of total civilian emplo.	Total civilian employment by kind of economic activity (%)			Percentage ratio of industrial employment to employment in services
		Agriculture	Industry	Services	
Greece	44 ¹	28	30	41	73
Ireland	71	23	30	47	65
Italy	71	16	39	45	85
Portugal	64	33	33	34	96
Spain	70	21	37	42	90
Turkey	29	61	17	22	74
Total of the above	59	31	31	38	84
Other OECD Europe	86	7	40	53	75

¹ 1971

(1) Also see a detailed discussion of the prospects of labour force in Western Europe to 1985 by the U.N.Economic Commission for Europe (in "Economic Bulletin for Europe", vol.30 n° 2), which is in agreement with the above.

(2) Remember that this statement refers to the operation of natural movement in the absence of migratory movement. Actually, due to massive net immigration after the moment of making the projection, some of the Six are by now much above the population level projected.

(3) See Annex A, Table 16.

The low share of employees in the Six is only in part due to their having a high proportion of employment in agriculture, a sector characterized in all countries by a comparatively large share of self-employment.

It is found, indeed, that the Six tend in general to have a lower share of employees than Earlier DCs inside every single sector of economic activity. The difference is specially strong in manufacturing and in commerce : in each of these sectors all the Six have a share of employees distinctly lower than Earlier DCs. For agriculture the contrast is less marked and not so general.

The Six probably differ from average Earlier DCs also in having a higher proportion of unpaid family workers, and some statistics showing it are available, but here again a note of warning is due concerning international comparability.

9. Employment by kind of economic activity

The central section of Table 11 shows that the Six do not substantially contradict the common finding that an inverse correlation holds between income per capita and share of agriculture in total employment. They all have agricultural shares above the average Earlier DCs, and some of them largely above. As far as their mutual positions are concerned, the agricultural share looks higher than expected in Greece and lower than expected in Italy, in comparison with Ireland and Spain ; but there may be a considerable margin of error in the estimate, specially for Greece.

The allocation of extra-agricultural employment between industry and the service sector (including Government), on the other hand, is not significantly correlated with the income level. From the right hand section of Table 11 it emerges that the ratio of industry to services is oddly high in Portugal and quite high also in Spain and Italy, while it is very low in Ireland. Greece and Turkey have about the same ratio as average Earlier DCs.

Additional information concerning employment in industry is given in Annex A, table 18. Employment is measured there as a proportion of total population, and the Six are compared with two single Earlier DCs, namely France and Germany. First, it emerges that among the Six only Italy has a proportion of industrial employment in total population almost equal to - and Spain not much lower than - France (Germany being much above). The other four are far below. Second, the differences found are mainly due to manufacturing. Mining is not especially below-average in the Six except Portugal, and is anyway too small a fraction to affect appreciably the size of total industry. Construction does not exhibit large differences among countries, except Turkey, which indeed is very low.

A further breakdown of manufacturing employment is available only for employees, as distinguished from self-employed. Not unexpectedly, the comparative position of the Six vis-à-vis France and Germany in aggregate manufacturing appears lower, once self-employed are left out. Most affected are Greece, Turkey, and also Italy. The latter is found to be 15 per cent lower than France if employee labour is considered, while it is only 3 per cent lower when total labour is considered. This is significant insofar as it points to substantial differences lying beyond apparent similarities. Namely, statistics uniformly labelled as "manufacturing"

include in different countries very different proportions of small shops, of cottage labour, etc.

Regarding the single subdivisions of manufacturing, the picture emerging from the data shown in Annex A₁ can be summarized as follows :

- Turkey (for which, however, the statistics available are quite remote) and, to a smaller extent, Greece, are lower than France and Germany in every division.
- All the Six are lower than France and Germany in fabricated metal products, chemicals, paper.
- There are a few cases in which some of the Six are above France and Germany. In textiles Portugal is very high and Italy, Spain and Ireland are rather high. In non metallic minerals Italy and Spain are rather high and Portugal and Ireland are not low. In food Ireland is very high and Spain not low. In wood Portugal is rather high and Spain and Italy are not low. Finally, in basic metals Spain is rather high. It has to be noted that all these cases (possibly excepting the last one) happen to refer to manufacturing subdivisions popularly classified as "traditional".

10. Past trends in employment

gate From detailed data shown in Annex A (Table 17) it emerges that over the period 1960-1976 the aggregate *gate* Six - compared with aggregate Earlier DCs - had a higher rate of increase of employment as well in industry as in services, and a milder rate of decrease in agriculture (excepting the sub-period 1960-1965 in which the rate of decrease was equal for the two groups of countries).

U However, being affected by a much heavier *weight* of the declining sector, agriculture, the Six performed somewhat less brilliantly with regard to total employment. During the sub-period 1960-1965 total employment declined in the Six while increasing in Earlier DCs ; subsequently it evolved more favourably in the Six than in Earlier DCs, but not to the full extent required for matching the quicker population increase.

Table 12 helps better to appreciate the role of employment changes inside each activity sector in affecting the aggregate employment level of the population, by expressing all changes - both of population and of employment - as annual rates per 10.000 inhabitants.

The picture drawn in the table can be summarized as follows (1). As already seen in section 3 above, natural increase is higher in average Six than in average Earlier DCs, migratory movements absorb only a part of the difference, and therefore the actual increase of population is finally higher in the Six. In relation to total population, both the number of jobs lost in agriculture and the number of additional jobs gained in industry and services are higher in the Six than in Earlier DCs. Gains and losses do almost offset, and the annual increase in total employment is very small (around 1 per thousand inhabitants) and only insignificantly higher in the Six than in Earlier DCs. As population however is increasing substantially faster in the Six, so does the number of non employed.

(1) The present summary regards only the average experience of the Six, but considerable differences between individual countries are illustrated in the table, to which the reader is referred.

The Portuguese figures 1962-1975 are much affected by mass repatriation from the former colonies in 1975 ; therefore alternative figures are offered in the table for 1962-1974.

Table 12 - A synopsis of changes in population and employment, annual rate per 10,000 inhabitants, 1962-1975

	Natural increase	Net migration	Increase in resident or temporarily absent population					Average absolute yearly change of the ratio (o/ooo) of Employment to Population
			Total	of which, Employed			Non Employed	
				Agriculture	Industry and Services	Total Employed		
Greece	87	- 34	53	- 62	44	- 18	71	- 38
Ireland	121	- 44	77	- 31	25	- 6	83	- 32
Italy	82	- 11	72	- 41	26	- 15	87	- 42
Portugal	82	- 41	41	- 38	20	- 18	59	- 33
[Portugal 1962-1974]	82	- 75	- 7	- 43	26	- 17	10	- 15
Spain	106	- 10	96	- 40	65	25	71	- 12
Turkey	-	-	250	- 8	60	54	196	- 50
Total of the above	-	-	118	- 33	44	11	107	- 33
Other OECD Europe	46	+ 18	64	- 18	26	8	56	- 19

All this is reflected in the ratio of total employment to population, whose evolution is analyzed in some detail in Annex A (table 19A). Such ratio was already lower in the Six than in Earlier DCs at the beginning of the Sixties, and has been since decreasing faster in the Six (-0.3 percentage points annually) than in Earlier DCs (-0.2). The marked decline in the Six results from a negative contribution of as much as 0.4 points annually from agricultural employment, and a positive contribution of 0.1 points from employment in industry and in services. The corresponding contributions in Earlier DCs are -0.2 from agriculture and zero from industry and services.

Not surprisingly, the evolution of total employment just summarized much resembles the evolution of total labour force summarized in section 6.

The question arises whether such a quick decline and such a depressed level of the ratio of employment to population, as recently experienced by the Six, are an unprecedented phenomenon. A tentative answer is offered by Annex A (Table 19B).

According to the past experience of those Earlier DCs for which more or less reliable historical statistics proved readily available, the employment ratio was always higher - and generally much higher - than in present day's Six (having a ratio of 36 per cent in 1975), with the exception of United States 1850.

Only exceptionally did the ratio decline over many years by more than 0.2 percentage points annually, the exceptions being France in 1926-1936 and in 1954-1962, Sweden and Germany in the years of World War 2, and Japan from 1890 to 1930 when she was, however, moving down from terrifically high levels. Apart from the exceptions mentioned, an approximate balance was maintained in all Earlier DCs examined between the decline in agriculture and the increase in non agricultural activities, which contrasts with the disproportionate decrease of agricultural employment and the ensuing strong fall of the aggregate employment ratio recently experienced by the Six.

11. Labour productivity by kind of economic activity

As elsewhere in the present report, "productivity" is here used as an abbreviation for value added at current prices per person employed. The average position 1970-1976 concerning the Six is illustrated from various angles in Table 13 (1).

X
H
development
The left hand section of the table focus~~X~~es productivity differentials between sectors of economic activity (taking industry = 100) inside each country. According to a familiar hypothesis, productivity differentials between sectors arise and grow in the earlier phases of economic ~~growth~~, and tend to attenuate and eventually to disappear in later phases. In the middle phases, productivity is expected to be lower in agriculture than in both industry and services. Somewhat more hesitantly, services are expected to be above industry. The experience of those of the Six for which information is available conforms with this hypothesis in the sense that all these countries have much larger negative differentials for agriculture, and somewhat larger positive differentials for services, than average Earlier DCs. The ranking of the single countries according to the size of the differential does not, however, fully conform with the general hypothesis above, and calls for additional explanations based on local characteristics. This applies, in particular, to the positive differential for services, comparatively very high in Greece and very low in Portugal and Turkey.

(1) The corresponding figures for 1960, 1965, and for each individual year from 1970 to 1976 are shown in Annex A (Tables 20A and 20B); they also conform - at large - with the summary picture drawn here.

