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**EMPLOYMENT AND PRODUCTIVE CAPACITY
IN ITALY**

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Employment and Productive Capacity in Italy *

1. Participation Rates in the Official Statistics; International Comparisons

The official statistics on the active population and on employment in Italy should be examined with considerable reservation, but will be used for the initial step of our analysis.

TABLE 1

PARTICIPATION RATES (AS %), MALE AND FEMALE IN ITALY
AND 14 OTHER COUNTRIES AROUND 1970

	M 15-64	F 15-64	M	F	MF
England and Wales 1971	82	43	61	33	47
France 1968	73	36	55	28	41
Netherlands 1971	76	26	54	19	37
Italy 1973	69	24	53	19	36
Spain 1970	80	18	57	13	35
Poland 1970	80	62	58	46	52
USA 1970	75	41	53	30	41
Argentina 1970	81	26	58	19	39
Brazil 1970	84	21	51	13	32
Tanganyika 1967	86	71	50	43	47
Algeria 1966	82	40	42	22	32
Thailand 1970	88	73	52	46	49
Turkey 1965	92	57	53	34	43
India 1971 *	86	19	53	12	33
Japan 1970	84	51	63	39	51

* Excludes unemployed and non-employed.

Table 1 compares Italy with fourteen other countries chosen in such a way as to provide a range of situations in some 200 states

* This article is an abridged version of an essay published in Italian by the Società Editrice Il Mulino of Bologna (*Occupazione e capacità produttive: la realtà italiana*, pp. 123, 1976). Readers are referred to the Italian original for the bibliographic references and for the statistical sources and methods used for the tables and graphs.

or territories in the world whose statistics are given in international yearbooks.

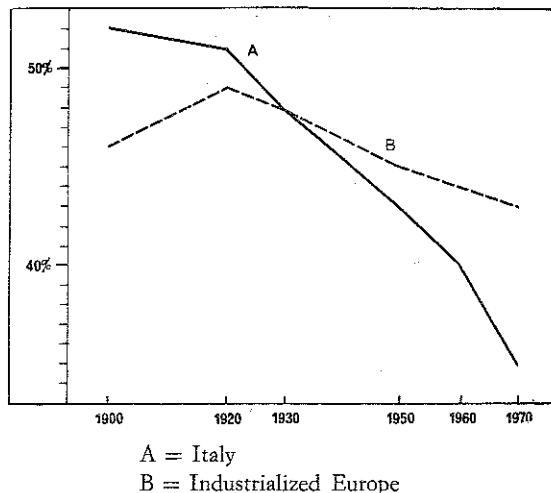
The first column shows the specific participation rate of the male population of 15 and above. There are no marked differences. Ten countries out of fifteen are between 75 and 85, but Italy has definitely the lowest rate — 69. There are on the contrary very marked variations between the rates for the female population aged fifteen and above which are given in the second column. In Western Europe high rates around those for England are to be found in Germany, Switzerland, Austria, Denmark, and a low rate like the Spanish one in Portugal. Sweden is close to the French level, and Greece to the Italian one. The Eastern European countries all have high rates which are close to the figure for Poland. In America, the United States are in line with the Anglo-German model, and the whole of Latin America (but also Canada) is close to the Italian one. In Africa, the participation rate for adult females shows a very wide range of variations. In the developing nations of Asia, too, there are huge divergences. Japan, to conclude the review, is at the top of the developed countries excluding the Soviet area.

The third column shows the general rates, which are the ones usually utilized in journalistic discussions. Since they are the product of one component with a small range of variations (the male rates) and one with a very wide range (the female rates), they give rise to a listing mainly determined by the second one. The well founded suspicion that the differences in the female rates depend to a large extent on the way in which the facts are recorded rather than on the fact themselves suggests that we should not attribute too much importance to this order.

However, Table I, taken as a whole, allows us to make a tentative assessment of the comparative position of Italy which can be summed up as follows. *According to the official statistics*, Italy has at present a general participation rate somewhat below those of countries with a similar age structure; this is caused by a rather low rate for adult females and by an exceptionally low rate for adult males. The latter datum is alone sufficient to give grounds for alarm.

Another abnormal aspect is the long-term trend in the general participation rate in Italy. Figure 1 compares the Italian rate with the average for the 13 most advanced European countries including

FIGURE 1

ACTIVE POPULATION AS A PERCENTAGE OF TOTAL. ITALY
AND INDUSTRIALIZED EUROPE 1900-1970

Italy, which in 1900 was above the average. Since then, there has been a constant fall. However, Italy's inferiority was still moderate in 1950, and it is only recently that the situation has begun to deteriorate rapidly.

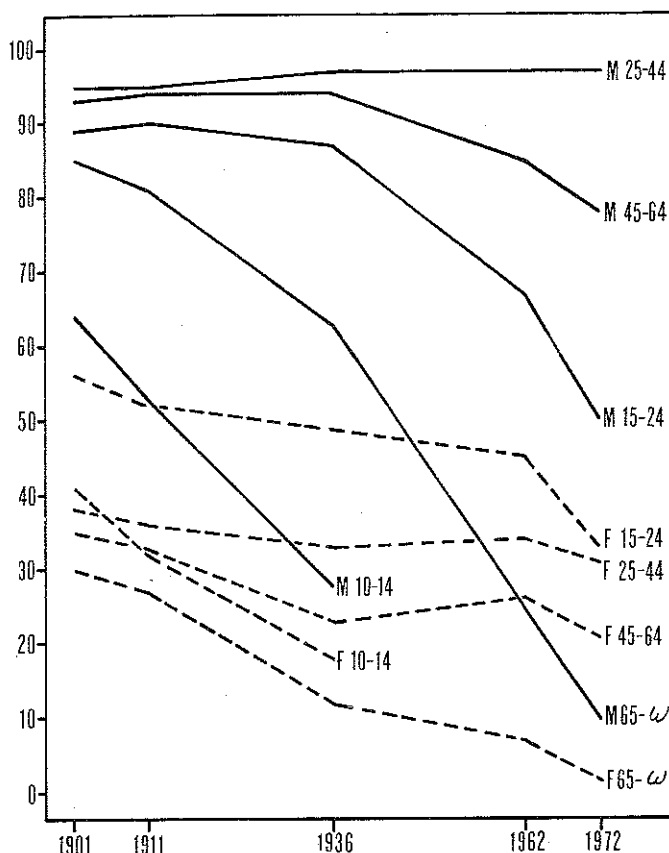
Can the trend perhaps be explained by anomalies in the behaviour of (a) certain age groups and (b) certain branches of production?

(a) As regards the specific participation rates by age group, Figure 2 illustrates the broad long-term evolution in Italy.

For males, the activity rate in the centre age groups is roughly constant over time at levels close to 100 percent (see the curve marked M 25-44, ie. males from 25 to 44). The upper and lower age groups, on the contrary, show a long-term downward trend of participation rates which becomes more marked, the further one moves from the centre. It is almost superfluous to recall the factors which are responsible for this fact. For the younger age groups, the cause is longer schooling, and for the older ones the development of pension schemes. For both groups, account must be taken of the gradual replacement by capitalist enterprises of the family business

FIGURE 2

SPECIFIC PARTICIPATION RATES (%) BY AGE GROUP. ITALY 1901-1972



(peasants, artisans, small shopkeepers) in which even "second class" labour (oldsters, juveniles, housewives) can be easily absorbed.

