

1989/1990

OECD ECONOMIC SURVEYS

♦
ITALY

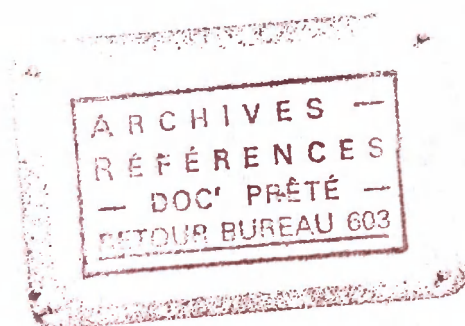
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OECD ECONOMIC SURVEYS

ITALY



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BASIC STATISTICS OF ITALY

THE LAND

Area (1 000 sq. km)	301.3	Population of majors cities, 1988:	Thousands
Agricultural area (1 000 sq. km), 1982	236.3	Rome	2 816
		Milan	1 464
		Naples	1 203
		Turin	1 012

THE PEOPLE

Resident population, 1.1.1988 (thousands)	57 399		Thousands
No. of inhabitants per sq. km	190	Labour force, 1988	23 988
Net natural increase in population:		Employment, 1988	21 103
annual average 1984-1988 (thousands)	29	in agriculture	2 058
Net rate per 1 000 inhabitants		in industry	6 788
(average 1984-1988)	0.5	in services	12 256

PRODUCTION

Gross domestic product in 1988		Origin of gross domestic product,	
(trillions of lire)	1 078.9	in 1988 (at market prices), per cent of total:	
GDP per head in 1988 (US \$)	14 515	Agriculture	3.7
Gross fixed capital formation:		Industry	28.1
Per cent of GDP in 1988	19.9	Construction	5.5
Per head in 1988 (US \$)	2 887	Other	62.7

THE PUBLIC SECTOR

Public consumption in 1988		Public debt in 1988 (percentage of GDP)	96.1
(percentage of GDP)	17.2	General government investment in 1988	
Current revenue of general government in 1988		(percentage of total investment)	17.4
(percentage of GDP)	40.2		

FOREIGN TRADE

Exports of goods and services,		Imports of goods and services,	
as a percentage of GDP, 1988 (OECD, SNA)	18.1	as a percentage of GDP, 1988 (OECD, SNA)	18.5
Main export categories, as a percentage		Main import categories, as a percentage	
of total exports, 1987 (SITC):		of total imports, 1987 (SITC):	
Machinery (71 to 77)	26.0	Foodstuffs (0)	12.4
Fabrics and textile goods (65)	6.3	Machinery (71 to 77)	17.7
Chemical products (5)	7.5	Metals, ores and scrap (67 + 68)	5.7
Automobiles and parts (78 + 79)	8.8	Mineral fuels (3)	13.9
Mineral fuels (3)	2.4	Chemical products (5)	11.2

THE CURRENCY

Monetary unit: Lira		Currency units per US dollar, average of daily figures:	
		Year 1989	1 294
		February 1990	1 243

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Italy by the Economic and Development Review Committee on 13th February 1990.

•

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 5th March 1990.

•

The previous survey of Italy was issued in January 1989.

Introduction

GDP growth in 1989 may have been close to 3½ per cent, which is slightly down on the previous year. Despite fairly rapid growth in employment, the unemployment rate remained flat at around 12 per cent. Domestic demand growth was still rapid, driven by both consumption and investment. Despite strong export growth in the first half, the current account deficit increased sharply to 1¼ per cent of GDP for the year as a whole. As in other OECD countries, inflation accelerated between the third quarter of 1988 and mid-1989 and consumer prices rose by 6½ per cent in 1989. On current forecasts, growth will slow slightly over the two-year period 1990-1991, to 3 per cent a year on average. As domestic demand pressures and international prices ease, inflation could also slow, with consumer prices rising by between 5 and 5½ per cent in 1991.

The stance of economic policy became more restrictive in the first quarter of 1989. The acceleration of inflation, the rapidly worsening foreign trade situation, and the prospect of a surge in the government deficit following the difficulties encountered in implementing the budget prompted the authorities to raise interest rates and to take immediate fiscal consolidation measures. The interest rate differential between Italy and its partners led to capital inflows which had the effect of pushing up the value of the lira until late summer, thus eroding competitiveness. As Italy had not participated in the general upward movement in European interest rates in October 1989, the lira fell rapidly against the Deutschmark and the other European currencies. In January 1990 the lira's official parity *vis-à-vis* the other EMS currencies was lowered by 3.7 per cent, confirming its fall since October 1989. At the same time, the lira joined the other EMS currencies in the narrow 2.25 per cent fluctuation band. Although important structural policy measures were taken in several areas (labour and financial markets, public sector ...), Italy is still beset by major imbalances in the area of public finance and large differences in regional economic performance, which have an impact on the whole economy.

Part I examines recent trends in the economy, focusing on the acceleration of inflation. **Part II** looks at both macroeconomic and structural economic policies. Short-term projections are then presented in **Part III**, and regional discrepancies and policies are discussed in **Part IV**. **Part V** sets out the conclusions.