Table 13 - Value added per person employed by kind of economic activity, comparative level, 1970-1975

	Inter-sector comparison (Industry = 100)			Inter-country comparison (France = 100)				Total recalculated assuming the same employment structure as France
	Agriculture Services Total			Agriculture Industry Services Total				
Greece	48	149	100	41	45	61	45	54
Ireland	-	-	-	-	-	-	53	-
Italy	42	111	94	56	69	68	64	68
Portugal ⁽¹⁾	34	113	83	54	31	31	25	31
Spain ⁽²⁾	41	127	97	39	50	56	48	52
Turkey	21	109	51	11	27	26	14	25
Other OECD Europe	50	106	100	105	98	91	97	94

(1) 1974-1975

(2) 1970-1975

The central section of Table 13 focuses ~~on~~ productivity differentials between countries (taking France = 100) for each sector of activity. It appears that all those of the Six for which information is available have a lower productivity than average Earlier ECs (and than France individually considered) in each sector. Apart from Portugal, the inferiority is most marked in agriculture. X

The right hand section of Table 13 shows how large the average productivity of each country would be under the hypothesis that productivity inside each sector remained as it actually is, but the relative size of each sector (as measured by employment) became equal to that actually found in France. The excess of such a hypothetical value of average productivity over the actual value shown in the preceding column (i.e. the column "Total" in the central section of the table) indicates to what extent the depressed average productivity in the Six is attributable to an unfavourable employment structure, rather than to low productivity levels inside individual sectors (1). It emerges from the table that such an excess is extremely large in Turkey (the hypothetical value being 79 per cent above the actual value), appreciable in Greece (+ 20 per cent) and in Portugal (+ 24 per cent), but quite small in Italy (+ 6 per cent) and in Spain (+ 8 per cent).

Table 14 links up the findings of the present section concerning international differences in the average productivity of the aggregate economy, with those of section 1 concerning international differences in GDP per capita (2). It appears that the relative gap between the Six, on one hand, and average Earlier ECs (as well as France individually considered), on the other hand, is larger for GDP per capita than for productivity.

(1) Alternative indicators, leading to slightly different results, could easily be conceived.

(2) Corresponding figures for 1970 and 1975, shown in Annex A (Table 21) conform at large with the picture drawn here. L,

Table 14 - Comparative level of GDP per capita, GDP per person employed, proportion of population in working age and employment ratio (France = 1), 1976

Symbols adopted :

Y = GDP at current exchange rates

P = Total population

P₁₅₋₆₄ = population in age 15-64

L = employed civilian labour force

of course :

$$\frac{Y}{P} = \frac{Y}{L} \cdot \frac{L}{P_{15-64}} \cdot \frac{P_{15-64}}{P}$$

	$\frac{Y}{P}$	$\frac{Y}{L}$	$\frac{L}{P_{15-64}}$	$\frac{P_{15-64}}{P}$
Greece	.36	.42	.86	1.02
Ireland	.38	.48	.28	.92
Italy	.47	.55	.82	1.05
Portugal	.24	.30	.84	.99
Spain	.44	.51	.87	.99
Turkey	.15	.17	1.04	.88
Total of the above	.36	.42	.89	.99
Other OECD Europe	.92	.93	~~1.00~~ 1.02	~~1.00~~ 1.01

The factors which combine with productivity in determining GDP per head (1) are age-specific participation rates (a factor but roughly accounted for by the ratio L / P_{15-64} shown in the third column of Table 14) and the age structure of the population (a factor summarily accounted for by the ratio shown in the fourth column of the table). It emerges that in the aggregate six both factors act unfavourably, but the action of participation rates is dominant, while that of age structure is but marginal.

Coming to individual countries, it is found that Italy and Greece are so unfavourably placed as concerns participation rates that the small advantage they enjoy as regards age structure is far from providing an adequate offset. Ireland suffers from the combination of an uncommonly unfavourable age structure with participation rates lower than Earlier DCs, though higher than Greece and Italy. For Portugal and Spain the disadvantage mainly comes from low participation rates. Turkey, on the other hand, is exceptionally favoured as concerns participation rates, but this is more than offset by her having the weakest position as concerns age structure.

12. GDP by kind of economic activity

Table 15 shows the average share 1970-1976 of each sector of economic activity in total GDP (2). As can be seen in Annex A (Table 22) shares were rather stable over that period, and therefore the figures in Table 15 are sufficiently representative also of the position to date.

(1) What I am referring to is, of course, just an identity, not a functional relationship.

(2) Ireland could not be included in the table because information on a comparable basis was not available.

Table 15 - Percentage composition of GDP by kind of economic activity, 1970-1976

	Agriculture	Industry	Services	Percentage ratio of industry to services
Greece	16	28	56	50
Italy	8	42	50	84
Portugal	14	39	47	83
Spain (1)	10	38	52	73
Turkey	27	27	46	57
Total of the above (1)	11	39	50	78
Other OECD Europe (2)	4	42	54	78

(1) 1970-1975

(2) *Excluding Ireland*

By comparing the GDP shares shown in Table 15 with the employment shares shown in Table 11, two remarks can be made.

First, in all the five Later DCs covered, due to the lower productivity of agriculture compared with non-agricultural activities, agriculture is found to account for a much smaller percentage of GDP than of employment. This experience is shared by most other countries, including many Earlier DCs.

Second, the five Later DCs differ less from aggregate Earlier DCs as concerns the percentage composition of GDP than as concerns the percentage composition of employment (1). This was already implicit in the point, made in section 11, that productivity differentials between sectors tend to be presently larger in the five Later DCs here examined than in Earlier DCs. It follows indeed from that point that the Later DCs, compared with Earlier DCs, happen to have a lower product per person employed just in that sector - agriculture - in which they have a larger employment share; and a higher one just in that sector - services - in which they have a smaller employment share. Thus, international differences in employment shares are to some extent offset by opposite differences concerning relative productivity.

13. Past growth of product and productivity by kind of economic activity

The growth at constant prices of product by kind of economic activity since 1960 is shown in Table 16 and that of productivity in Table 17 (2).

During the period 1960-1973 considered as a whole, only Ireland among the Six increased GDP just as fast as average Earlier DCs; all the other five increased it faster, and Greece and Spain much faster. The moderate average rate of growth in Ireland results from a slow pace at the beginning of the period, and a quite brilliant performance in later years.

(1) This is offered only as a loose statement. It applies to the percentage shares of agriculture, industry, and services in the total. It does not fully apply to the ratio of industry to services. With regard to such a ratio, Greece and Turkey differ more from Earlier DCs as concerns product (Table 15) than as concerns employment (Table 11).

(2) Annex A (Table 23) gives a further subdivision of the period 1960-1973.

Table 16 - GDP by kind of economic activity, annual rate of change (o/oo) at constant prices, 1960-1976

	1960-1973				1973-1976			
	Agriculture	Industry	Services	Total	Agriculture	Industry	Services	Total
Greece	42	100	76	76	30	9	37	28
Ireland	10 ¹	62 ¹	44 ¹	44	-	-	-	16
Italy	20	60	25	56	3	15	29	21
Portugal	12	91	76	69	- 34	- 12	37	9
Spain	35	96	70	74	16 ²	23 ²	38 ²	27
Turkey	17	88	72	59	96	64	83	86
Total of the above	24	74	64	62	-	-	-	27
Other OECD Europe	-	-	-	45	-	-	-	15

¹ 1960-1970

² 1973-1975

Table 17 - GDP per person employed by kind of economic activity, annual rate of change (o/oo) at constant prices, 1960-1976

	1960-1973				1973-1976
	Agriculture	Industry	Services	Total	Total
Greece	88	66	54	83	28
Ireland	42 ¹	38 ¹	35 ¹	44	22
Italy	71	60	37	60	10
Portugal	50	77	48	69	18 ²
Spain	64	96	26	66	35
Turkey	21	40	14	47	81
Total of the above	65	68	35	62	22
Other OECD Europe	-	-	-	42	22

¹ 1965-1970

² 1974-1976

In all the Six - as in average Earlier DCs - the quickest growing activity was industry, and the slowest agriculture.

Productivity increased quickly in all three main sectors of activity, and mostly in industry and agriculture. The increase in agricultural productivity largely resulted from strongly declining agricultural employment; Turkish agriculture however stands apart, with very little decline in employment and but a moderate increase in productivity.

In all the Six (and specially in Greece, Portugal and Turkey) the productivity increase of the aggregate economy was considerably higher than can be explained by productivity gains inside the three main sectors of activity, the difference being attributable to the large shift in employment shares from the lower-productivity sector (agriculture) to the other sectors.

After 1973, the pace of growth of product and productivity was abruptly reduced in five of the Six (except Turkey) as well as in most other countries. Though depressed, the rates of growth of GDP remain however somewhat higher in the Six except Portugal than in average Earlier DCs. The slow down is most marked in industrial activity, which in Portugal even declined.

14. Firms' size and connected characteristics

The analysis of labour force composition (sections 8 and 9) has brought to light a comparatively very high percentage of self-employed in the Six, which implies a comparatively high proportion of small-sized firms, and such a point has now to be further examined. Unfortunately, due to the scanty statistical information available, comparisons on this matter cannot be extended so as to cover all the Six and the aggregate Earlier DCs of OECD Europe, as usual in the present report. Only some of the Six and a small sample of Earlier DCs (including countries outside OECD Europe), for which comparable statistics could readily be found, are examined.

Chart 3 illustrates the concentration of manufacturing employment in smaller establishments (1). It appears that whatever size is chosen - in the range from 10 to 100 persons engaged - as being the dividing line between smaller and larger establishments, the concentration in the smaller establishments is highest in Greece and Turkey, somewhat lower in Italy, Spain and Japan, still lower in Germany, and lowest in U.K. and U.S. For instance, establishments up to 50 persons account for 60 per cent or more of total employment in Greece and Turkey, around 40 per cent in Italy, Spain and Japan, little over 20 per cent in Germany, and little over 10 per cent in U.K. and U.S. (2). The data shown, therefore, rather support than contradict the hypothesis that those countries where industrialization started later tend to have a larger proportion of employment in smaller establishments.