We shall now pass to Table 2 which replies to two kinds of questions. It shows in detail the more recent evolution of the specific rates in Italy. The male rates have stabilized in all the five-year age groups between 30 and 49, and are declining in those above and below these, and the more rapidly the nearer one gets to the groups furthest from the centre. The female rates have finally begun to increase in the two five-year groups stretching from 25 to 34, and have almost stabilized in the 20-24 and 35-54 groups while the decline continues rapidly in the lower and higher ages.

The table also allows us to make a detailed comparison between

PARTICIPATION RATES (%) BY AGE GROUP;
ITALY AND 3 OTHER COUNTRIES, AROUND 1970

TABLE 2

	Italy		Spain	France	England
	1964	1973	1970	1968	1971
M					
14 - 19	54	33	66	42	61
20 - 24	75	66	81	71	91
25 - 29	96	93	95	94	97
30 - 44	98	99	97	97	98
45 - 49	95	95	95	95	98
50 - 54	93	90	91	91	97
55 - 59	85	76	86	82	95
60 - 64	56	42	74	66	87
65 - 69	20	10	21	19	20
F					
14 - 19	37	26	37	31	53
20 - 24	45	44	39	62	60
25 - 29	33	36	21	51	43
30 - 34	30	32	13	42	45
35 - 39	32	31	13	41	55
40 - 44	32	31	14	43	60
45 - 49	31	30	14	45	62
50 - 54	27	26	15	45	59
55 - 59	22	16	14	42	51
60 - 64	15	9	12	32	28
65 - 69	5	2	4	8	19

the present Italian levels and those of three other European countries. For males, the differences are minimal between one country and another for the ages from 25 to 54, but are substantial in the lower and higher groups (the further one moves to the extremes), and for all these ages without exception Italy has much the lowest values of all four countries. We would particularly emphasize the great gap between Italy and the other three countries as regards the 60-64 age group — which is related to the special features of the Italian pension system.¹

For females there are wide variations between countries in all

¹ There is no marked change in the conclusions if we extend the area of the comparison by including a heterogeneous group of 10 countries comprising the Federal Republic of Germany, Poland, the United States, Japan, Argentina, Algeria, Tanganyika, Thailand and Turkey. Here are the Italian figures and the highest and lowest figures for the other ten countries:

	Italy	Other 10 countries
Age 20 - 24	66	79 - 93
Age 60 - 64	42	56 - 90

age groups; the Italian rates are usually half way between the high English and French levels and the low Spanish ones (except for the groups over 59 and under 20 where the Italian figures are lower even than the Spanish ones). The Italian rates, unlike those of the other countries and especially those for England, do not reflect the phenomenon of women going back to work after the years spent on bringing up a family.

To sum up, the decline in the participation rates among older and younger males is to be found in all countries, but has proceeded further in Italy, where indeed the rates have sunk extremely low, in particular as a result of the age at which people can draw a pension in Italy. This is the most striking anomaly in the Italian situation, whereas, for the female rates, we have not as brilliant a record as various other countries, but we are not an exceptional case.

(b) Table 3 supplies data for an international comparison as

TABLE 3

ACTIVE PER THOUSANDS INHABITANTS IN AGE BRACKET 15 - 64
BY PRODUCTION SECTORS. ITALY AND 6 OTHER COUNTRIES
AROUND 1950 AND 1970

	Total actives	Agriculture	Industry	Other activities
Italy				
1951	583	257	181	145
1973	462	77	194	191
France				
1946	653	235	194	224
1973	552	64	207	281
Germany (F.R.)				
1950	578	134	248	196
1972	569	41	278	250
United Kingdom				
1951	578	29	284	265
1971	575	14	255	306
Sweden				
1950	575	117	235	223
1973	559	42	217	300
United States				
1950	549	65	190	294
1973	604	24	197	383
Japan				
1950	663	314	147	202
1970	666	127	226	313

regards the absorption of the labour force in the various branches of production. If the population of a country increases, the number of persons active must increase at the same pace if the participation rate is not to change. If we ask whether the rate of increase needed is specially high in the case of Italy, the first column of Table 4 replies that it is not. For total population in Italy has increased only slightly more rapidly than in the United Kingdom and in Sweden, and less rapidly than in the other four countries.

This is only a first approximation to the truth, for we are more interested in the specific rate for the adult population alone than in the general rate for the whole population. Now, if we move from the first to the second column of Table 3, we find that only in Japan has there been a marked difference between the rates of increase in the total population and in the adult population. (The latter has increased much faster, that is, the proportion of children has decreased sharply.) But in all the other countries, the difference between the two rates has been a modest one.

TABLE 4

AVERAGE ANNUAL VARIATION IN TOTAL POPULATION,
IN POPULATION OF WORKING AGE AND ACTIVE POPULATION.
ITALY AND 6 OTHER COUNTRIES AROUND 1950 AND 1970

	Rate of variation			Breakdown of variation in active population		
	Total population 15-60	Population 15-60	Active population 15-60	Agriculture	Industry	Other activities
Italy 1951-1973	68	80	- 26	-133	41	66
France 1946-1973	91	82	20	- 85	35	70
Germany (F. R.) 1950-1972	95	100	92	- 59	70	81
United Kingdom 1951-1971	49	37	36	- 11	-7	54
Sweden 1950-1973	63	78	66	- 47	18	95
United States 1950-1973	144	136	177	- 19	50	146
Japan 1950-1970	116	186	189	- 78	111	156

If we take the second and third columns of the Table 4 together we will be able to judge the extent of the increase in the active population needed for each country to keep unvaried the specific adult participation rate, and the degree of success in meeting this target. The most striking case is that of Japan where the necessary increase was exceptionally high and the target has been entirely achieved, and that of the United States, where the increase needed, though high, was far exceeded (which means that the participation rate was substantially expanded). Germany, the United Kingdom and Sweden more or less realized the necessary increase, while France realized it only to a small extent. Lastly, Italy is a disconcerting case, since its active population, far from increasing as much as necessary, actually declined.

The three subsequent columns disaggregate the values in the third column by branch of production. It will be seen that the positive contribution to the variation in the total active population by industry and by the tertiary sector was not particularly low in Italy compared with the other countries. On the contrary, the negative contribution of agriculture in Italy was exceptional.

The Italian case is disconcerting, not so much because the reduction of the active population in agriculture was *marked*, but rather because it was *more marked* than the absorption of the active population by the non agricultural sectors. In all the countries taking part in modern economic growth, there is a switch in their labour force from agricultural to non-agricultural activities where there is a greater demand for it and where it is better paid. The process involved is set in motion by fairly understandable mechanisms.² It is, however, difficult to understand why a proportion of the Italian population abandons agriculture, not in order to accept a better paid job in other sectors, but to give up activity altogether. This is all the more strange when it is remembered that the Italian participation rate is low as it is.