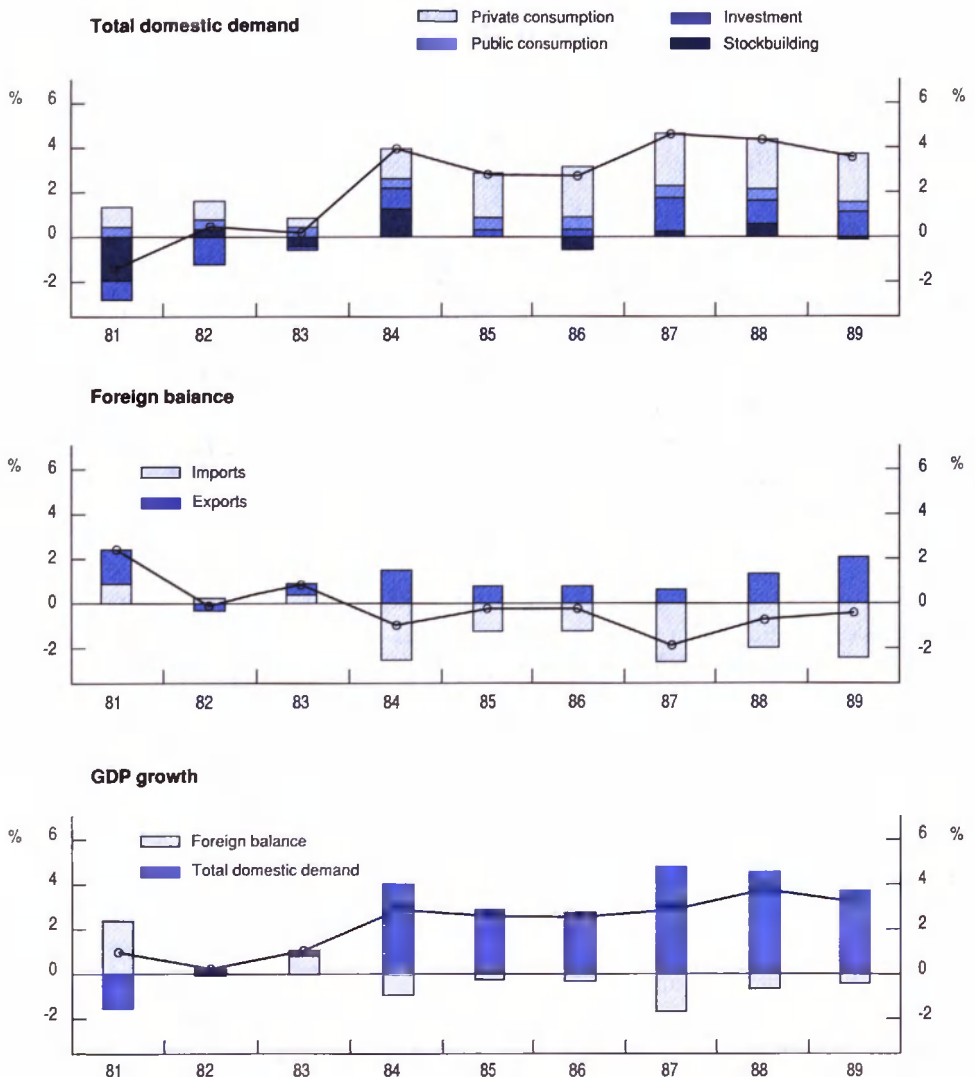
I. Recent developments

Demand and output

In 1989 real GDP growth was about 3.5 per cent, more or less as predicted in the previous annual survey. It peaked during the first half of 1988, at an annual rate of 4.3 per cent, and then fell steadily to 3.1 per cent during the first half of 1989. The initial reason for the slowdown, in the second half of 1988, was the steep fall in the contribution of the foreign balance, down to -1.4 per cent of GDP, while domestic demand growth was still accelerating – to 4.5 per cent. In the first half of 1989 the rate of growth of domestic demand fell by 1 percentage point. Yet despite these year-on-year fluctuations, GDP growth over the six-year period from 1984 to 1989 was fairly steady at 3 per cent per year on average, equaling the average for OECD Europe.

The rate of growth of private consumption, which had accelerated in the second half of 1988 to over 4.5 per cent (annual rate), remained buoyant during the first half of 1989, when it stood at 3.8 per cent, despite VAT increases at the end of 1988 and the beginning of 1989 and the fact that the deadlines for direct tax payment were brought forward. A perceptible slowdown in the second half meant that private consumption grew by about $3\frac{1}{2}$ per cent over the year as a whole. In fact, despite the fairly marked fluctuations from one quarter or half-year to another, average annual growth in private consumption has been remarkably steady since 1986 at between $3\frac{1}{2}$ and 4 per cent¹. In the absence of accounts by economic agent, and particularly of a household appropriations account established on a revised national accounts basis, it is not possible to pinpoint the factors that have bolstered consumption in recent years. Judging from OECD Secretariat estimates based on partial data², it would seem that up to 1987 changes in the savings ratio offset the fluctuations in disposable income and allowed households to maintain their real rate of growth of consumption. In 1988 the saving ratio increased in response to a sharp increase in disposable income, but probably fell again in 1989. On the basis of data compiled by the Bank of Italy, the private sector (households

Diagram 1. CONTRIBUTION TO GDP GROWTH
As a percentage of GDP in the previous year



Source : OECD ; National Accounts.

Table 1. Demand and output
Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1980 prices)

	Current prices 1986 ¹	1984 1988	1987	1988	1989 ³	1988		1989 I
						I	II	
Demand and output								
Private consumption	559.5	3.7	3.9	3.8	3.5	3.2	4.6	3.8
Public consumption	147.7	3.2	3.6	3.0	2.2	3.0	2.9	2.0
Gross fixed investment	176.8	3.7	6.8	4.9	5.7	5.7	4.5	6.3
Machinery and equipment	83.6	6.3	14.1	6.0	7.5	5.6	6.8	10.5
Construction	93.2	0.9	-0.4	3.7	3.5	5.7	1.9	1.5
Final domestic demand	884.0	3.6	4.5	3.9	3.8	3.7	4.3	4.1
Stockbuilding ²	8.7	0.4	0.4	0.5	-0.1	0.4	0.2	-0.5
Total domestic demand	892.7	3.6	4.6	4.3	3.6	4.0	4.5	3.5
Exports of goods and services	167.2	4.2	3.3	5.9	8.9	2.1	9.5	10.1
Imports of goods and services	163.6	6.6	10.1	7.2	8.8	1.2	13.6	10.5
Foreign balance ²	3.6	-1.2	-3.5	-0.6	-0.3	0.1	-1.4	-0.6
GDP at market prices	896.3	3.0	3.0	3.9	3.4	4.3	3.2	3.1
Industrial production	—	3.6	4.0	5.9	3.1	8.9	5.2	-0.3
Prices								
GDP price deflator	—	7.1	6.1	6.0	6.5	5.5	7.1	5.0
Consumer prices	—	6.2	5.1	4.9	6.2	4.2	5.3	6.8
Breakdown of GDP								
Agriculture	38.7	0.6	3.4	-3.3	—	-5.6	-1.1	1.9
Industry total	306.8	3.2	3.4	5.1	—	6.7	3.0	3.1
Manufacturing	210.8	3.7	3.9	5.7	—	7.4	3.5	3.3
Energy	44.3	2.6	2.8	2.3	—	3.5	0.7	3.1
Construction	51.6	1.2	1.5	3.8	—	5.0	2.4	2.1
Services	430.0	3.7	2.9	4.8	—	5.3	4.1	3.1