In addition to having a larger share of employment in smaller establishments, Later DCs are supposed to have wider differentials of productivity than Earlier DCs between smaller and larger firms. Strictly comparable statistics for all the countries of Chart 3 could not be assembled on this matter, but a sufficiently accurate comparison covering only Italy and four Earlier DCs is reported in Chart 4.

Considering first the range from 1 to 99 persons, the Chart shows that productivity steeply increases with the size of establishment in Italy and in Japan, while the increase is much milder in Germany, and there is no increase at all in U.K. and U.S. In the range over 99 persons, productivity increases with the size everywhere and differences among the countries examined are not very significant, apart from Japan which has a much steeper increase than all others. Additional information on a comparable base shown in Annex A (Table 24) indicates that the productivity differentials just described are matched by roughly proportionate wage differentials. Of course the higher wage level found in higher productivity firms may mean as well that such firms are paying more than the other ones for any given grade of labour, as that they are employing labour having on average a higher grade.

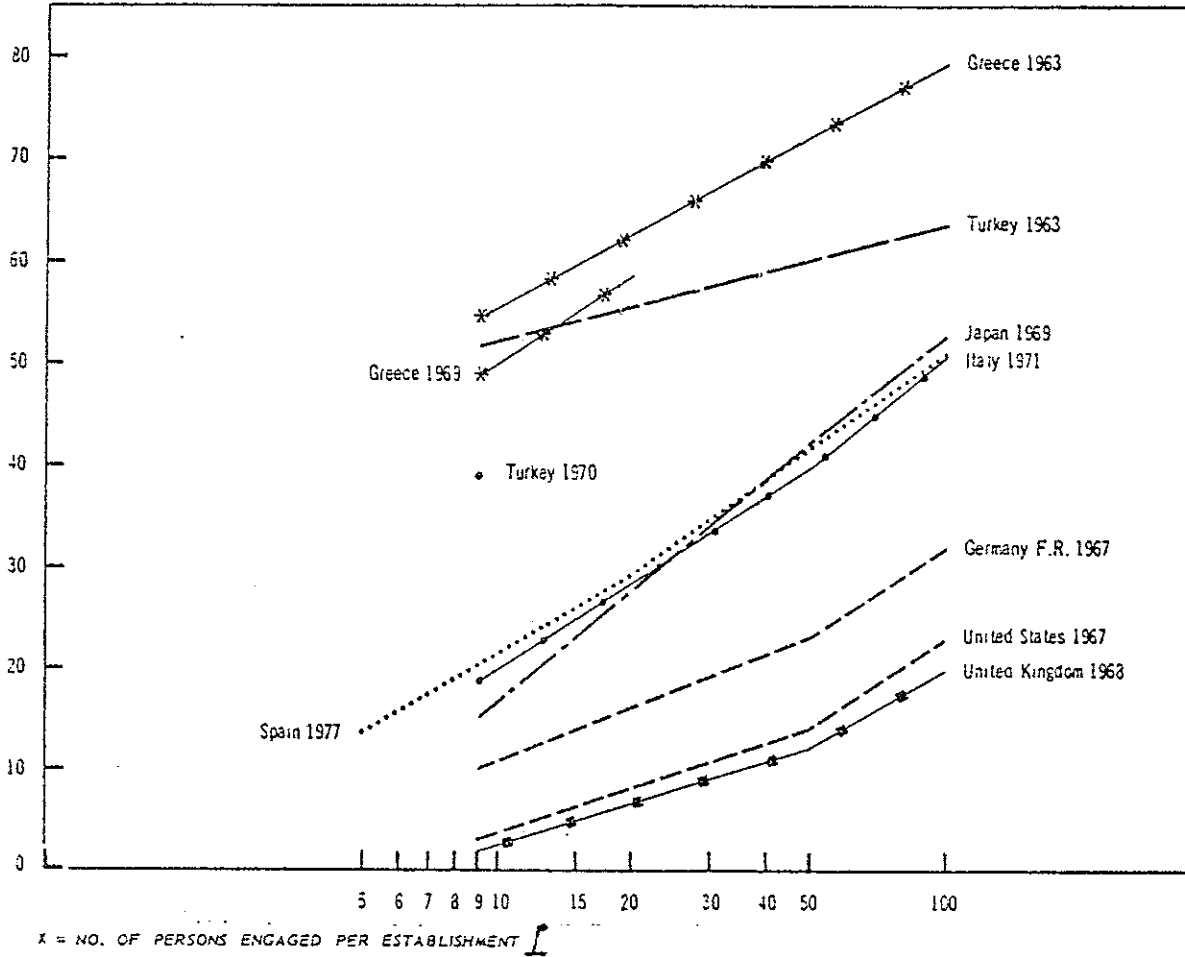
(1) The basic data have been extracted from Annex A, Tables 25-28, and G. Fuà, Employment and productive capacity in Italy, cit., p. 229.

(2) In Portugal, according to the 1972 Census, the corresponding figure referring to the aggregate manufacturing plus mining is 35 per cent, but this is likely to be an underestimate due to a high proportion of the smaller firms having not been caught in the Census.

Chart 3

SHARE OF SMALL ESTABLISHMENTS IN TOTAL MANUFACTURING EMPLOYMENT, CIRCA 1970

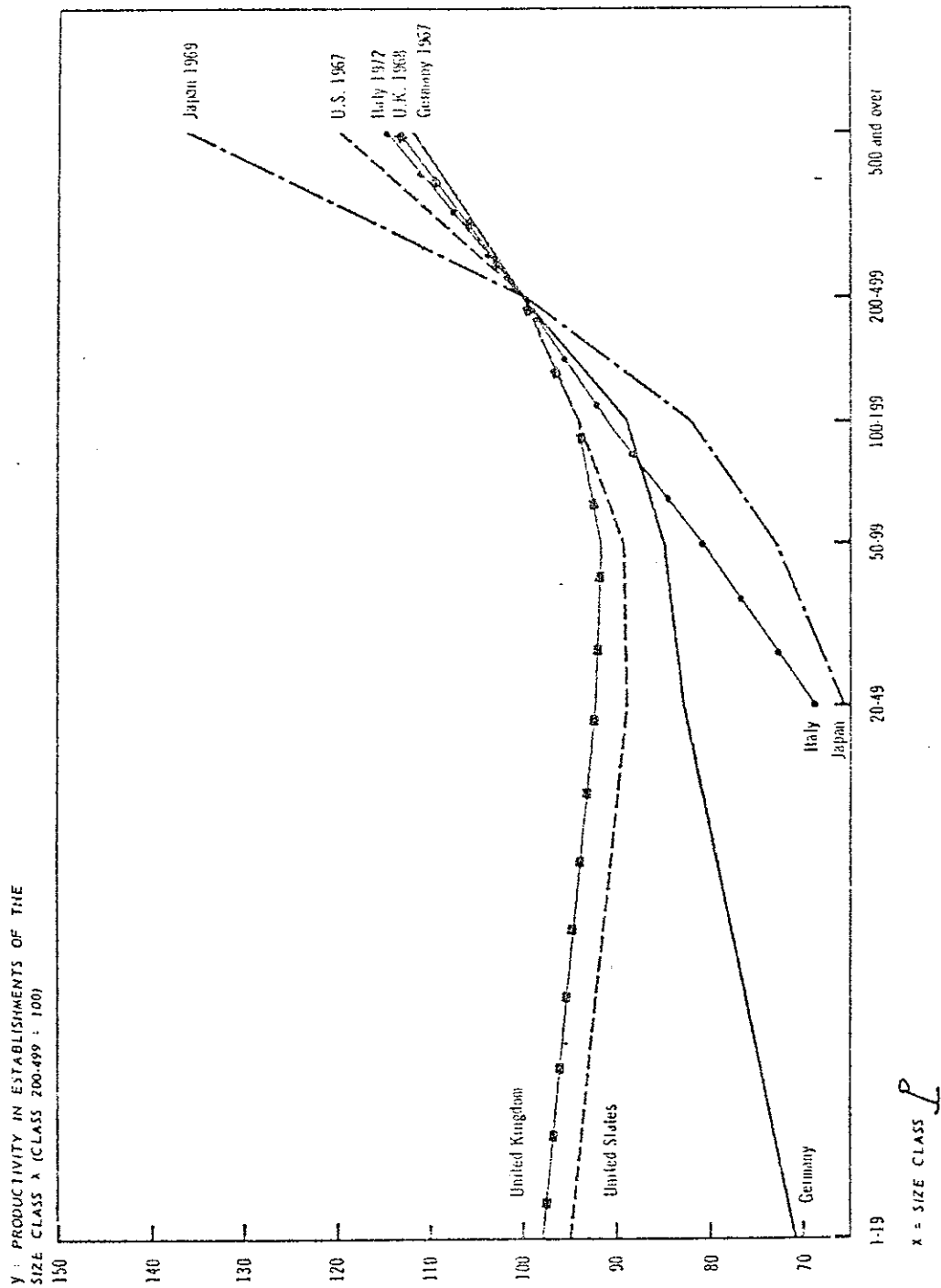
y = PERCENTAGE OF TOTAL EMPLOYMENT ACCOUNTED FOR
BY ESTABLISHMENTS OF SIZE NOT LARGER THAN x



I (LOG SCALE)

Chart 4

LABOUR PRODUCTIVITY BY SIZE OF ESTABLISHMENT IN MANUFACTURING, CIRCA 1970



P (LOG SCALE)

Some information on productivity differentials between manufacturing establishment classified by size has been collected also for Greece, Portugal, Spain and Turkey (see Annex A, Tables 25-28). On that basis, though refraining from precise comparisons, it can safely be stated that in all four countries productivity differentials are of a distinctly higher order of magnitude than in U.K., U.S. and Germany. The information available for Portugal, Spain and Turkey covers, besides productivity, the power equipment (or the energy consumed) per person engaged, which faute de mieux may be considered a crude proxy for fixed capital endowment. This variable too is found to increase considerably with the size of the establishments.