How can we explain such a flight from agriculture? There are various hypotheses. I shall merely set out the most plausible one, which affirms that the phenomenon is caused by rational choices made, not by the individuals but by the family nuclei and designed to maximize the earnings or satisfactions of these nuclei as a unit.

² See G. Fuà, "Declino dell'agricoltura e legge di Engel nella esperienza italiana" in *Moneta e Credito*, Quarterly Review of the Banca Nazionale del Lavoro, September 1974.

I am thinking of the frequent case in which the whole family leaves agriculture (at least officially) because one of the members has found a more satisfying non-agricultural job. The other members, who until then had carried out some agricultural activity, lose it when transferred elsewhere (they are mostly "second class" labour — oldsters, juveniles, housewives); hence, the family's participation rate declines, but its income and/or level of living rises.

It is probable, too, that in very many cases the decline in the participation rate resulting from such moves is to a large extent only apparent, since, even after the transfer, the "second class" labour find ways of carrying out some marginal jobs. But, while the marginal activities within the framework of the agricultural family were recorded in the statistics, those performed after the transfer escape registration, often in part owing to some interest in concealing them because they infringe the collective contracts and/or the welfare and tax regulations.

2. Attempts to Measure the Labour Force not Recorded by Official Statistics; the Mechanisms Which Determine "Irregular" Employment

We have seen in the preceding section that, according to the official statistics, the Italian participation rate is abnormally low; that the anomaly is particularly disconcerting for males above and below the middle age groups; and that these phenomena can be related to the flight from agriculture. But there are reasons for suspecting that the cases of inactivity recorded often do not correspond to a real inactivity, but to an activity which is not recorded.

Is it possible to measure the non-recorded labour force? In the last few years there has been a series of inquiries into the question. Professor Frey and Isfol-Doxa³ have produced the following estimates for the national aggregate (in thousands of persons):

	Frey 1971	Isfol-Doxa 1974
Total officially recorded labour force	19,254	19,502
Hidden labour force to be added to the above total	2,760	2,168

³ L. FREY: "Il potenziale del lavoro in Italia", in *Documenti ISVET*, no. 50, 1975, and ISFOL-DOXA: "Forme e caratteristiche della partecipazione al lavoro" in *Osservatorio ISFOL*, September 1975, no. 5, pp. 55-103.

Vastly greater assessments of the gap between the official and the real participation rates of activity have emerged in the course of certain surveys of individual parishes in districts in Emilia-Romagna, Marche and Piemonte. The difference is of the order of 15-20 percentage points, and in certain cases even greater. Naturally, we must avoid extrapolating on to a national scale the results of a few strictly local surveys. But the extremely high levels of hidden activity ascertained are probably to be attributed not solely to the economic peculiarities of the areas covered, but also to the greater accuracy of the local surveys as compared with the national estimates.⁴

We must raise the question whether hidden employment also exists in other countries, and if so to what extent. It would be interesting to see whether, when we add up official and unofficial figures, Italy were no longer so low in the international table as appears.

A comparison between the data available for the different countries on hidden labour is still only at the planning stage and will need some time to yield results. For the time being, all we can say is that hidden labour exists elsewhere in Europe but apparently not on the same scale as in Italy. So that, while Italy comes last as regards officially recorded labour, it may well be first when it comes to underground work — which is not exactly a reason for rejoicing.

Why does so much employment escape inclusion in the statistics? Mainly because both the workers and the employers themselves are interested in concealing it since it involves irregularities vis-à-vis the laws and the wage agreements. But what is the mechanism leading to the creation of such a large number of irregular situations?

I shall begin by examining the labour supply aspect and shall confine myself to the two most common examples. According to the existing regulations, a pensioner taking on a job and declaring it would have his pension docked accordingly. Hence, he is usually eager to find a job which he does not have to declare, and which,

⁴ It should be noted that, when we admit that the official employment statistics underestimate the size of the real phenomenon, we also implicitly deny the validity of the statistics of output per person employed — often called productivity — and/or of total output. In concrete terms, we must assume (taking account of the way in which output is measured) that, for agriculture, the underestimate of employment is reflected in an overestimate of productivity; for the community, social and personal services on the contrary, it is reflected in an underestimate of output. In the case of the other tertiary sectors and of industry, the error is reflected in part in output and in part in productivity.

even if less well paid than the other type, can bring him up to a higher income bracket (including the pension). The housewife, too, who offers only part-time services may be interested in an informal relationship in which she works at home or as a domestic help rather than on a regular basis with a firm. For she does not need to obtain insurance coverage, since she already enjoys such facilities as the wife of an insured worker, and since a regular job would involve very rigid obligations and working schedules.

I think, however, that the main forces favouring the growth of irregular work, as opposed to regular contracts, operate on the employer's side. The firm will spend less for every unit of labour employed if it can avoid declaring the arrangement for the purposes of social welfare and tax payments. The informality of the relationship, too, can enable the employer to keep the wage paid below the minima imposed by the agreements negotiated with the trade unions. Lastly, and probably most important of all, he can thus get out of the constraints comprising recruitment, dismissal, advancement, payment on retirement and all the others affecting workers' rights which, taken together, constitute a serious rigidity factor.

Of course, the lesser cost will be to some extent offset by a smaller output per unit of labour employed. For the concealment of labour implies the use of expedients (for example, work at home) which are usually incompatible with the more advanced forms of industrial organization. However, what the firm loses in terms of productivity may be more than made up by saving in the cost of labour, and on balance the rate of profit may be greater with a low productivity system using irregular labour than with a high productivity one using "regular" labour.

Hence, we may conceive of a case in which a firm faced with these two alternatives may choose the second one, on the basis of a correct calculation of the private advantage.

However, the most frequent case in Italy seems to be a different one. It is that of a firm which is not at all in a position to adopt the higher productivity system, because it is still at too modest a level of technology and organization. Such a firm would not be able to choose between irregular and regular labour. The latter is beyond its reach because, to cover the cost, it would need a higher degree of productivity than it can achieve. Its choice is only between closing down and employing irregular labour. And a very large number of firms find it in their interest to employ the latter type.

3. A Possible Interpretation of the Italian Situation

From the preceding remarks we can construct a hypothesis to explain the Italian situation. This is briefly as follows. Italy is at a lower level of development than the other countries of the European Community as regards productive capacity, but seeks to achieve *at once* (partly because of the desire to imitate these countries) wage levels and working conditions approximating to those of its EEC partners.

The result is high labour costs which firms can only bear if they have a correspondingly high productivity. But, when we say that a country is still at a relatively low level of development of its productive capacity, what we mean is that there is still only a restricted number of productive and organizational structures capable of operating with the most advanced techniques. In other words, country A is more advanced than country B to the extent that the firms capable of producing a value added of — say — 12,000 dollars per employee (and hence of paying a proportionate wage) are sufficiently numerous in country A to employ the whole labour potential of the nation, whereas in country B they are hardly able to employ a small percentage of it.