1. Thousand billion lire.

2. Changes expressed as a percentage of GDP in the previous period.

3. OECD Secretariat estimates.

Sources: ISTAT, *Quarterly National Accounts*; OECD Secretariat.

and enterprises) saving/national income ratio, which had risen virtually without interruption from 1966 to 1978, fell steadily during the following ten years, from 30 per cent to 26 per cent. Adjusted for inflation, the private sector saving ratio increased by 6 percentage points between 1980 and 1986, and then fell by 2 percentage points in 1988.

Table 2. **Households' appropriation account**

Percentage changes from previous year

	1985	1986	1987	1988	1989*	1990*
Compensation of employees	11.9	7.8	9.8	10.5	9.8	8.0
Income from property and other income	9.7	11.5	6.8	8.4	10.0	9.5
Current transfers received	15.2	9.9	6.8	11.5	9.6	9.7
Total income	11.6	9.6	8.1	9.8	9.8	8.9
Less: Direct taxes	12.1	10.8	10.2	11.1	11.0	10.7
Current transfers paid	11.7	12.6	9.2	8.0	11.2	7.2
Disposable income	11.5	8.9	7.6	10.0	9.4	9.0
Private consumption	12.5	10.5	9.5	9.2	10.3	9.1
Saving ratio¹	24.7	23.7	22.3	22.8	22.2	22.1
Real disposable income	2.3	2.9	2.3	4.9	3.1	3.3

* OECD forecast.

1. As a percentage of disposable income.

Sources: OECD Secretariat, based on ISCO and Banca d'Italia estimates.

The investment expansion, which had begun in the second half of 1986, continued in 1989 when it grew by 5½ to 6 per cent. As Table 3 shows, the trend of fixed investment differed according to the type of investment. Investment in plant and equipment picked up strongly in 1984, boosted initially by rationalisation measures (Diagram 2). Subsequently, there was an increase in capacity-expanding investment, reflected from 1985 onward in the pick-up of non-residential investment which reached an average annual rate of growth of 4.9 per cent. The increase in non-residential investment occurred despite the moderate growth of general government investment, which averaged 2.8 per cent a year from 1984 to 1988 (a nominal annual rate of 9.2 per cent deflated by the average rise in the non-residential investment deflator³).

The pick-up in investment in plant and equipment was stimulated as of 1986 by the brighter overall outlook for demand and by the steady rise in capacity utilisation rates in industry (Diagram 2). According to the ISCO surveys, the capacity utilisation rate rose from slightly over 70 per cent during the period 1980-83 to 75 per cent in 1986, peaking at 81 per cent in mid-1989, despite the vigorous growth of productive investment during the three previous years. The previous highest rates had been 76.3 per cent in 1979 and 77 per cent in 1973. However, the high utilisation rate does not seem to have put capacity under as much strain as during previous peaks. The expansion of rationalisation investment, the fact that an increasing amount of work is contracted out to small enterprises,

Table 3. Gross fixed capital formation
Percentage changes, at constant 1980 prices

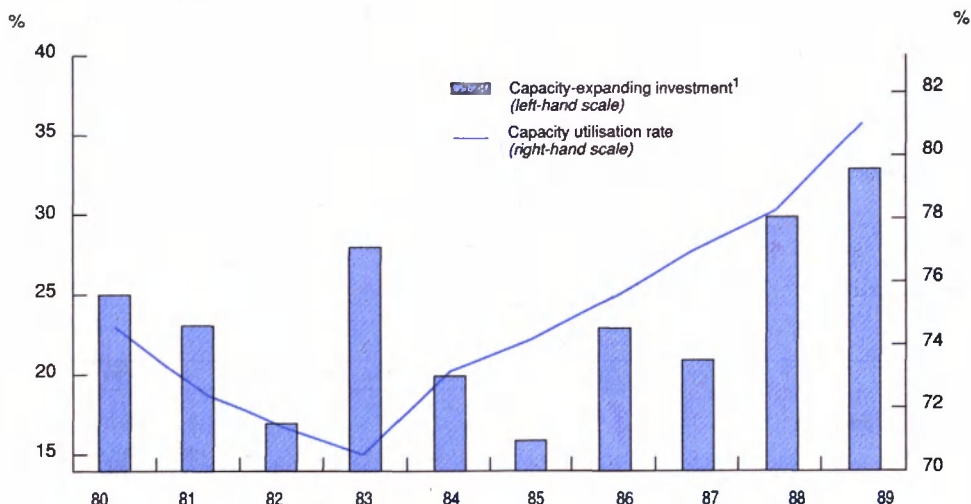
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Total	8.7	-3.2	-5.2	-0.9	4.5	1.4	1.6	6.8	4.9	5.5
Total, excluding residential construction	10.3	-4.3	-5.6	-3.0	6.6	3.4	2.8	9.8	6.6	6.8
By product										
Construction	2.3	-2.3	-5.7	1.5	-1.0	-0.5	1.1	-0.4	3.7	2.0
Housing	4.7	-0.1	-4.3	4.1	-0.6	-3.5	-1.6	-1.6	-0.2	1.1
Other	-0.1	-4.6	-7.4	-1.7	-1.4	3.4	4.3	0.9	8.0	2.9
Machinery and equipment	15.9	-7.7	-4.5	-1.8	12.0	3.1	2.5	15.1	6.5	8.6
Means of transport	20.5	10.7	-5.0	-9.9	6.4	4.8	0.4	9.8	3.9	8.6
As a percentage of GDP										
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
At current prices										
Total	24.3	23.9	22.3	21.2	21.1	20.7	19.7	20.0	19.9	20.1
Total, excluding residential construction	17.6	16.9	15.7	14.5	14.7	14.7	14.2	14.8	14.9	15.2
At constant 1980 prices										
Total	24.3	23.3	22.0	21.5	21.9	21.6	21.4	22.2	22.4	22.9
Total, excluding residential construction	17.6	16.6	15.7	15.0	15.6	15.7	15.7	16.8	17.2	17.8