Other significant indications emerge from a large sample survey of Italian manufacturing firms (see Annex A, Table 29). Unfortunately the sample excludes the firms with less than 11 persons, and the selection of firms from 11 to 100 persons is non random, in the sense that the more advanced are in, while most of the less advanced are out ; therefore the productivity differential between smaller and larger firms emerging from the sample understates that prevailing in the universe. However, the survey deserves the greatest attention here for the light it sheds on the differences concerning capital. It emerges that firms with less than 101 persons engaged are as much as 27 per cent below larger firms as concerns stock of capital (fixed capital plus inventories) per person, while they are only 16 per cent below as concerns value added per person. Therefore total factor productivity is but 8 per cent lower in small firms than in large ones. But average compensation per employee is as much as 33 per cent lower, and thus the rate of reward of aggregate capital (1) is 15 per cent higher. High capital rewards combined with low labour rewards seem to be indeed a distinguishing feature of smaller firms not only in the sample examined, but in the general Italian experience of the recent years.

Table 18 brings together some roughly indicative data extracted from the various sources mentioned above concerning productivity and wage differentials by size of establishments. The data rather support than contradict the hypothesis that those countries where industrialization started later tend to have wider productivity and wage differentials between small and large firms (2).

The preceding analysis has been confined to manufacturing, not because in other sectors the distinctive features of the Six as concerns small firms are less worth noting, but because statistical information is poorer. Some information on retail trade, however, is reported in Annex A (Table 30). It emerges that, with some exceptions (notably Belgium), the average number of persons per establishment tends to be higher in those countries which have started developing earlier. Turkey, Greece, Italy and Spain are found among the countries where the average size is very low. The average for Portugal is not available, and that for Ireland is fairly high.

More information is available concerning the size of firms in agriculture, from which it emerges that the Six are characterized by a comparatively high proportion of small farms. But for farms the relevant measure of size refers to acreage (or, better, to the rental value of land) rather than to employment, and therefore the analysis must be developed on different lines from the above, which is a task to be left for further studies.

(1) More exactly, the ratio of non-wage income (gross) to total capital (owned + rented).

(2) The Portuguese data do not conform well with the hypothesis, but as already noted they are dubious.

Additional support for the hypothesis seems to emerge from an analysis of R. Banerji, Small-scale production units in manufacturing : an international cross-section overview, "Weltwirtschaftliches Archiv", vol. 114, covering a wider set of countries.

I n. 1, 1978,

Table 18 - Syndry indications of the lower productivity and wage level of the smaller establishments in manufacturing, circa 1970

		Size classes compared (number of persons employed per establishment)	Percentage ratio of average level in the lower size class to that in the higher size class	
			Value added per person employed	Compensation per employee
Greece	1969	10-19 / 20 and over	36	-
Italy	1972	20-49 / 200 - 499	69	65
Portugal	1972 ¹	20-49 / 200 - 499	73	75
Spain	1974	1-50 / 51 and over	39	-
Turkey	1970	1- 9 / 10 and over	21	41
Germany	1967	20-49 / 200 - 499	83	85
Japan	1969	20-49 / 200 - 499	66	-
United Kingdom	1968	20-49 / 200 - 499	92	95
United States	1967	20-49 / 200 - 499	94	96

¹ Industry excluding construction

As already hinted, the statistical findings presented in this section conform with the interpretation of dualism introduced in Part I (Section 3) (1). It was suggested there that, while Earlier DCs have enough "modern" firms - by that I mean firms able to operate on the whole range of material and social technologies offered by the present worldwide store of knowledge - for absorbing almost all their potential labour supply, Later DCs have not, and must therefore keep in operation also many "pre-modern" firms.

Now, it can be assumed that in both groups of countries those entrepreneurial forces that are modern (in the sense just defined) will always adopt the size of operation, large or small, most suited to the particular case. The pre-modern forces, on the contrary, will in many cases have no option but to work on a small scale, since a larger scale would be out of reach of their organizational capacity.

Hence it is to be expected that the proportion of small firms is specially large in Later DCs - due to their having a large proportion of pre-modern firms - compared with Earlier DCs, which have mainly modern firms.

It is also to be expected that the average level of productivity of small firms, compared with the large ones, is specially low in Later DCs because there, and only there, a large proportion of small firms are pre-modern, while large firms are mainly modern; quite a different situation from Earlier DCs, where modern firms dominate both among the small and the large ones.

The fact that small firms, being mostly pre-modern, have on average a comparatively low productivity in Later DCs does not necessarily mean that pre-modern firms engage in producing with inferior "physical" results the same kind of goods as modern firms. It may alternatively mean that they engage in less rewarding product lines. Actually Later DCs concentrate on those products in which the pre-modern firm is at a smaller disadvantage in terms of productivity

(1) The rest of this section is based on my earlier work *Lagged development and economic dualism*, cit., section 2.

vis-à-vis the modern firm (for example, certain branches of the clothing and footwear industry), while Earlier DCs specialize in products with the opposite characteristics. The latter products, since they are almost a monopoly of a small group of countries, can fetch relatively favourable prices, while the former suffer from the pressure of competition which comes from the mass of less developed countries.

15. GDP by kind of expenditure

The average composition 1970-1977 of GDP by kind of expenditure is shown in Table 19. It appears that the relative share of private consumption is distinctly larger in all the Six than in average Earlier DCs. On the other hand, all the Six devote a smaller share of GDP to public consumption (1) than Earlier DCs, the difference being tenuous in Ireland, but very strong in Spain and sizeable in the other four. This does not fully offset, however, the difference found in private consumption, and the share of total consumption results larger in all the Six than in Earlier DCs. The difference is small in Italy and Spain, but relevant in the other four, and specially in Portugal.

Table 19 - Percentage composition of GDP by kind of expenditure, 1970-1977

	Consumption			Investment			Foreign trade		
	Private	Public	Total	Fixed assets	Stocks	Total	Exports	Imports	Balance
Greece	67	14	81	24	5	29	14	23	- 9
Ireland	66	17	83	24	1	25	42	50	- 8
Italy	64	14	78	20	2	22	23	23	- 0
Portugal	74	14	88	19	3	22	23	33	-10
Spain	68	9	77	23	2	25	14	16	- 2
Turkey	70	14	84	20	1	21	7	12	- 5
Total of the above	66	13	79	21	2	23	20	22	- 2
Other OECD Europe	58	18	76	23	1	24	26	26	+ 0

The share of fixed investment is slightly lower on average in the Six than in the Earlier DCs. Greece and Ireland are slightly above Earlier DCs and Italy, Portugal and Spain are somewhat below. On the other hand, as far as national accounts data can be trusted, the aggregate Six appear to invest a larger share of GDP in stocks than Earlier DCs. The share is extremely high in Greece, and also in Portugal. Consequently the share devoted to total investment results only marginally lower in aggregate Six than in Earlier DCs. Greece even results much above, and Ireland and Spain slightly above Earlier DCs.

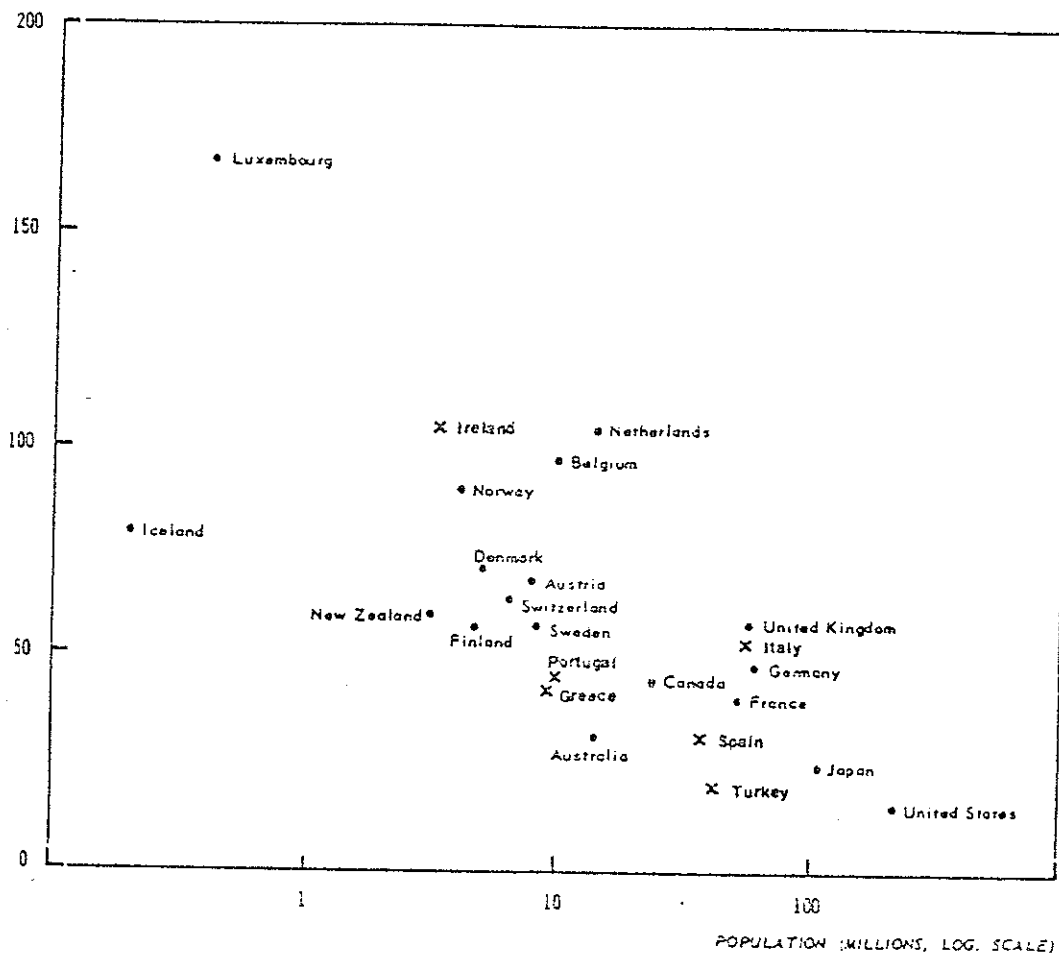
For exports and imports (2) the percentages widely differ between countries, which is only partly attributable to differences in the country's size. Chart 5 shows that, compared with countries having an equal population size, Greece, Portugal (3), Spain, and still more Turkey

- (1) The share of public consumption, however, has a marked trend to increase, as it appears from the annual figures 1960-1977 shown in Annex A (Table 31).
- (2) Reference is made here, of course, to the national accounts concept. Statistics based on balance of payments, and on commodity trade concepts are discussed in sections 17-19.
- (3) The year 1976, to which Chart 5 refers, happens to be that in which the Portuguese ratio was at its lowest. The Portuguese position compared with other countries remains however low also if the last available 5-yearly average is considered.