If Italy — which is still relatively underdeveloped — tries to adopt a system of labour costs corresponding to a higher level of development, the attempt will necessarily have one of two consequences:

(a) The system will exist on paper only and not in reality, as is the case when a wage increase is promptly absorbed by inflation or when a regulation is disregarded as soon as it has been approved.

(b) Or the system of high labour costs which it is sought to implement is in fact carried out but only for part of the labour potential, i.e. that part which finds employment with those firms able to operate at a correspondingly high level of productivity. As regards the rest of the labour supply, there are two possibilities. It may just give up working, or it may be content with less remunerative occupations which are either effected on their own behalf or for less advanced firms. The latter type of work is often irregular, and is not covered by the official statistics.

The second of these courses — that is, underground work rather than actual inactivity — seems to be the main outcome in Italy.

But there is not much consolation in the thought that many people who appear in the official statistics as non-employed or unemployed are on the contrary employed in this way, first because the dualism of working conditions and remuneration is unjust and causes a social malaise, and second because the system impels the still scanty organizational and entrepreneurial forces of the country to adopt such expedients (eg. work at home, as noted above) which hamper rather than encourage the advance towards modern economic development.

In the subsequent sections, I will try to verify my hypothesis in the light of the evidence that:

we are at a lower level of development than the other European Community countries, and

we are nevertheless trying to raise wages and working conditions to levels approximating to those in these countries.

4. Level of Development of Productive Capacity; the Micro-Firms

The level of development of productive capacity ought to be measured by the quantity of output obtainable; but, in view of the difficulties which this system of measurement involves, we prefer to content ourselves with the actual output.

The first column in Table 5 shows various countries' per caput output at current exchange rates. We have deliberately chosen the year 1970 because these rates could be regarded as more or less in equilibrium, and hence we have excluded one of the factors complicating the comparison. But there is another one, namely possible differences in price structure. Fortunately for my purposes, Italy has a relative price structure fairly similar to that in France, Germany and some other European countries, and hence the comparisons of the figures for per caput output at current exchange rates in this context are fairly usable. The position is different if we compare Italy with the United States or India, because there are very marked differences in the price structure between the three countries, so that a comparison at equilibrium rates of exchange leads us to underestimate Italian output in relation to that of the United States, and to overestimate both in relation to that of India. Two alternative indicators are therefore offered in columns 2 and 3 of Table 5.

TABLE 5

INDICATORS OF THE LEVEL OF DEVELOPMENT.
ITALY AND 19 OTHER COUNTRIES AROUND 1970 (Italy=100)

	Per caput GDP at current exchange rates	Per caput GDP assessed at a uniform price system	Physical indicator 1965 UN (ECE)
Austria	112	—	123
Belgium	154	157	158
Denmark	182	—	152
France	165	164	135
Germany (Rep. Fed. of) . .	179	163	155
Greece	63	—	63
Ireland	77	—	103
Norway	165	—	139
Low Countries	140	157	150
Portugal	41	—	61
United Kingdom	125	132	161
Spain	55	—	79
Sweden	237	—	181
Switzerland	182	—	156
Hungary	—	88	—
Argentina	62	67	—
Japan	109	134	—
India	6	16	—
United States	277	218	218

In terms of per caput output, France and Germany have much higher levels than the Italian one. According to the most plausible estimates, they are 60-70 percent higher. Of the West European countries, only those in the southern region (Spain, Portugal and Greece) are clearly below Italy. Eire is also perhaps a little below. Austria is at least 10 percent above. The United Kingdom is well above Italy, but the extent is highly dubious. According to the ECE indicator, the United Kingdom is even a little above Germany, but, if we take income as the criterion, it is barely half way between Germany and Italy. All the other Western European countries are close to France and Germany, except Sweden, which has a higher output and comes close to the United States. The latter country's output, according to the most probable assessments, is slightly higher than twice the Italian figure. In the case of Japan, the lead over Italy is about 30 percent.

To sum up, Italy — together with Eire — differs sharply from the other countries of the Community, which are on the contrary bunched together and also with the North European countries (apart from Sweden).

In section 3 it was suggested that the less advanced economies

are not entirely devoid of firms capable of achieving a high level of productivity, but the number is so small that this category employs only a small proportion of the potential labour supply. In order to make a more thorough study of the international differences in the levels of development, therefore, we should not only compare per caput output and average productivity per workers, but also study the differences from country to country in the distribution curve for firms (or more exactly the capacity to employ labour) by level of productivity.

Unfortunately, we do not yet have adequate statistics for an international comparison of this kind. However, it is possible to derive a tentative impression from the available statistics on the distribution of productive units by size.

We shall therefore start from Table 6 which gives an international comparison of manufacturing industry. The figures are not very up-to-date, but the table is useful for our purposes because it not only classifies establishments by size but also calculates the average productivity for each of four size groups.

TABLE 6
EMPLOYMENT AND PRODUCTIVITY
IN MANUFACTURING ESTABLISHMENTS BY SIZE.
ITALY 1961 AND SIX OTHER COUNTRIES 1962-64.

	Percentage distribution of employment by size in the establishments as measured by the number of employees				Index of added value by employee, taking as equal to 100 the level in the units with 100-999 employees			
	1-9	10-99	100-999	1000	1-9	10-99	100-999	1000
Italy 1961	27	26	25	22	—	123	100	136
Austria 1964	20	26	34	20	47	81	100	105
Germany (Fed. R. of) 1962	11	21	37	31	58	83	100	106
Greece 1963	55	25	17	3	26	68	100	94
United Kingdom 1963	2	17	45	36	91	91	100	93
United States 1963	3	23	43	31	85	86	100	126
Turkey 1963	52	12	19	17	18	54	100	88

From the right hand side of the table an interesting pointer emerges. There is no uniform behaviour in productivity when we pass from the 100-999 group to the next larger one, but there is a fairly general downward trend in productivity when we come to the smaller size groups. All the countries examined except for Italy

have a relatively low level for the 10-99 group, and four countries out of six show a vastly lower level of productivity in the 1-9 category. The jump is particularly large for Greece and Turkey, that is, for the two countries with the lowest per caput income.

The following interpretation suggests itself. A not very highly developed industrial system employs productive units of a family type which either are inherited from previous times or can be easily created thanks to their simple organizational structure, even for those activities in which larger units would ensure higher productivity. Moreover, such a system tends to concentrate on those traditional industries where economies of scale are small, though also value added per worker is small. This is not a pathological but a physiological fact, since the supply of more complex organizational structures is still insufficient. As this supply increases — that is, as development proceeds — one tends to achieve for each particular activity the scale of production which maximizes productivity, so that, in the stages of advanced development, production in micro-units is finally confined to a very restricted circle of activities for which work on a tiny scale is really the technical and organizational optimum.