Source: Ministry of the Budget and Economic Planning, *Relazione generale sulla situazione economica del paese*, 1989.

and the easing of the terms of employment, particularly in small enterprises, allowed the productive sector to respond much more flexibly to demand than in the 1970s. The return, as from 1984 (Table 4), and especially in the aftermath of the 1986 oil countershock, to a distribution of national income that was more favourable to business, had a positive impact on investment. The increased share of profits in national income was reflected in the self-financing/investment ratio, which rose from just over 1 in 1983-84 to 1.35 in 1986 and then fell slightly to 1.25 in 1988.

However, this overall trend masks situations which differ according to the size of the enterprise. In the manufacturing sector, small and medium-sized enterprises financed their investment to a large degree by means of bank loans, which meant that their investment was sensitive to changes in interest rates. The major enterprises, on the other hand, improved their financial position during the 1980s, which

Diagram 2. **CAPACITY-EXPANDING INVESTMENT
AND CAPACITY UTILISATION**



1. As a percentage of total investment.

Source : ISCO.

made them much more independent of external sources of finance. Analysis of company balance sheets shows that between 1982 and 1987 the major enterprises⁴ saw their gross operating surplus/GDP ratio improve by 6 percentage points whereas that of small and medium-sized firms increased by only half a point. As a result, the major enterprises were able to reduce their interest burden as a proportion of gross operating surplus from 43.6 to 5.2 per cent, whereas it is estimated that small enterprises were only able to reduce it from 39.5 to 21.8 per cent over the same period⁵. The differing financial position of industrial firms depending on their size largely explains the differences in their investment growth rates. Thus, the ISCO survey of investment shows that in 1988 investment by small and medium-sized enterprises grew by 2 per cent (–4.3 per cent in volume), whereas that by major enterprises (with more than 500 employees) grew by nearly 16 per cent (13.7 per cent in volume).

All the main sectors of the economy, with the exception of agriculture, where value added fell by 3.3 per cent in volume, saw their growth accelerate markedly in

Table 4. Gross operating outturns
As a percentage of value added, at factor cost

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total, traded goods	51.9	51.7	52.1	52.2	53.1	53.3	54.3	53.9	53.7
Industry total	46.0	44.7	45.1	45.0	47.2	47.6	48.1	48.0	48.1
Processing	42.4	41.8	41.7	40.9	43.1	43.7	44.8	44.7	44.9
Services	54.0	54.7	55.0	54.9	55.1	55.3	56.6	55.8	55.7

Source: Banca d'Italia, *Annual Report 1988*.

1988. Manufacturing performed best, with growth up 5.4 per cent, confirming the leading role in the growth of the economy that industry had regained in 1987. The buoyancy of industrial output was largely ascribable to capital goods production, stimulated – as in the previous year – by the brisk growth of investment in plant and equipment; production of consumer durables also expanded rapidly. In 1989 GDP growth was in the region of 3.5 per cent, nearly $\frac{1}{2}$ of a percentage point down on the average rate for 1988. Agricultural output growth resumed – up by more than 1 per cent. Although down on 1988, the rate of growth of manufacturing value added remained buoyant in 1989 at 3.8 per cent.

Employment and unemployment

The growth of total employment, as measured in “units of labour”, accelerated sharply in 1988 to 1.4 per cent compared with an average of 0.7 per cent over the period 1982-1987 (Table 5)⁶. In contrast with the earlier trend, this improvement was marked by substantial growth in dependent employment (+1.6 per cent) despite the continuing decline in the number of wage-earners in agriculture, which as a proportion of total dependent employment has fallen from 6.5 to 4.2 per cent over the past ten years⁷. The second major development on the employment front in 1988 was the growth of dependent employment in manufacturing, which had fallen uninterruptedly from 1980 to 1987. Over this period more than a million jobs, of which 920 000 (18 per cent) were in the manufacturing sector, had been lost. The impact of the fall in the number of industrial wage-earners on total employment had been softened by the steady growth of employment (both dependent and non-dependent) in the private services sector, which had been rising at an average annual rate of 2 per cent for the previous ten years, and also of employment in

general government, which had been increasing steadily at an average annual rate of 1.5 per cent over the same period. It is difficult to interpret the trend of employment at the start of 1989 because the trends indicated by the various statistical series are conflicting⁸. Unemployment, which had fallen slightly in 1988

Table 5. Employment and the labour market

A. Trend of employment measured in labour units							
Labour units and percentage changes from previous period							
	1985 Thousands	1987 ¹ 1982	1986 1985	1987 1986	1988 1987	1988 II	1989 I
Total employment	22 612.7	0.7	0.8	0.6	1.4	1.0	0.4
Dependent employment	15 403.9	0.3	0.4	0.4	1.6	1.4	0.7
Agriculture	784.3	-2.4	-2.3	-1.8	-1.2	-1.0	-2.4
Industry	5 614.3	-2.4	-1.2	-0.8	1.0	1.1	0.9
Manufacturing	4 280.9	-2.4	-1.2	-0.3	1.3	1.3	1.4
Traded services	4 967.1	2.9	2.5	1.4	2.4	1.6	0.3
General government	4 038.2	1.6	0.8	1.3	1.8	1.8	1.5
Self-employed	7 208.8	1.5	1.5	1.0	1.0	0.3	-0.3
of which: Industry	1 299.7	-1.1	2.1	-1.7	1.2	0.5	0.1