Chart 5

RATIO OF FOREIGN TRADE TO GDP, AND POPULATION SIZE, 1976

INTERNATIONAL TRADE IN PERCENTAGE OF GDP
(EXPORTS PLUS IMPORTS)



have a low ratio of foreign trade (total exports plus total imports) to GDP. Ireland and Italy, instead, have a rather high ratio compared with countries of their size. The foreign trade balance, as shown in Table 19, is negative in all the Six, while it is positive (by a negligible amount) in average Earlier DCs. As a proportion of GDP, the deficit is impressively high in Greece, Ireland, Portugal and Turkey, and negligible only in Italy. It will be shown in later sections that the foreign trade deficit is offset to a large extent by a considerable net inflow of incomes and current transfers from the rest of the world, such an inflow reaching as much as 8 per cent of ~~GDP~~ in Portugal and 6 per cent in Greece (see Table 34).

H
national income

Table 20 shows the rates of change since 1960 of GDP by kind of expenditures, in this case measured at constant prices (1). As already noted in section 13, the increase of GDP in aggregate Six slowed down after 1973, but both before and after that year the pace was quicker than in aggregate Earlier DCs. Foreign trade expanded considerably faster than GDP in all the Six from 1960 to 1973, but not after.

16. An overall view of foreign transactions

A comparative picture of the structure of foreign transactions, based on balance of payments accounts, year by year from 1964 to 1977, is given in Annex A (Table 33). It emerges that the ratio of commodity exports as well as that of commodity imports to GDP is comparatively very low in Greece, Spain and Turkey and very high in Ireland. The composition by commodity group is to be analyzed in the next sections. All the Six have a continuous and often substantial deficit in commodity trade through the whole period, with the exception of Italy, which shows a sizeable deficit only from 1973 to 1976. The average balances 1970-1977 for commodity trade, as well as for the other main items of foreign payments, can be read in Table 21.

Invisible items as an aggregate give a substantial surplus in all the Six. This is mainly due to travel (tourism) and to transfers (chiefly emigrants' remittances). Surplus from tourism is negligible only in Turkey, and specially high in Spain, Greece and Portugal. Surplus from emigrants' remittances is negligible only in Italy, and specially high in Portugal, Turkey, Greece and Ireland. Transportation gives a considerable surplus only in Greece; the figure shown in Table 21 is the more remarkable, as it does not cover that part of the Greek-owned fleet sailing under foreign flags. Finally, Ireland has been drawing a considerable surplus also from investment income (2) and miscellaneous services.

H invisible

In the average 1970-1977, however, the surplus from ~~invisible~~ items does not fully offset the deficit from commodity trade, and all the Six show a deficit on current payments. The deficit is very high, as a proportion of GDP, in Greece (3) and Ireland, and negligible in Italy. As can be seen in Annex A, actually only Greece and Ireland had deficits every year from 1970 to 1977. Italy had only from 1973 to 1976 (inclusive), Portugal and Spain since 1974, Turkey in 1970 and again since 1974.

In average 1970-1977 all the Six show a net inflow of capital: the balance is quite large in Ireland and Greece, substantial in Spain and Turkey, small in Italy and Portugal. For about one half of that period, the latter two countries appear to have been net capital exporters.

- (1) A further subdivision of the period 1960-1973 is shown in Annex A (Table 32)
- (2) The surplus from investment income, quite high during the Sixties, has been steadily declining since 1969; in 1975 there was no surplus any more.
- (3) A considerable discrepancy is noted for Greece between the current deficit according to balance of payments accounts (5 per cent of GDP, average 1970-1977) and the balance Imports less Exports less ~~net income and transfers~~ from the Rest of the World according to national accounts (3 per cent of GDP). In the other countries studied only negligible discrepancies are found between the two accounts.

H
Other net income

Table 20 - GDP by kind of expenditure, annual rate of change (o/oo) at constant prices, 1960-1976

	1960 - 1973							1973 - 1976						
	Consumption			Gross capital formation	Exports	Imports	GDP	Consumption			Gross capital formation	Exports	Imports	GDP
	Private	Public						Private	Public					
Greece	67	62	122	126	127	76		38	97	- 78	63	- 21	28	
Ireland	44	63	96	84	102	44		- 3	50	- 56	54	2	16	
Italy	60	48	48	124	119	56		14	25	- 31	83	14	21	
Portugal	65	84	95	96	106	69		43	102	-140	-101	- 52	9	
Spain	92	61	108	140	179	74		34	62	- 3	23	25	27	
Turkey	54	67	78	86	90	59		92	75	106	22	72	26	
Total of the above	67	55	72	123	130	62		27	45	- 23	56	16	27	
Other OECD Europe	47	41	61	83	89	46		23	37	- 18	41	39	15	

Table 21 - Balance of foreign payments in o/oo of GDP, 1970-1977

	Goods	Travel	Transportation	Investment income	Other Services	Transfers	Current balance	Capital flows	Balance on official settlements
Greece	- 119	+ 23	+ 9	- 5	+ 4	+ 39	- 49	+ 47	- 2
Ireland	- 77	+ 11	- 20	+ 5	+ 6	+ 37	- 38	+ 69	+ 31
Italy	- 15	+ 14	- 3	- 3	+ 1	+ 2	- 4	+ 4	0
Portugal	- 110	+ 21	- 7	+ 1	- 9	+ 83	- 21	+ 7	- 14
Spain	- 57	+ 36	+ 1	- 3	- 3	+ 14	- 12	+ 23	+ 11
Turkey	- 48	+ 1	- 4	- 6	- 3	+ 40	- 20	+ 14	- 6
Total of the above	- 40	+ 19	- 2	- 4	0	+ 15	- 12	+ 13	+ 1
Other OECD Europe	+ 4	- 2	+ 1	+ 3	+ 2	- 9	- 1	+ 11	+ 10

17. Commodity trade composition

Tables 22-A, 22-B, 22-C highlight the average structure of foreign trade by main commodity groups in the two four-yearly periods 1970-1973 and 1974-1977. Annual data stretching back to 1961 are shown in Annex A (Table 34).

Table 22-A - Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Exports

	Food		Fuel		Manufactures		Other		Total	
	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977
Greece	27	36	4	9	25	52	14	15	70	112
Ireland	133	175	3	4	109	194	43	41	288	414
Italy	13	17	8	13	125	173	5	6	151	209
Portugal	28	21	3	3	101	93	20	19	152	136
Spain	21	19	3	3	42	56	4	4	70	82
Turkey	27	20	1	1	7	10	19	13	54	44
France	24	25	3	5	95	120	8	10	130	160

Table 22-B - Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Imports

	Food		Fuel		Manufactures		Other		Total	
	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977
Greece	21	23	17	48	126	149	17	22	181	242
Ireland	51	65	29	66	246	313	49	45	375	489
Italy	34	40	24	59	71	91	28	32	157	222
Portugal	37	55	19	40	152	149	30	31	238	275
Spain	19	23	17	41	62	67	19	20	117	151
Turkey	3	6	8	25	63	76	6	8	80	115
France	18	21	17	38	76	91	16	17	127	167

Table 22 C - Commodity trade by main commodity groups in o/oo of GDP, 1970-1977 : Trade balances

	Food		Fuel		Manufactures		Other		Total	
	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977	1970- -1973	1974- -1977
Greece	6	13	- 13	- 39	-101	- 97	- 3	- 7	-111	-130
Ireland	82	110	- 26	- 62	-137	-119	- 6	- 4	- 87	- 75
Italy	- 21	- 23	- 16	- 46	54	82	- 23	- 26	- 6	- 13
Portugal	- 9	- 34	- 16	- 37	- 51	- 56	- 10	- 12	- 86	-139
Spain	2	- 4	- 14	- 38	- 20	- 11	- 15	- 16	- 47	- 69
Turkey	24	14	- 7	- 24	- 56	- 66	13	5	- 26	- 71
France	6	4	- 14	- 33	19	29	- 8	- 7	3	- 7

Though the present figures, being based on international trade statistics, do not coincide with those used in the previous section (based on balance of payments accounts), the statements already made concerning total commodity trade are confirmed. Exports are comparatively very high in Ireland and very low in Turkey, Spain and Greece ; all the Six have a deficit, small in Italy but quite large in the other five. Both total trade and deficit have been expanding in relation to GDP through the period covered, with few exceptions : exports declined in Portugal and Turkey, the deficit shrank in Ireland.

Coming to the main subdivisions, food (1) exports account in 1974-1977 for almost 18 per cent of GDP in Ireland, almost 4 per cent in Greece, and around 2 per cent in the other four. Food trade gives a very large surplus in Ireland and a moderate surplus in Greece and Turkey.

The surplus has been increasing in Ireland and Greece, but declining in Turkey. Spain has been moving from a small surplus to a small deficit. Italy and Portugal have increasing deficits, amounting to 2-3 per cent of GDP in average 1970-1977. Food deficits are most perplexing in countries like these still having a large fraction of the labour force engaged in agriculture.