The study of the two sections of Table 6 taken together broadly corroborates this interpretation. The countries with the highest share of employment in the 1-9 category generally also have the lowest general levels of productivity in this class. Extreme cases are offered, on the one hand, by Greece and Turkey where the 1-9 category represents over half of manufacturing employment and where the level of productivity is around a quarter or a fifth of that of the average establishments, and, on the other hand, by the United Kingdom and the United States, where the 1-9 category represents only 2-3 percent of the whole of employment in the manufacturing sector and where the average level of productivity is fairly close to that in the medium establishment.

For Italy Table 6 does not show the productivity of category 1-9, but it does reveal that this category still accounted for a very high proportion of employment in 1961. Table 7, which brings the comparison up to date for the distribution of employment alone, shows that in 1971 the distance between Italy and Germany, the United Kingdom and the United States as regards the role of the micro-units was slightly reduced, but still remained substantial.

We can now take a further step in our analysis. Let us, subject

to proof to the contrary, admit that the smallest size group probably includes a greater proportion of low productivity establishments than the other groups, that this difference operating against the smallest size group is greater in those countries in which the share of that group in employment is higher, and that this difference is absent only in those countries where that group is of scant importance. On these assumptions, it becomes interesting to compare the extent of industrial employment in the various countries excluding employment in the micro-units, because in this way we may perhaps secure a better degree of approximation in the assessment of the comparative degree of extension of industry "in the modern sense".

TABLE 7

EMPLOYEES IN MANUFACTURING INDUSTRY
(EXCLUDING UNITS OF LESS THAN 10 EMPLOYEES)
PER 1,000 INHABITANTS AGED 15 to 64.
ITALY AND 11 OTHER COUNTRIES, 1970

Germany (Fed. Rep. of)	222	Norway	143
United Kingdom	219	Sweden	177
Austria	164	Ireland	106
Belgium	177	Italy	110
Finland	167	Portugal	96
France	156	Spain	109

Table 7 furnishes a few estimates. They show the distribution of European countries into three groups. The more advanced industrial countries are at the top of the list — the United Kingdom and Germany, with rates of activity in industry which are very close to each other. At a certain distance behind come the group of other countries in Centre and Northern Europe (excluding Eire) which are also bunched fairly close together. Lastly, at much lower levels (but also bunched together) come Italy, the Iberian countries and Eire. Italy, then, is just above the rest of the lowest group.

5. The Time Needed to Catch up with European Levels

Italy will catch up on the other Community countries if she can develop more rapidly than they in future. What would be a realistic rate to aim at? Here I shall examine past international experience on the basis of the simplest indicator of growth — the level of income.

Table 8 shows the rates of variation in per caput output in all those countries for which I have sufficient information to cover the whole period 1938-70.

TABLE 8

PER CAPUT GROSS DOMESTIC PRODUCT IN ITALY
AND 25 OTHER COUNTRIES. AVERAGE ANNUAL PERCENTAGE RATES
OF VARIATION 1938-70 (AT CONSTANT PRICES)

	1938-1970	1938-1950	1950-1960	1960-1970
Iceland	4.5	7.5	3.1	2.2
Japan	4.3	-2.4	7.2	9.7
Jugoslavia	4.2	1.5	6.2	5.5
Mexico	3.6	4.2	3.0	3.8
Spain	3.6	2.2	2.6	6.1
Portugal	3.5	1.7	3.7	5.3
Austria	3.4	1.2	5.7	4.0
Netherlands	3.2	0.8	5.3	4.1
Germany (Rep. Fed. of)	3.1	-0.2	6.8	3.5
Canada	3.1	4.2	1.2	3.7
Italy	2.9	-0.4	4.9	4.8
Sweden	2.9	2.3	2.9	3.5
France	2.8	1.5	2.6	4.6
Norway	2.8	1.3	2.6	4.1
Finland	2.7	1.1	3.3	4.2
United States	2.7	3.6	1.1	3.3
Denmark	2.5	1.5	2.5	4.0
Greece	2.5	-3.0	4.9	7.0
Brazil	2.5	1.8	2.9	3.0
Belgium	2.4	1.2	2.2	4.1
Luxembourg	2.1	1.7	2.2	2.4
Ireland	2.1	1.0	1.7	3.6
Switzerland	2.0	1.0	2.8	2.4
Turkey	2.0	0.1	2.9	3.4
Argentina	2.0	2.0	1.4	2.6
United Kingdom	1.8	1.3	2.3	2.1
Arithmetical mean	2.9	1.5	3.4	4.1
Mean deviation	0.6	1.2	1.4	1.1
Range of variation	2.5	10.5	6.1	7.6

Subdividing this period into three, we find that for each subperiod there is a substantial dispersion between the speed of growth in the individual countries.

In the last subperiod, where the average for the 26 countries is 4.1%, the figures range from a maximum of 9.7% for Japan to a minimum of 2.1% for the United Kingdom. However, it will be noted that many countries which grow more rapidly than the average in a subperiod have a slower than average growth in the following one. Only Portugal keeps above the average speed in all three subperiods. Only the United Kingdom, Eire, Switzerland and

TABLE 9

PER CAPUT GROSS DOMESTIC PRODUCT AT CONSTANT PRICES
IN ITALY AND OTHER 7 COUNTRIES FROM THE BEGINNING
OF MODERN ECONOMIC GROWTH TILL 1970

	Initial year	GDP assessed in constant (1970) US \$			
		Initial year	1913	1938	1970
Italy	1897	492	689	891	2200
France	1836	380	1285	1486	3600
Germany	1855	479	1188	1355	3590
Japan	1877	140	374	776	2950
India	1955	270	—	—	340
United Kingdom	1755	310	1316	1626	2900
United States	1839	560	1542	2062	4800
Sweden	1865	292	1270	1714	4200

	Average annual rates of variation (%)			Relative levels (Italy=100)		
	up to 1913	1913-38	1938-70	1913	1938	1970
Italy	2,1	1,0	2,9	100	100	100
France	1,6	0,6	2,8	187	167	164
Germany	1,6	0,5	3,1	172	152	163
Japan	2,8	2,9	4,3	54	87	134
India	—	—	1,5 *	—	—	16
United Kingdom	1,1	0,8	1,8	191	182	132
United States	1,4	1,2	2,7	224	231	218
Sweden	3,1	1,3	2,9	184	192	191

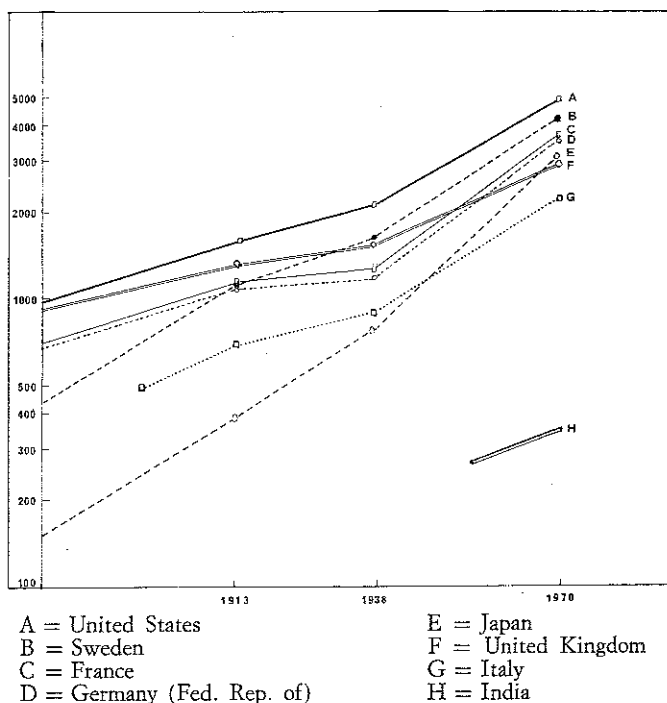
* 1955-70.