1. Annual average rate.

B. Trend in numbers employed							
Thousand persons and percentage changes from same period of previous year							
	1985 Thousands	1986 1985	1987 1986	1988 1987	1988 I	1988 II	1989 I
Labour force	23 116.8	1.5	0.9	1.3	1.6	1.1	-0.7
Total employment	20 735.3	0.6	-0.1	1.3	1.2	1.4	-0.7
Dependent employment	14 650.5	0.4	0	1.6	1.3	1.9	-0.2
Agriculture	865.5	-3.4	-4.0	-2.0	-2.2	-1.8	-3.8
Industry	5 752.0	-1.6	-1.6	1.0	0.4	1.6	-0.6
Other	8 042.0	2.2	1.6	2.4	2.2	2.5	0.3
Self-employed	6 084.8	1.1	-0.4	0.5	1.0	0	-1.8
Enrolled at the CIG	462.3	-13.7	-16.9	-27.6	-17.8	-24.5	-24.5
	1985	1986	1987	1988	1988 I	1988 II	1989 I
Unemployment rate ¹	10.3	11.1	12.0	12.0	12.2	11.9	12.2
(including the CIG)	12.3	12.8	13.4	13.0	13.2	12.8	13.0
Youth unemployment ²	33.9	34.5	35.5	34.5	—	—	—
Long duration unemployment ³	48.4	48.2	49.0	50.7	50.1	52.2	51.9

1. As a percentage of labour force, seasonally adjusted.

2. Aged 14 to 24, as a percentage of youth labour force.

3. Unemployed seeking a job for one year and over as a percentage of total unemployment.

Sources: ISCO, *Rapport semestriel*; ISTAT, *Rilevazione delle forze di lavoro*; OECD, *Quarterly National Accounts*.

for the first time since 1980, returned in the first half of 1989 to its level of a year earlier. If the number of people registered with the Cassa Integrazione dei Guadagni (CIG) are included in the number of jobless, then the unemployment rate would in fact probably prove not to have changed between the first half of 1988 and the first half of 1989.

The increase in employment has thus not been sufficient so far to reduce the unemployment rate significantly. The ISTAT survey of labour market indicators in major industries shows that a large proportion of the extra demand for labour during the three-year period from 1986 to 1988 was met by increasing annual working time by an average of 2.5 per cent⁹. In 1988 the youth unemployment rate stabilised, probably on account of the increase in the number of youth training schemes; 493 600 young people were on such schemes in 1989, i.e. some 90 000 more than the previous year. The trend towards part-time work continued, with Ministry of Labour estimates indicating that 161 300 people were in part-time work in 1988, compared with 143 000 in 1987. Nevertheless, the levels of youth and long-term unemployment remained very high (Table 5).

The overall trend of unemployment in Italy masks a sharp widening in regional disparities (Table 6). In the North and Centre the unemployment rate fell by nearly 1 percentage point between 1986 and 1988 to 7.7 per cent. There was a big difference between the male and female unemployment rate: the male 25 to 59 year-old unemployment rate (2.5 per cent) may be regarded as purely frictional. In

Table 6. Unemployment by region
As a percentage of the labour force

	Total Italy			North-Centre			South		
	1982	1986	1988	1982	1986	1988	1982	1986	1988
Unemployment rate									
Total	9.1	11.1	12.0	7.3	8.5	7.7	13.0	16.5	20.6
Men	6.1	7.4	8.1	4.6	5.3	4.7	9.0	11.4	14.5
Women	14.9	17.8	18.8	12.1	13.9	12.7	22.0	27.2	32.7
14 to 24s, total	26.6	34.5	34.5	24.1	27.3	23.3	41.3	48.5	55.3
Men	25.3	28.5	28.7	20.1	21.6	17.9	34.6	40.3	47.1
Women	35.0	41.5	41.2	28.4	33.4	29.3	51.7	60.1	65.8
25 to 59s, total	4.0	6.2	7.3	3.2	4.6	4.6	5.9	9.5	13.0
Men	2.3	3.8	4.6	1.7	2.6	2.5	3.6	6.2	8.6
Women	6.9	10.9	12.5	6.1	8.2	8.2	11.7	17.4	22.6

Source: ISTAT, *Rilevazione delle forze di lavoro*.

contrast, the labour market situation worsened in the South where the average unemployment rate exceeds 20 per cent, with male unemployment at 14.5 per cent. The most recent figures for the first half of 1989 substantiate these developments, unemployment in the South having risen to 21.3 per cent, as against 5.8 per cent in the North. As the section on prices and wages will show, this North-South discrepancy has a major impact on the wage formation process in Italy.