Fuel (2) exports are unimportant (apart from the oil refining trade in Greece and Italy) and the fuel deficit is substantial in all the Six. Of course, it was greatly aggravated by the oil crisis and accounts in average 1974-1977 for 2 per cent of GDP in Turkey, 4 in Greece, Portugal and Spain, 5-6 in Ireland and Italy.

Manufacturing exports are substantial in Ireland and Italy ; they accounted for 17-19 per cent of GDP in 1974-1977. The corresponding percentage is 9 per cent in Portugal, 5-6 per cent in Greece and Spain and only 1 per cent in Turkey. Italy alone has a strong surplus (8 per cent of GDP) ; all others have a deficit. Only in Spain the deficit is small (3), while in the other four it ranges from 6 to 12 per cent of GDP. Manufacturing exports have been increasing in all the Six except Portugal, but the balance has been improving only in Italy and - less markedly - in Ireland, Spain and Greece.

Export diversification is another feature of commodity trade composition deserving attention. Table 23 reports some data from a more detailed description offered in Annex A (Table 35). Each item of the 5-digit standard international trade classification is considered as a separate commodity. The total number of commodities exported in 1977 is only slightly lower in Italy than in France. Spain is not much lower than Italy, but Portugal, Ireland and Greece come at a considerable distance, and Turkey is far apart.

Table 23 - Export diversification by commodity, 1970 and 1977

	Total number of items exported (5-digits SITC)		Percentage share of total export receipts accounted for by the ten largest items exported	
	1970	1977	1970	1977
Greece	557	739	51	38
Ireland	420	916	43	37
Italy	1262	1277	24	21
Portugal	1010	938	37	34
Spain	1109	1183	33	28
Turkey	192	445	74	68
France	1326	1335	19	21

(1) Including both raw and manufactured products.

(2) Including both raw and manufactured products.

(3) The deficit turned into a small surplus in 1977.

The degree of concentration of total export receipts in the ten largest items exported is in inverse relation to the total number of items exported. Italy has the same degree of concentration as France, Spain comes next, then follow Portugal, Ireland and Greece on about ~~the~~ ^H equal level, Turkey is last. Additional information offered in Annex A on the composition of export receipts by size of items confirms this ranking. The degree of export diversification appears therefore to be roughly connected with the income level ; it remains an open question whether it is or not affected by the size of the economy. H or

Table 23 also shows a trend to increasing export diversification from 1970 to 1977 : the number of items exported increased in all the Six except Portugal, and the concentration in the ten largest items decreased everywhere.

As concerns the nature of the ten largest items exported, it appears from Annex A that agricultural products and comparatively "traditional" goods such as textiles, etc. are prevalent ; only in Italy, Ireland and Spain, does the list of the ten largest items exported include a number of engineering products. It also appears that since 1970 the composition of that list has been shifting from primary to manufactured exports, except in Italy where primary exports were absent from the start.

18. International specialization in manufactured goods

Tables 24 and 25 illustrate the average position in recent years as concerns trade in manufactures by main commodity groups (1). Table 24 shows exports and net balances, both expressed as a fraction of GDP ; Table 25 shows exports expressed as a fraction of aggregate OECD Europe's exports of the same group of products.

In the following the word "specialization" will be conventionally used when either a country is a net exporter of a certain kind of manufactures, or her share in aggregate OECD Europe's exports is higher for that kind of manufactures than for total manufactures, or both conditions apply. The pattern of specialization that emerges from Tables 24 and 25 according to the conventional definition just given is visualized in Table 26.

It appears that there are two manufacturing sectors, clothing and non metallic minerals, in which all the Six specialize.

Five out of six specialize in footwear (except Turkey) and in textiles (except Spain).

Four specialize in leather (except Portugal and Turkey) and in cork and wood (except Ireland and Turkey).

While all the above refers to industries popularly labelled as "traditional", specialization in metal working is not frequent. Italy alone specializes in all sectors of metal working but one. Spain specializes in two sectors, ships and other transport equipment (practically motor cars) ; Ireland in ships only.

The leading position of Italy - and, at a distance, of Spain and Ireland - among the Six as concerns the structure of manufacturing exports is also reflected in the fact that all three specialize in "other manufactures", which include scientific instruments, musical instruments, printed matters, toys, etc., i.e. products giving in general a high value added per worker.

In addition to the information regarding the share of the Six in exports from aggregate OECD Europe, just considered, Annex A provides information about the share of the Six as suppliers of the OECD market (2). The data shown cover imports of manufactures in all OECD countries, including those outside Europe.

(1) Detailed information for single years from 1961 to 1977 is given in Annex A (Table 36).

(2) See Annex A, Table 37, based on the OECD study, The impact of the newly industrialising countries on production and trade in manufactures, Paris 1979.

Table 24 - Trade in manufacturing by main commodity groups : exports and trade balances in o/oo of GDP, 1974-1977

	Greece	Ireland	Italy	Portugal	Spain	Turkey	Total	France
	E B	E B	E B	E B	E B	E B	E B	E B
Plastics	1 -4	3 -10	6 +1	0 -8	0 -2	0 -2	3 -1	3 0
Other chemicals	5 -10	33 -9	11 -2	8 -13	5 -7	1 -13	8 -6	13 +3
Leather	3 +1	4 +2	2 0	0 0	1 +1	0 0	2 0	1 0
Rubber	0 -1	6 +1	2 +1	1 -1	2 +2	0 -1	2 +1	3 +2
Cork and Wood	1 0	1 -2	1 +1	8 +7	1 +1	0 0	1 +1	1 0
Paper	0 -4	5 -10	2 0	3 0	1 0	0 -1	1 -1	2 -1
Textiles	10 +5	27 -2	12 +6	22 +14	3 0	4 +3	9 +4	6 0
Non metallic minerals	6 +4	8 +1	7 +5	7 +2	3 +1	1 0	5 +3	3 0
Iron and Steel	8 -4	2 -14	13 +3	2 -13	5 -1	0 -13	8 -1	12 +4
Machinery other than electrical	1 -28	29 -33	34 +17	5 -27	7 -13	0 -25	19 -2	22 +4
Electrical machinery	2 -9	16 -13	15 +4	10 -7	3 -4	0 -7	9 -1	11 +3
Ships and boats	1 -34	3 +2	1 0	2 0	4 +3	0 -1	2 -2	2 +1
Other transport equipment	1 -17	5 -24	21 +10	1 -18	6 +2	0 -6	12 +2	22 +12
Furniture	0 0	1 -1	3 +3	0 0	1 +1	0 0	2 +2	1 -1
Clothing	7 +7	13 +1	11 +10	15 +14	2 +1	3 +3	8 +7	4 +2
Footwear	2 +2	3 -1	9 +9	2 +2	4 +4	0 0	6 +6	1 0
Other manufactures	4 -5	35 -7	23 +14	7 -8	8 0	1 -3	15 +5	13 +1
Total	52 -97	194 -119	173 +82	93 -56	56 -11	10 -66	112 +17	120 +29

E = Exports
B = Balances

Table 25 - Trade in manufacturing by main commodity groups : export shares
(exports of aggregate OECD Europe = 1000), 1974-1976

	Greece	Ireland	Italy	Portugal	Spain	Turkey	Total	France
Plastics	2	3	99	1	4	0	109	112
Other chemicals	3	7	63	4	14	1	92	131
Leather	33	19	171	4	68	0	295	137
Rubber	2	11	109	2	58	1	183	232
Cork and Wood	7	5	91	55	44	1	203	117
Paper	1	4	41	5	12	0	63	85
Textiles	13	12	123	21	17	10	196	121
Non metallic minerals	11	6	104	11	24	3	159	94
Iron and Steel	7	1	88	1	19	1	117	158
Machinery other than electrical	0	3	100	1	12	0	116	123
Electrical machinery	2	4	90	5	12	0	113	132
Ships and boats	2	3	17	4	57	0	83	100
Other transport equipment	1	1	99	0	15	0	116	194
Furniture	1	3	164	1	26	0	195	74
Clothing	17	13	231	28	24	12	325	158
Footwear	17	8	405	10	142	1	583	110
Other manufactures	3	8	108	3	24	1	147	127
Total exports of manufactures	4	5	101	5	19	1	135	136
GNP (also in o/oo of OECD Europe)	12	5	100	8	59	21	205	188

Table 26 - A summary picture of international specialization in manufactures, circa 1975

	Greece	Ireland	Italy	Portugal	Spain	Turkey	Total	France
Plastics			+					
Other Chemicals								
Leather	+	>	>		>		>	+
Rubber		+	+		>		+	+
Cork and Wood	>		+	>	>		+	
Paper								
Textiles	+	>	+	+		+	+	
Non metallic minerals	+	+	+	+			+	
Iron and Steel	>		+					>
Machinery other than electrical			+					+
Electrical machinery			+					+
Ships and boats			+					+
Other transport equipment		+	+		>		+	+
Furniture			+		+		+	+
Clothing	+	+	+	+	+	+	+	+
Footwear	+	+	+	+	+	+	+	+
Other manufactures		>	+				+	+

Symbols : + indicates a positive trade balance 1974-1977 ; > indicates that the ratio of country's exports to exports from aggregate OECD Europe is higher for this commodity group than for total manufactures.

It emerges that the proportion of imports coming from the Six is generally much larger in the so called "traditional" sectors than in the other ones. For instance, in 1977, the Six sold as much as 36 per cent of total leather and shoes imported in OECD, and 19 per cent of clothing, but only around 7 per cent of transport equipment and of machinery. In every sector Italy is the largest supplier, accounting for no less than one half and often more than two thirds of total exports from the Six.

From 1973 to 1977 the percentage of OECD imports supplied by the aggregate Six declined only as concerns clothing and cork and wood manufactures, and increased in all the other main subdivisions of manufacturing. In most so called "traditional" sectors the Six were confronted by a strong expansion of the market share of other newly industrializing countries, and chiefly of the four Far Eastern NICs : Hong Kong, Singapore, Korean Republic, Taiwan. This applies not only to clothing and to cork and wood manufactures, where the relative share of the Six shrank while that of Far Eastern NICs greatly expanded, but also to leather and shoes and to textiles, where the share of the Six expanded, but that of Far Eastern NICs expanded more. In all four "traditional" sectors just mentioned the ground gained by Far Eastern NICs actually exceeded that left free by Japan, which was shifting to more rewarding export sectors.