Turkey stay below the average speed in all three subperiods. There is therefore a certain compensation between the different rates of speed in the long run. For, if we look at the period 1938-70 as a whole, the scatter is very limited. As many as 17 countries out of 24 — excluding the two small states with a population of less than half a million (Iceland and Luxembourg) — have a rate of growth of between 2.4% and 3.6% Italy, where the figure is 2.9% is between these two extremes.

For only a few countries are there estimates which make it possible to extend the comparison, although with a larger margin of uncertainty to a substantially longer period. Table 9 and Figure 3 attempt to effect a comparison. It covers eight countries, each of them from the point at which they may be regarded as having entered the stage of modern economic growth (using the Kuznets definition)

FIGURE 3

PER CAPUT GROSS DOMESTIC PRODUCT AT CONSTANT PRICES IN ITALY
AND IN 7 OTHER COUNTRIES FROM THE BEGINNING
OF THE PRESENT CENTURY TILL 1970



up to the present moment. Seven of the group are large industrial countries, one of them being Italy. The eighth, India, is included to provide a contrast. (And in any case it is a matter of debate whether India may be considered as having really taken off.)

It will be seen that the United States, Germany and Italy have had rates of growth which do not greatly differ from one another if calculated on a long-term basis, with the result that the relative distances in terms of levels of income show very limited variations. The only variation worthy of note is a certain improvement in the relative position of the United States (which is in the lead) and of Italy (which is in the rear) as compared with France and Germany for the period 1913-38. Of the other three industrial countries, two show markedly quicker rates of growth than this group. This applies to Sweden for only the first phase, which lasted at least half a century, after which Sweden too keeps up more or less with the

group; and, for Japan, this is true from the start till the present. Lastly, the United Kingdom is characterized as the country in which the increase in the per caput product started earlier than for the others and has proceeded at a lower rate (with the exception of the period 1913-38 in which the English rate, although very low, was still higher than the rates of France and Germany). Its relative position has thus progressively deteriorated.

From the limited data for the pre-1938 period which I have set out above, the conclusion emerging however, is much the same as the one deduced from the fuller statistical material for after 1938. That is, that the range of variation of the long-term rates of growth has been very modest throughout, with the result that the relative positions of the countries in terms of level of income have been modified only slowly.

According to past experience, the gap between the country with the quickest rate of growth and the one with the slowest has never been more than two and a half points (long-term measurements). So let us make the rather daring assumption that in future Italy will forge ahead as the champion runner (more or less as Japan has been up till now) and France and Germany on the contrary decline to the position of champion slowcoaches (as England has been) and that the difference in speed between Italy and France, which is at present negligible, rises to two points. A simple computation will show us that this lead in speed would enable Italy to catch up with France in the matter of income level only in 26 years' time. If we put the lead at only one point — an ambitious enough target and one never achieved in the past — the time needed for catching up rises to 52 years.

6. Comparative Level of Earnings and Labour Conditions

We must now verify the other hypothesis, to the effect that Italy is trying to establish levels of wages and working conditions approximating to those in the most developed countries of the European Community.

I shall confine myself to the bare bones of the issue. First, a comparison of the average level of labour costs including earnings, various allowances and welfare benefits. On this subject there are triennial sample surveys by the Statistical Institute of the European

TABLE 10

AVERAGE HOURLY COST OF LABOUR OF WORKERS IN
MANUFACTURING INDUSTRY IN ITALY AND 4 OTHER COUNTRIES 1972

	Italy	France	Germany (Fed. Rep. of)	Netherlands	Belgium
Hourly cost in Italian lire	1600	1401	1983	1785	1824
Hourly cost expressed in ‰ of net domestic per caput product	1,54	0,83	1,06	1,10	1,07

Community which offer relatively homogeneous data. The last survey published at the time of writing this article covered 1972, and Table 10 is based on it.

The table shows that Italy has an average cost of labour in manufacturing industry which is actually higher, though only just, than in France. Germany, the Low Countries and Belgium are above Italy, but the difference is far less for the cost of labour than for per caput income. This is brought out in the second line of the table, which shows that the relationship of the cost per hour of labour to the net per caput product in Italy is almost double the figure for France and almost one and a half times that for the other three countries. We are talking of course of the cost of *regular* labour.

It is possible to make more disaggregated comparisons. Thus, if we subdivide manufacturing industry into 20 sectors, we find that, in one of them (printing, publishing etc.), Italy's labour costs are higher than in all the other 4 countries. In another (footwear, clothing etc.) it has higher costs than France, Belgium and the Low Countries, and in still another ("miscellaneous industries"), it has higher costs than France and Belgium. Then there are fifteen sectors in which Italy has higher costs than France alone, and lastly, two sectors ("oil", and "wood and cork") in which Italy has lower costs than all the 4 other countries.

It is possible to extend the comparison to more recent years and to the remote past and to include the United Kingdom in it as well, if we are content with assessments which afford less guarantee of homogeneity than that of the European Community Statistical Institute. We accordingly present Figure 4 in this perspective.

It will be seen that, around 1960, France, Germany and the United Kingdom had almost the same hourly costs of labour (*w*).

There was also more or less equality between them as regards per caput output (y) and hence w/y . Italy was below them both for w and for y , but proportionally further for the latter. And hence, it had a much higher w/y ratio than the other three countries.

Subsequently, Italy, Germany and France increase y roughly in the same proportion, while the United Kingdom increases it to a lesser extent. For w , on the contrary, Italy has relative increases to much the same extent as Germany, whereas the increases in France are slower. The United Kingdom loses even more ground to Germany more or less what it loses in terms of output. The w/y ratio fluctuates, but tends to increase in Italy, Germany and the United Kingdom, and tends to stabilize and even to decline in France.