Prices and wages

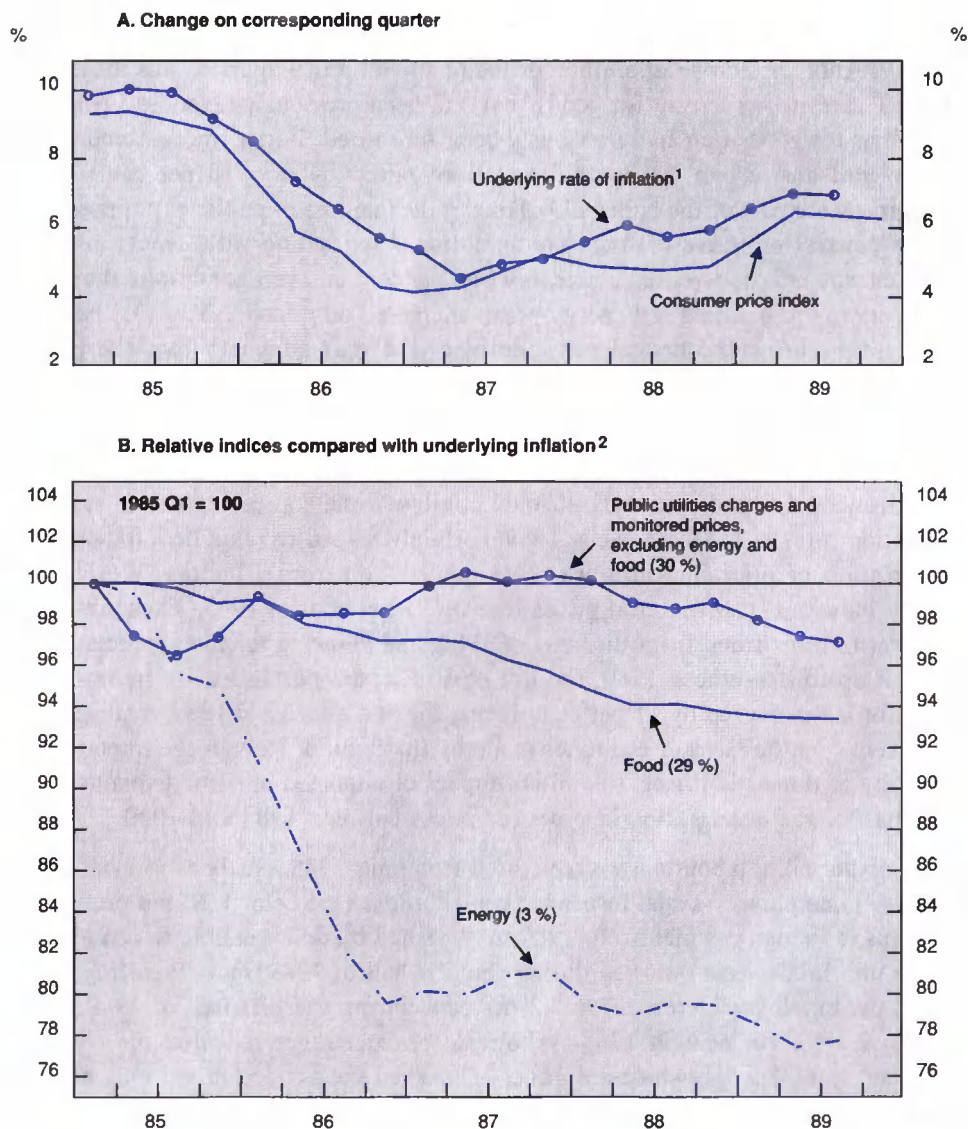
As in other OECD countries, inflation picked up again in late 1988 and during the first half of 1989. However, when price rises started to accelerate, Italy's underlying situation was less satisfactory than that of most of the major OECD countries. In 1987, following an eight-year period of disinflation, the average rate of consumer price increases was still 4½ per cent, i.e. one and a half points above the EEC average. Furthermore, the upturn in inflation was more marked in Italy than in most OECD countries: prices increased by 7 per cent over the twelve months to June/July 1989, 2 percentage points more than the OECD average. In a context of continuing expansion, leading to overheating in some sectors, and with short-term economic management proving difficult on account of the inertia of public finance and monetary policy constraints, it is important to consider to what extent the acceleration in the rate of price increases stems from exogenous or transitional factors. This should help to gauge the risk of inflation spreading through the economy notably via accelerating wage costs.

The pick-up in inflation

The rate of increase in the consumer price index¹⁰, which averaged 5 per cent in 1988, accelerated from the end of the year, to reach 6.8 per cent in the third quarter of 1989 on a year-on-year basis. Despite slowing slightly from July, it probably averaged 6.5 per cent in 1989. The consumer price index excluding food and energy is frequently used as a proxy-measure of the trend rate of inflation. Its twelve-month rate of increase was still in excess of 5 per cent when inflation bottomed out in the first quarter of 1987. It then accelerated progressively to reach 6.7 per cent in May 1989, staying at that rate up till October.

In 1989 the inflationary pressures resulting from the buoyancy of demand were compounded by a number of exceptional factors. Food prices, which had had a distinctly moderating influence on the overall rate of price increases in 1987 and

Diagram 3. TRENDS IN CONSUMER PRICES



1. Consumer price index excluding energy, food, public utility charges and monitored prices. For more information on this category see footnote 11.

2. The percentage share of each category in the total index is given in brackets.

Source : ISTAT ; OECD, *Main Economic Indicators*.

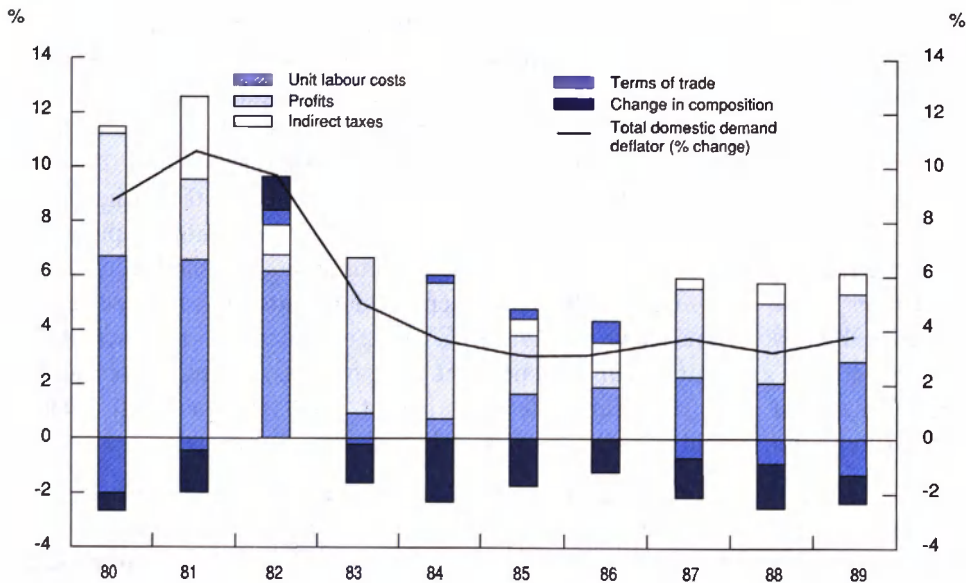
most of 1988, accelerated towards the end of the year, rising to 6½ per cent from April 1989 onwards (on a year-on-year basis), compared with about 3 per cent for the first six months of 1988. The prices of food products which are subject to government controls rose rapidly in 1989, more or less in line with the rise in world prices¹¹. Another factor responsible for the renewed upturn in prices was the raising of VAT rates to 4 per cent for goods that had been previously taxed at 2 per cent, as well as for goods that had previously been zero-rated. Furthermore, some public tariffs (rail and urban transport fares) were raised by over 10 per cent. These measures were part of the policy of balancing the finances of public enterprises, and of the general objective of fiscal consolidation. Contrasting with events in 1988, when energy prices increased noticeably (4½ per cent on average) despite the fall in world energy prices, in 1989 energy prices increased only moderately (3.8 per cent on average during the first eleven months of the year). Nonetheless, the tax on petroleum products was raised in September 1989, and this accounted for about one-third of the 1 percentage point increase in the cost-of-living index the following month.