Also in all the remaining sectors the gains of the Six were matched by some gains of the Far Eastern NICs, but only in three sectors the latter gained more : electrical machinery, miscellaneous manufactures, and (marginally) transport equipment. In most cases the exporter who gained most ground was Japan.

19. Composition of private consumption

As a further step in the comparative analysis of the structure of GDP by kind of expenditure, Table 27 shows the composition of private consumption (1). Unfortunately no breakdown is available for Turkey.

Table 27 - Private consumption by kind of expenditure in % of GDP, 1970-1975

	Food drinks tobacco	Clothing and footwear	Gross rent fuel power	Transport and communication	Other	Total
Greece	29	8	9	6	15	67
Ireland	30	6	8	7	15	66
Italy	25	6	9	7	17	64
Portugal ¹	28	10	4	10	20	72
Spain	24	7	9	7	20	67
Total of the above	26	7	8	7	18	66
Other OECD Europe ²	17	5	9	7	19	57

¹ The data shown are obtained by combining the figure for total private consumption as resulting from official national accounts with the breakdown by kind of expenditure as resulting from a study of the Ministry of Planning. Note that there are some methodological differences between the two estimates.

2 Excluding Turkey

(1) For yearly data from 1960 to 1977, see Annex A, Table 38.

It appears that in all those of the Six covered, food consumption absorbs a distinctly higher percentage of GDP than in Earlier DCs (as an average, 9 percentage points more), while the remaining items of consumption taken together absorb about the same percentage as in Earlier DCs. Consequently the ratio of food consumption to total private consumption results higher, and that of other consumption lower in Later DCs than in Earlier DCs, in line with Engel's Law.

The breakdown of non-food consumption by main subdivisions does not differ much between the single Later DCs covered, apart from Portugal, and is roughly in line with Earlier DCs, save that Later DCs devote a somewhat larger share to clothing.

Portugal is quite an anomaly, with a startlingly low proportion of rent and correspondingly high proportions of other items, but statistical comparability is dubious.

As concerns specific consumption items, reference is made to some physical indicators shown in Annex A (Table 1).

A curious point may be added, namely that the ratio of consumption of pharmaceutical products to GNP is reported to be considerably higher in Greece, Italy and Spain than in most Earlier DCs (1).

20. Composition of gross fixed capital formation

Table 28 shows the average 1970-1975 composition by kind of assets ; annual data from 1960 to 1977 on investments both by kind of assets and by sector of economic activity are given in Annex A (Table 39).

Table 28 - Gross fixed capital formation by kind of asset in % of GDP, 1970-1975

	Residential construction	Non residential construction	Machinery and equipment	Total
Greece	7	9	9	25
Ireland	5	8	11	24
Italy	6	6	9	21
Portugal	3	8	8	19
Spain	6	8	9	23
Total of the above	6	7	9	22
Other OECD Europe	7	7	9	23

No major systematic difference emerges from either angle between the five Later DCs for which information is available, on one hand, and Earlier DCs on the other hand.

Some individual differences, however, are worth noting. As concerns composition by kind of assets, Ireland has in recent years a comparatively high proportion of machinery and equipment, and Portugal a very low proportion of residential construction.

As concerns composition by sector of activity, Greece devotes a comparatively high proportion of investment to services, Ireland to agriculture, and Portugal to industry.

(1) See "Mondo Economico", 1978, n° 46, p. 11.

21. Financing of gross capital formation

Some distinguishing features of the Six emerge from Table 29 (1). First, the foreign balance, which is negligible in aggregate Earlier DCs, gives a positive contribution to the financing of gross capital formation in the aggregate Six. The contribution is very substantial in Greece and Ireland, and negligible only in Italy.

Second, the contribution of Government's savings is much lower in aggregate Six than in aggregate Earlier DCs, and is actually negative in Ireland and in Italy.

The contribution of private savings is higher in most of the Six than in aggregate Earlier DCs, but only in Greece and Spain the difference is such as to compensate for the lower Government's savings. Therefore in the Six as an aggregate, as well as in Ireland, Italy, Portugal and Turkey individually, the total contribution of domestic savings is lower than in Earlier DCs.

Table 29 - Finance of gross capital formation by kind of source in % of GDP, 1970-1976

	Domestic savings			Net borrowing from the Rest of the World	Total = = Gross capital formation
	Private	Government	Total		
Greece	20	3	26	3	29
Ireland	22	- 1	20	5	25
Italy	26	- 3	23	0	23
Portugal	19	2	21	1	22
Spain	22	2	24	1	25
Turkey	..	..	19	1	20
Total of the above	..	..	22	1	23
Other OECD Europe	20	4	24	0	24

Net borrowing from the Rest of the World = Imports-Exports-~~net income and transfers~~
from the Rest of the World.

Government = General Government's savings

Private = Total domestic - Government

Other net income

22. Government finance

The meaningfulness of quantitative comparisons of economic structure is in all cases limited, but limitations are specially serious as concerns Government finance. For instance, by granting tax exemptions one Government may get almost exactly the same results that another Government gets by giving subsidies or grants ; and in some countries a separate account may be used for operations that in other countries pass through the official budget.

Subject to the reservations above, Tables 30, 31 and 32 give a summary view of the average position 1970-1976. Corresponding yearly figures from 1960 to 1977 are available in Annex A (Table 41).

Starting from public expenditure, with very few exceptions the ratio of total expenditure to GDP has been steadily increasing in all countries examined. Therefore the average ratios shown in Table 30 are somewhat below the most recent levels.

(1) For annual data, see Annex A (Table 40)

Table 30 - General Government's current expenditure by main category in % of GDP, 1970-1976

	Final consumption	Social security benefits	Subsidies	Other	Total
Greece	13	8	2	1	24
Ireland	16	4	4	13	38
Italy	14	17	2	4	37
Portugal	14	4	2	2	22
Spain	9	6	2	4	21
Total of the above	13	13	2	4	32
Other OECD Europe ¹	17	11	2	7	37

¹ Excluding Turkey

Table 31 - General Government's current receipts by main category in % of GDP, 1970-1976

	Direct taxes	Indirect taxes	Social security contributions	Other	Total
Greece	4	14	7	2	27
Ireland	10	18	5	3	36
Italy	7	11	13	3	34
Portugal	5	12	6	1	24
Spain	4	7	8	4	23
Total of the above	6	10	11	3	30
Other OECD Europe ¹	13	13	11	3	40

¹ Excluding Turkey

Table 32 - General Government's saving, borrowing and capital formation in % of GDP, 1970-1976

	Saving ¹	Net borrowing	Other resources ²	Total = = Gross capital formation
Greece	3.1	..	..	..
Ireland	- 1.3	5.8	- 0.3	4.2
Italy	- 3.3	7.4	- 0.8	3.3
Portugal	1.6	1.0	- 0.1	2.5
Spain	2.3	- 0.2	0.6	2.7
Other OECD Europe ³	3.7	0.5	- 0.1	4.1

¹ Current receipts - current expenditure

² Net capital transfers received + net sales of land and intangible assets + depreciation allowances (where not included in saving).

³ Excluding Turkey

The level in aggregate Later DCs is appreciably lower than in aggregate Earlier DCs, but there are marked differences between individual countries. Greece, Portugal and Spain are very low and the same certainly applies to Turkey, for which however fairly comparable figures could not be found. Ireland and Italy, on the other hand, are as high as average Earlier DCs.

As for the single subdivisions of expenditure, Ireland is approximately on the same level as Earlier DCs in final consumption, much below in social security benefits, and much above in subsidies and in the residual subdivision. Italy is much above in social security benefits and below in the other subdivisions except subsidies. The other three are below in all subdivisions except subsidies.

Total current receipts have been increasing as a proportion of GDP, in Later DCs as well as in Earlier DCs. As seen in Table 31, all Later DCs have a lower level than average Earlier DCs.

As for the single subdivisions of receipts, all Later DCs covered are below average Earlier DCs in direct taxes; the difference is moderate for Ireland, but very marked for the other four. In indirect taxes, only Ireland is much above average Earlier DCs, and Spain is much below.

While in Earlier DCs receipts from indirect taxes equal those from direct taxes, in Later DCs they largely outweigh them. In social security contributions only Italy is above Earlier DCs, and the other four are considerably below, but Spain has been rising fast in recent years.

Table 32 shows that only in Ireland the Government's capital formation is roughly in line with Earlier DCs; in the other three Later DCs covered it is lower. Government's saving is lower in all Later DCs than in Earlier DCs, and Ireland and Italy are actually dissaving. With the exception of Spain, saving has been declining (or dissaving has been increasing) through the period examined. Since 1975 saving became negative also in Portugal. In Ireland, Italy and Portugal net borrowing has been increasing and the most recent available figures are distinctly higher than the average 1970-1976 shown in Table 32. In 1976 net borrowing expressed as a percentage of GDP was 10 in Italy, 8 in Ireland, 7 in Portugal.

23. Price instability

Table 33 shows that in 1965-1970 the annual rate of wage increase was two percentage points higher in aggregate Six than in aggregate Earlier DCs; but also the rate of productivity growth was two points higher, and therefore unit labour costs (1) moved at an equal pace in both groups of countries (+ 5 per cent annually), and so did the general price level (+ 4 per cent annually). Variance among the Six was moderate (2).

In 1970-1973 the wage increase accelerated in both groups of countries, but the acceleration was stronger in the Six, and thus the speed differential for wages widened while that for productivity slightly narrowed. Therefore unit labour costs started increasing faster in the Six (11 per cent annually) than in Earlier DCs (8 per cent annually). The same happened for the price level. Wage and price inflation was specially marked in Turkey.