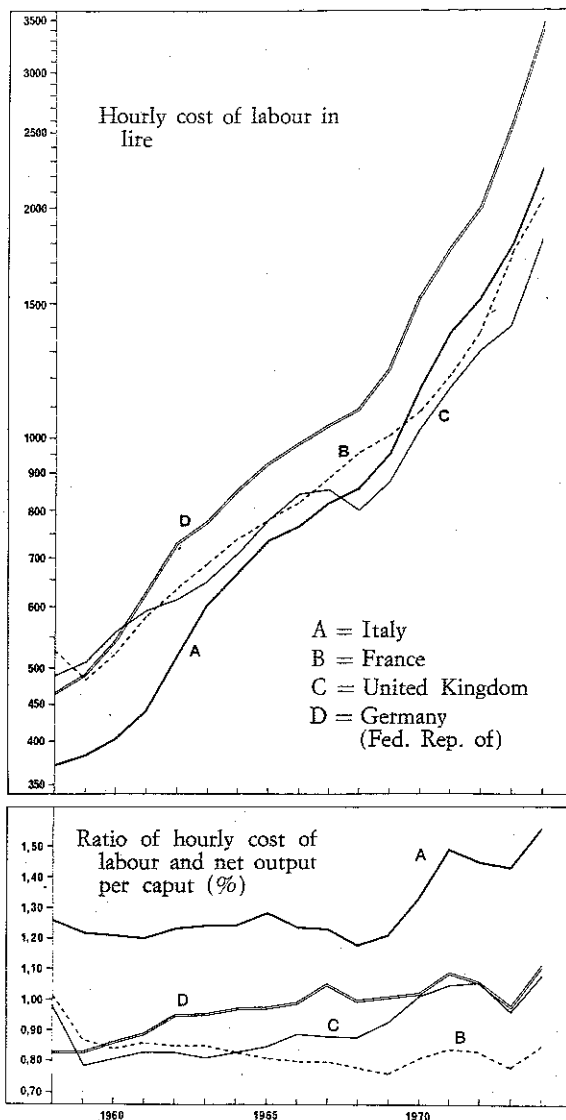
In recent times, then, Italy's costs of labour are still 20-30 percent lower than Germany's as was the case in 1960. But the French costs are now slightly below Italian ones, and England is actually 15-20 percent lower. As to the w/y ratio, while France remains roughly at the 1960 level, the other three countries have moved up by 20-30 percent, broadly maintaining their position relatively to each other. Hence, Italy is now about 40 percent above Germany and the United Kingdom, and about 90 percent above France, as we found to be the case in the European Community's Statistical Institute's survey.

The fact of having an exceptionally high w/y ratio compared with the advanced European economies is no novelty for Italy. This relation existed before the period covered by Figure 3, and is also brought out in a study I made twenty-five years ago.⁵ However, as Italy became more and more industrialized, the phenomenon becomes more disconcerting than in a still largely agricultural economy in which it may be regarded in a way as normal for a still small but growing nucleus of regular workers in industry to form an income élite vis-à-vis the masses in agriculture and preindustrial handicrafts.

In the 1960-69 decade, Italy's high w/y ratio as compared with France, Germany and the United Kingdom is linked to a low level of employment. In the five-year period 1970-74, the high w/y ratio is linked to a low level both of the rate of employment and of the hours of work in manufacturing industry. But in neither of the two periods do the phenomena indicated account for the

⁵ "Taxes on Wages and Employment and Family Allowances in European Countries", *UN Economic Bulletin for Europe*, August 1952, p. 27.

FIGURE 4

AVERAGE HOURLY COST OF WORKERS IN MANUFACTURING
INDUSTRY IN ITALY AND 3 OTHER COUNTRIES, 1958-74

whole difference in w/y , and we must therefore conclude that Italy has also had a higher proportion of income from labour and/or a higher ratio of workers' earnings in manufacturing industry to average workers' earnings than the other countries.

This analysis refers to the values of w/y and of the other variables obtained from the official statistics. We must now take account of the fact that these statistics, as already noted, strongly underestimate the relative position of Italy as regards the rate of employment. The underestimate of the rate of employment may be reflected in part (which I assume to be modest, however) in an underestimate of the output per caput, and hence in an overestimate of w/y ; but, for all the rest, it must involve an underestimate of the residual factor of the analysis.

If, therefore, we assume, as it seems to me we are justified in doing, that Italy has a *real* rate of employment of the same order as the average for the other countries, we are forced to conclude that, for the whole period, there has been a vast difference between Italy and the other countries as regards the share of income from labour and/or the ratio of the earnings of the manufacturing workers to the average workers' earnings. As it is difficult to imagine how Italy could have maintained the share of profits for so long at such an exceptionally low level,⁶ we are forced to conclude that the greater difference lies in the specially favourable position of workers in Italy with regular employment, as compared with the average for workers as a whole.

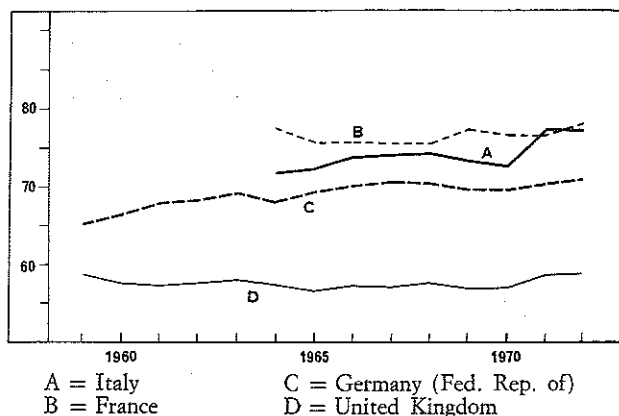
After this discussion of the average level of earnings as officially ascertained, I would add a word about the range of earnings themselves.

In a country like Italy which, to employ the whole potential supply of labour, must have recourse to every kind of firm including those with an extremely low organizational and technological level, it would appear natural for the differential in earnings between the "weak" component of the supply of labour — especially the women — and the "strong" component to remain greater than elsewhere. The official statistics of earnings show, if anything, the contrary. As will be seen from Figure 5, Italy appears to have forged ahead

⁶ We would still have to verify the hypothesis which would explain the persistence in Italy of a relatively low share of profits — the hypothesis that the distributive effects of public finance are more favourable (or less unfavourable) to profits in Italy than elsewhere.

FIGURE 5

PERCENTAGE RATIO OF COST OF FEMALE LABOUR TO THAT
OF MALE LABOUR IN MANUFACTURING INDUSTRY.
ITALY AND OTHER 3 COUNTRIES, 1959-72



of Germany, far ahead of the United Kingdom and as far as France in implementing the principle of equal pay between the sexes.

Another particular feature is the special advantages afforded by the Italian system to seniority and length of service of the worker in the same firm — advantages which act as a brake on the mobility of older workers. The management of Italian firms has, therefore, to contend with a certain rigidity in its personnel problems which is absent elsewhere.