Growing demand pressure, reflected notably in the continuing rise in capacity utilisation rates in 1988 and early 1989, certainly helped to rekindle inflation. The acceleration of price increases was also fuelled by external factors. World non-energy industrial raw material prices rose by 25 per cent in 1988. Thus, despite a slowdown in this trend from the start of 1989, and allowing for the appreciation of the lira up to September 1989, the lira cost of inputs purchased by Italian firms from abroad increased by 11 per cent during the first quarter of 1989 on a year-on-year basis. On the basis of estimates made by the Bank of Italy of the import price elasticity of domestic prices, the initial impact of imported inflation explains more than half of the acceleration in producer prices between 1988 and 1989¹².

Furthermore, labour costs accelerated from mid-1988, partly as a result of an increase in employers' social insurance contributions (see below). Rapid productivity gains in industry, which from 1982 to 1988 had made it possible to contain the rise in unit labour costs, slowed during the first half of 1989: manufacturing value added per employee increased by 2.2 per cent during the first half of 1989, compared with 4.2 per cent in 1988. Wholesale price changes reflected the trend in producer costs, but the wholesale prices of finished goods accelerated only moderately, especially when food products are excluded. According to the input and output price indicators available for manufacturing, profit margins were squeezed slightly from the end of 1987. In contrast, profit margins probably continued to widen in the service sector, which is less exposed to competition. The consumer prices of services responded fully to demand pressures, accelerating to 9 per cent

(annual rate) in mid-1989, compared with 5½ per cent a year earlier. Traditionally, there is a 2 to 3 percentage point gap between the increases in the consumer prices of those services whose prices are not controlled, and the increase in the prices of goods. This gap, which had become insignificant in 1987, re-opened again to about 3.3 percentage points between July and September 1989.

Diagram 4. CONTRIBUTIONS TO THE RISE IN THE
TOTAL DOMESTIC DEMAND DEFLATOR



Source : OECD, National Accounts.

During the second half of 1989 the external sources of inflation abated and the rise in the overall consumer price index levelled off, but upward pressures on prices remained strong. Demand still seems buoyant despite some partial signs that it is flagging (the downturn of order books and the more depressed production outlook). Furthermore, with wage agreements currently being renewed, the size of future wage increases is still uncertain.

Wage and cost developments

Wage bargaining procedures have changed in recent years. First, industrial relations have improved in the private sector, as is attested by the fall in the number of hours lost due to labour disputes. Second, wage bargaining is increasingly taking place at company level: a minimum wage increase is set centrally by means of the collective bargaining mechanism, and then additional increases are negotiated at company level on the basis of productivity and profit performance. While this does give a certain amount of flexibility to the system, it can in the current circumstances strengthen upward wage pressures, with pay increases obtained in the most productive sectors spreading to other sectors.

In 1988 per capita wages rose by 8 per cent, representing a real increase of 3.2 per cent, close to that of the previous year. The upward trend of real wages slowed at the beginning of 1989 as inflation accelerated, and purchasing power gains were thus negligible. In 1988 contractual wage increases in industry barely exceeded 6 per cent, with an appreciable slowdown during the year (Table 7). In the first nine months of 1989 wage increases accelerated slightly, although less than prices. As in past years, however, effective wages rose more rapidly than contractual wages, mainly because of high corporate profits and the labour market pressures in the North (where the male unemployment rate fell to 3.3 per cent in April 1989, two points down on 1985). Effective per capita wage increases in manufacturing amounted to about 8 per cent (year-on-year) during the second half of 1988 and to 7 per cent during the first half of 1989 (on a national accounts basis), representing only small end-of-period purchasing power gains.

Although the unemployment rate in Italy as a whole remained high, its moderating effect on wage increases was lessened by growing regional labour market disparities. The influence of regional labour markets on wage determination are shown by the wage equations calculated by the Secretariat for the period 1961-88. These show that wages in the private sector overall are determined more by the unemployment rate in the North-Centre – the region with traditionally the most bargaining power – than by the national unemployment rate: the semi-elasticity of nominal wages in relation to a 1 percentage point increase in the North-Centre unemployment rate is 1.2, compared with 0.8 rate for the national rate¹³. This explains why, despite a rise in the national unemployment rate, substantial wage increases were awarded after 1985, particularly during the triennial negotiations that took place in 1986-87. In fact, the rising trend in the national unemployment rate from 1985 reflects a rapid increase in the unemployment rate in the South, the rate in the North having fallen (from 8.4 per cent in 1985 to

Table 7. Wage and labour cost indicators
Percentage changes on previous period

	1986	1987	1988	1989 S1
A. WAGES AND LABOUR COSTS				
Total economy				
Per capita compensation	7.4	9.3	8.8	7.6
Contractual hourly wage rate	4.5	6.9	7.2	6.8
Industry (excluding construction)				
Per capita compensation	7.1	8.5	7.9	8.2
Contractual hourly wage rate	4.5	6.6	5.9	5.9
Traded services				
Per capita compensation	6.7	8.4	9.0	6.3
Contractual hourly wage rate	5.1	6.1	8.2	6.3
General government				
Per capita compensation	7.9	11.8	9.8	9.3
Contractual hourly wage rate	3.9	8.1	13.9	9.8
B. PRODUCTIVITY, COSTS AND PROFITS				
Manufacturing industry				
Productivity	2.8	4.9	4.2	2.1
Unit labour costs	3.2	4.1	3.4	6.5
Value added deflator at factor costs	5.3	3.8	4.0	6.0
Profit per unit of output	1.0	0.7	-0.5	