(1) These are approximated in the table by the crude formula $\frac{1-w}{1+y/l} - 1$ where w = rate of increase of compensation of employees per employee, and y/l = rate of increase of GDP at constant prices per person employed.

(2) From Annex A (Table 42A) it emerges that the performance of the Six was not much worse in the period 1960-1965. The aggregate Six were then 6 points above Earlier DCs as concerns the rate of wage increase, and 3 points above as concerns the rate of productivity growth.

Table 33 - Wages, unit labour costs and general price level, annual percentage rate of change, 1965-1976

	1965 - 1970				1970 - 1973				1973 - 1976			
	w	y/l	ulc	p	w	y/l	ulc	p	w	y/l	ulc	p
Greece	13	8	5	3	16	8	7	9	23 ¹	3	..	16
Ireland	12	5	7	6	18	5	13	13	23	2	21	16
Italy	11	6	4	4	15	5	10	7	22	1	20	18
→ Portugal	12	6	6	4	17	9	7	7	25 ¹	2 ³	..	17
Spain	12	6	6	5	18	6	12	9	24	4	21	16
→ Turkey	11 ²	5	..	7	23	5	17	19	..	8	..	20
→ Total of the above	11	6	..	4	17	5	11	9	..	2	..	18
Other OECD Europe	9	4	5	4	13	4	8	7	15	2	13	11

w = compensation of employees per employee

y/l = GDP at constant prices per person employed

ulc = unit labour costs (rough calculation based on w and y/l)

p = implicit price deflator of GDP

¹ 1973-1975

² 1967-1970

³ 1974-1976

In 1973-1976 there was a further considerable acceleration of wage increase in the Six and only a marginal acceleration in Earlier DCs, while productivity decelerated in both groups of countries. This resulted in unit labour costs increasing by 13 per cent annually in aggregate Earlier DCs, and much quicker in the Six. The rates for general price level were respectively 11 and 18.

The higher rate of inflation experienced by the Six was reflected in a deterioration of their exchange rates (1) - and, of course, the causal process may have been working both ways -, but as already noted in section 2 this process involved considerable leads and lags.

24. Income distribution

Those who made a comparative study of the patterns of personal income distribution generally concluded that inequality tends to be at its highest in the intermediate phase of economic development, i.e. in the phase that the Six are going through now (2). The statistical basis for such a conclusion is however, admittedly, rather weak.

An analogous connection between inequality and phases of economic development is suggested concerning the income distribution by regional subdivisions. A well-known essay of J.G. Williamson based on an extensive analysis of cross sections and time series concluded that the variance of income per capita between the different regions of a country tends to increase in the early phase

(1) These are shown in Annex A, Table 42B.

(2) See S. Kuznets, *Modern economic growth*, New Haven 1966, Chapter 4 ; P. Roberti, *Income inequality in some Western countries : patterns and trends*, "International Journal of Social Economies", vol. 5, n° 1.

of development and to decrease in the late phase ; and pointed to Italy and Spain (as well as to Brazil and Colombia) as being in the intermediate phase, in which inequality is highest (1). A more recent comparison of France, Germany, Italy and United Kingdom by G. Tagliacarne also suggests that it is Italy among those four that has the greatest regional inequality (2).

The international comparison of income distribution by sectors of economic activity has already been dealt with in sections 11 and 12. What remains to be examined here is, therefore, the functional distribution.

More precisely, I shall concentrate on the distribution of income between the compensation of employees on one hand, and all other kinds of incomes on the other hand. Such distribution is subject to marked fluctuations in the short run (3), but only medium run averages will be considered in the following.

Table 34 shows the average 1970-1977 incomes shares expressed, according to the current international practice, as a percentage of gross national income. The share of "compensation of employees" is lower in all the Six than in Earlier DCs, the difference being smallest in Italy and Spain, but this does not mean much. A further perusal of the table shows, for instance, that the fact that Ireland has a lower share of compensation of employees than Italy and Spain is not reflected in her having a higher share of "property and entrepreneurial income", far from that. What is higher in Ireland is just the share of "indirect taxes less subsidies" and of "net ~~income and transfers~~ from the Rest of the World". It thus appears that the considerable difference existing among countries as concerns these two items (4) seriously affects any international comparison of the share of compensation of employees in gross national ~~(GNI)~~ income. H
other inc
X
X

Table 34 - Percentage composition of Gross National Income, 1970-1977

	Compensation of employees	Property and entrepreneurial income	Consumption of fixed capital	Indirect taxes less subsidies	Net other income from Rest of the World
Greece	30	46	6	12	6
Ireland ¹	51	24	8	14	3
Italy	53	28	10	9	+ 0
Portugal ¹	46	33	4	9	8
Spain	53	33	8	5	1
Turkey ²	27	53	6	10	4
Other OECD Europe	57	22	10	12	- 1

¹ 1970-1976

² 1970-1973

- (1) J.G. Williamson, Regional inequality and the process of national development : a description of the patterns, "Economic Development and Cultural Change", vol. 13, n° 4, 1965. The statement reported above concerning Italy and Spain refers to the position in the Fifties.
- (2) G. Tagliacarne, Il divario economico tra le 109 regioni della Comunità Economica Europea, "Note economiche", 1978, n° 1.
- (3) This emerges at first sight from the annual data shown in Annex A (Table 43). As a most impressive instance, note the 1975 peak of the wage share in Portugal.
- (4) Also differences in the item "consumption of fixed capital" play a (minor) role. What is disturbing is that such differences may be suspected at least partly to depend on lack of homogeneity in the estimates. For instance it is difficult to understand why consumption of fixed capital should be distinctly lower in Portugal than in Turkey, or why it should have a steeply increasing trend in Greece and Italy and a horizontal trend in the other countries examined (see Annex A, Table 43).

26 Therefore a discussion of the distribution between wages and other factor incomes is better based on Table 35. Section (a) of the table shows that when compensation of employees is expressed as a percentage of net domestic product, all the Six still remain lower than average Earlier DCs, but their individual ranking changes in respect of Table 34. Ireland is now only slightly below Earlier DCs; Italy, Portugal and Spain are considerably lower; Greece and Turkey are far lower. In all the Six, as well as in average Earlier DCs, the percentage of compensation of employees is increasing from 1970-1973 to 1974-1977.

However such a percentage considered in isolation does not allow one to draw conclusions concerning the comparative income position either of the aggregate employed labour force (employees plus self-employed), or of the average employee, because the proportion of employees in total employment widely differs between countries (1). A more significant indicator is the ratio of the proportion of compensation of employees in total product to the proportion of employees in total employment, shown in section (c) of the table. This ratio may be taken to express, in differently, two concepts :

- (A) the average compensation of the individual employee, compared with the average product per person employed (including both employees and self-employed)
- (B) the hypothetical share of aggregate labour in total net product, assuming that average earnings of the individual self-employed are equal to average earnings of the employee.

As seen in section (c), the ratio is significantly higher in all the Six than in average Earlier DCs (2). In all countries for which information is available, the ratio has been increasing from 1970-1973 to 1974-1977.

Finally, section (d) of the same table shows another indicator, the ratio of compensation per employee to GDP per inhabitant. The individual ranking of the Six changes somewhat in respect of section (c), and the difference between each of them and average Earlier DCs results still larger. This depends mainly on the Six having a lower ratio of employed labour force to total population than average Earlier DCs, and but marginally on their having a lower ratio of capital consumption to domestic product.

The high ratio of compensation per employee to net product per person employed in the Six, insofar as it is not due to corrigible statistical errors, may be interpreted as a manifestation of dualism (such as meant in Part I, section 8). Namely, employees in Later DCs are likely to be more concentrated than self-employed in the "modern" sections of the economy and therefore to obtain earnings considerably higher than the average component of the labour force. In other words, the hypothetical equality mentioned in point (B) above is unlikely to apply to Later DCs, though it may well apply to Earlier DCs. Moreover, in certain Later DCs the wage estimates used in national accounts may refer only to a part of the employees, those hired by the firms that comply with the laws and the wage agreements, while there is a "parallel" labour market where lower wages are paid.

(1) See section (b) of Table 35. In order to ensure comparability with the income distribution statistics available, the ratio of employees to total employment used here includes armed forces (both in numerator and denominator), while that shown in Table 11 above refers to civilian employment alone.

(2) This is in agreement with comparative studies covering other countries from which it equally emerges that the ratio of compensation per employee to product per person employed tends to be higher in those countries which have a lower ratio of employees to total employment. See J. Lecaillon and D. Germidis, *Part des salaires dans le revenu national et développement économique*, "Revue Internationale du Travail", vol. 111, 1975, p. 427.

Table 35 - The relative level of compensation of employees, 1970-1977

	a		b		c = a : b		d	
	Compensation of employees as a percentage of NDP		Employees as a percentage of total employment		Compensation of employees per employee as a percentage of NDP per person employed		Compensation of employees per employee as a percentage of GDP per inhabitant	
	1970-1973	1974-1977	1970-1973	1974-1977	1970-1973	1974-1977	1970-1973	1974-1977
Greece	39	41	43 ¹	..	90	..	203	...
Ireland	67	70	70	71	95	98	211	237
Italy	62	69	70	71	88	97	207	220
Portugal	53	65	..	66	..	98	...	206 ²
Spain	59	63	66	70	89	90	201	218
Turkey	34	..	29 ³	31 ⁴	120 ³	..	246 ³	...
Other OECD Europe	70	74	85	86	82	86	152	162

NDP = Net ~~GDP~~ domestic product at factor cost

GDP = Gross domestic product at purchaser's value (as in all preceding tables)

1 1970-1971

3 1970

2 1974-1976

4 1977

Therefore the conclusion to be drawn from Table 35 is not that the share of labour in the Six is comparatively (or unduly) large ; but rather that the wage level as shown in the national accounts of the Six refers to a privileged fraction of their working population. It exceeds the earnings that are, and can be obtained - at present production levels - by the average worker ; this point deserves being recommended to the general attention in order to prevent illusion.