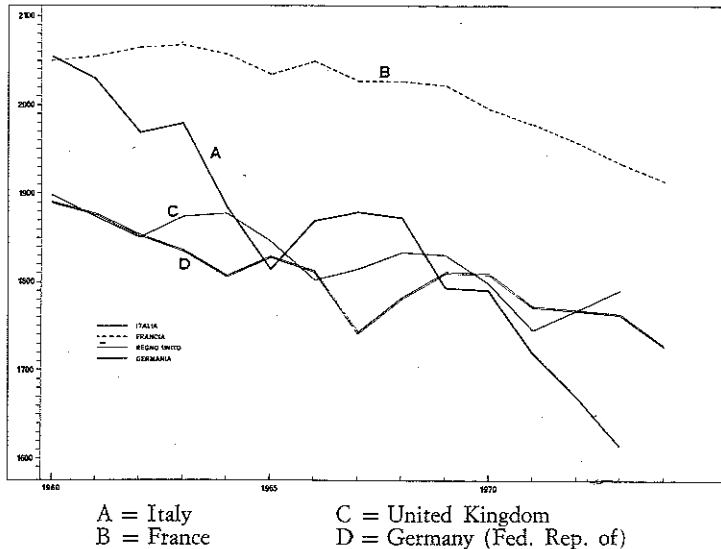
As regards the non-monetary aspects of the labour relationship, too, the Italian worker who is regularly employed rates relatively high in the international table, at least at first blush. Figure 5 gives a summary idea of how the Italian position has evolved in the matter of working hours. Around 1960, Italy, together with France, had the longest working hours, among the countries compared. The reduction of hours then proceeded faster in Italy than elsewhere, so that, in 1969, it had the shortest hours, and the difference with the others has gradually increased.

Lastly, we have to consider the regulations which impose constraints on firms in the workers' favour in respect of recruitment, dismissal and workers' rights in general. It is often proudly affirmed that Italy has one of the most advanced labour legislations in the world.

In conclusion, Italy has achieved high wage levels in relation to its income level, and has attained certain more advanced objectives

FIGURE 6

NUMBER OF HOURS A YEAR WORKED BY LABOUR IN MANUFACTURING INDUSTRY IN ITALY AND 3 OTHER COUNTRIES, 1960-74



than richer countries as regards the relative wages of women and older people, working hours and — it would appear — workers' rights as a whole. These conquests obviously apply to those persons who have a regular job, and not to those who do not, i.e. to the irregular workers. They also mean that, as the reverse of the medal, the regular labour force enjoying such substantial concessions is relatively restricted, whereas irregular labour is widespread. It is significant that, while Italy is one of the countries with the best treatment of women and older people who are regularly employed, it is also the country with the lowest rate of regular employment for these categories.

7. Observations on the Distributive Shares

In section 6, I touched briefly on the question of distributive shares, and will now deal with this more fully. But I shall cover only the manufacturing sector for which the calculation of the shares is fairly significant.

Figure 7 shows the ratio of average earnings per person employed to net product per person employed. If we adopt the

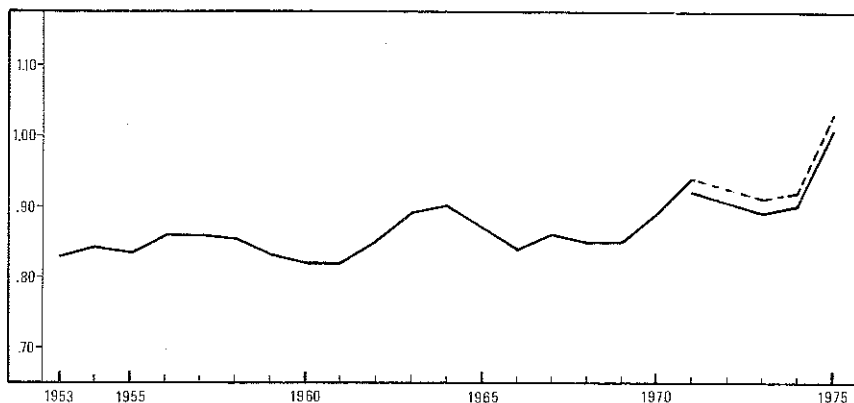
conventional assumption that the average labour income of an independent employed person is equal to the average earnings of the wage earning worker, the ratio is identical to the share of labour income in the total product. In the whole period going up to 1970, the share of labour income remains between 0.8 and 0.9. There is, it is true, a fairly marked fluctuation, but it is doubtful whether an upward tendency can or cannot be discerned. In 1970, the share comes close to 0.9; in the four subsequent years, the share fluctuates mildly around this level. Finally, in 1975, it even reaches unity.

The evolution up to 1970 raises no difficulties of interpretation. We showed in section 6 that the level of earnings in the Italian manufacturing industry for the whole of this period is comparatively high as compared with the other countries. But this fact is no reason why we should expect that the share of profits should decline or stabilize at a comparatively low level. We must be quite clear on this point. When a firm's rate of net profits is close to zero, or even below it for a fairly long period, the firm has small likelihood of continuing to operate. The capital not yet swallowed up by losses moves elsewhere (abroad, real estate, speculation and so on). Hence, the raising of the level of earnings above a certain limit does not lead to the stable reduction of the share of profits, but simply excludes from any chance of activity those firms which are not efficient enough to meet wage claims, and maintain an adequate level of profit. And since, at each moment in time, the productive structures available, their technical and organizational level, and their dimensions are given — and certain physiological periods are needed to enable them to grow — when we raise above a certain limit the minimum level of efficiency demanded of firms if they are to operate, the resulting exclusion of the less efficient firms no longer allows the better endowed firms more room in which to function (for they are already fully committed), but simply leaves a vacuum, that is, it leads to a diminution of the volume of activity or at least to a slowing down of the growth in that volume.

The points which we have made concern, to be precise, only the volume of regular activities. If the high cost of regular labour keeps the demand for it by the firms below the potential labour supply (as appears to have been the case in Italy), the firms excluded may be able to avoid shutting up shop and simply switch their operations to the irregular labour market. But here we are no longer able to discuss the matter on the basis of official statistics.

FIGURE 7

RATIO OF AVERAGE EARNINGS PER WAGE EARNER TO THE NET
PRODUCT PER PERSON EMPLOYED IN MANUFACTURING INDUSTRY
IN ITALY, 1953-75



If the evolution shown in Figure 7 up to 1970 raises no problems, those for the subsequent years do.

Actually, if we assume that the self-employed earns on the average about as much as the employee, we find that the aggregate income from labour absorbed as much as nine tenth of net output in the four years 1971-1974, and the whole of it in 1975, leaving therefore in the latter year the firms (taken as a whole) without any margin at all for interest on capital.

Certainly, the exceptional losses registered in a recession year — 1975 — are partly to be ascribed to the low use of capacity, that is, to a phenomenon which is to be ended with the economic recovery; but, even taking account of this, we cannot escape the conclusion that, if *the national accounts are accurate*, the ratio of the level of labour costs to that of the prices of the output for the last years cannot in the long run be maintained by the present firms in Italy.

We should therefore be prepared, either for a phase of contraction of industry through the elimination of existing activities and the reduced flow of new activities, or for a readjustment of the wages/prices ratio in consequence of the inflationary spiral, if not of sound policies.⁷

⁷ Actually, exchange devaluation and price inflation effected such a readjustment since the writing of the present essay.

Naturally, there is still the alternative hypothesis, ie. that the national accounts do not provide a meaningful picture of the facts because of the present extension of irregular labour. But it is not a very reassuring hypothesis. It means that a large part of the economy works in different and more backward conditions than those which are officially known and which the whole social and economic policy takes as a point of reference.

Ancona

GIORGIO FUÀ