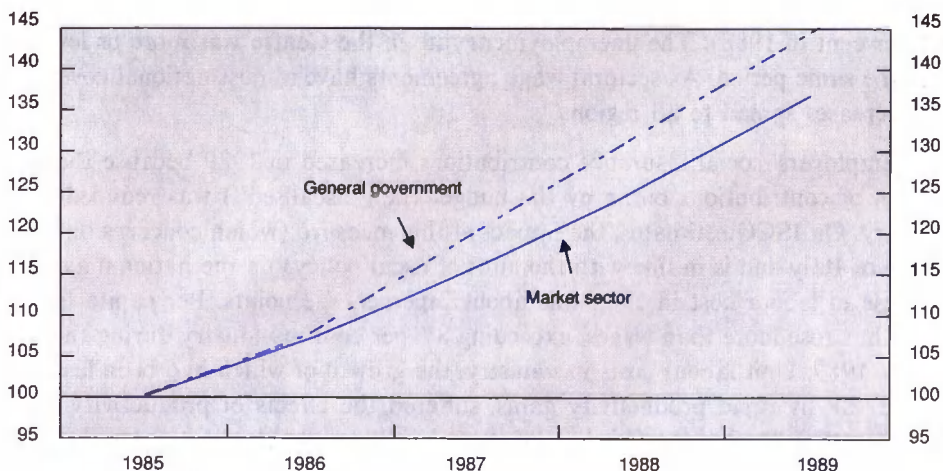
Sources: ISTAT; OECD, *Quarterly National Accounts*.

6.4 per cent in 1988). The unemployment rate in the Centre was more or less flat over the same period. As sectoral wage agreements have almost national coverage, the increases spread to all regions.

Employers' social insurance contributions increased in 1989 because the proportion of contributions borne by the budget (i.e. "fiscalised") was reduced from January. On ISCO estimates, the impact of this measure (which concerns only the North of Italy and is in line with the aims of fiscal policy) on the national average increase in labour cost in 1989 was about 2 percentage points. Per capita labour costs thus rose more than wages, exceeding 8½ per cent in industry during the first half of 1989. Unit labour costs in industry, the growth of which had been lessened in 1987-88 by rapid productivity gains, suffered the effects of productivity slow-down in 1989. During the first half of the year they probably rose by nearly 6 per cent (annual rate), compared with an average of 3½ per cent in 1987 and 1988 (Table 7, panel B).

In 1987 and 1988 per capita compensation in the services sector, and particularly in public services, grew more rapidly than in industry. The increases of the order of 10 per cent recorded in public services in 1988 were partly ascribable to retroactive increases resulting from the fact that the triennial wage agreements in the sector had been concluded late, but contract renewals, particularly in teaching, also increased purchasing power (Diagram 5). Furthermore, the contractual increases were compounded by wage drift. These factors continued to have an impact in 1989, and civil servants' pay again increased by nearly 9½ per cent (year-on-year) during the first semester. Between July 1988 and July 1989, contractual hourly wages rose by nearly 20 per cent in the (publicly owned) railways and state schools (as a result of the progressive application of the contracts signed in 1988). According to the official guidelines for civil service wage negotiations, the increase in civil servants' pay was not to exceed the *target* inflation rate for 1988-90 by more than one percentage point, although an extra half point could be awarded as an incentive to improving the quality of public services. However, the target inflation rates were set at 5 per cent for 1988, 5.8 per cent for 1989 and 4.5 per cent for

Diagram 5. **COMPARATIVE WAGE TRENDS IN GENERAL GOVERNMENT
AND IN THE REST OF THE ECONOMY**
Per capita wages, 1985 = 100



Source : OECD, *Quarterly National Accounts* ; 1989, OECD Secretariat estimates.

1990. At the beginning of 1990, negotiations were still in progress in respect of one-third of civil servants. On the basis of provisional information, the average wage increase in the public services in 1989 is estimated at over 9 per cent. According to ISCO, a quarter of this increase can be attributed to indexation, a half to the effects of contracts being renewed, and the remainder to various existing mechanisms and wage drift.

As the public sector wage negotiations are coming to a close, the triennial round of private sector negotiations is starting. These will last throughout 1990 and their effects will be felt until 1991. Besides the above-mentioned changes in the negotiating procedures, the other factors that will be taken into account when wages are being set – the resurgence of inflation in 1989 and labour market pressures in the North – can be expected to exert upward pressures. On the other hand, the intention in 1990 is to increase the budgetised proportion of employers' social insurance contributions, which was reduced in 1989, and even if the increase is smaller than the reduction in 1989, it will still help to moderate the rise in labour costs.

Balance of payments

Preliminary estimates for 1989 suggest that the trade deficit (fob-fob) rose to L 2 500 billion, i.e. an increase of L 1 750 billion (\$ 1.3 billion) on 1988. This small deterioration (0.1 per cent of GDP) was probably entirely ascribable to the worsening of the terms of trade, changes in the real balance having, in contrast with the last few years, made a positive contribution to the trade balance (Table 8). The pattern of foreign trade over the year was uneven. The worsening in the terms of trade was caused by a very steep increase in import prices in the first half of 1989, when the index of average import values rose by 9.3 per cent (year-on-year), whereas in 1988 the average increase had been 4.2 per cent. Compared with the first half of 1988, the rise in the price of energy imports (+15.7 per cent) was a major factor in the surge in import prices. Prices of chemicals and of petroleum and coal derivatives registered comparable increases, while the prices of metal products increased by 24 per cent over the same period. In the second half the rise in unit import prices was brought down to 5.8 per cent. Average unit export prices rose by 7.8 per cent during the first half of 1989, partly reflecting the increase in the prices of inputs and also, probably, an improvement in exporters' profit margins deriving from the stronger lira. The increase in export prices was cut to 5.1 per cent in the second half of the year.

Table 8. Breakdown of changes in the current balance

	Billion lire				
	1985	1986	1987	1988	1989
Current balance	-7 102	3 802	-1 940	-6 779	-15 000
Trade balance (goods)	-11 928	6 283	-77	-746	-2 500
Change in the current balance	-2 788	10 904	-5 742	-4 839	-8 221
of which:					
Change in the trade balance	-1 674	18 211	-6 360	-669	-1 754
of which:					
Due to volume changes ¹	-1 587	-6 398	-10 532	-1 804	152
Due to terms of trade ¹	-87	24 609	4 172	1 135	-1 602

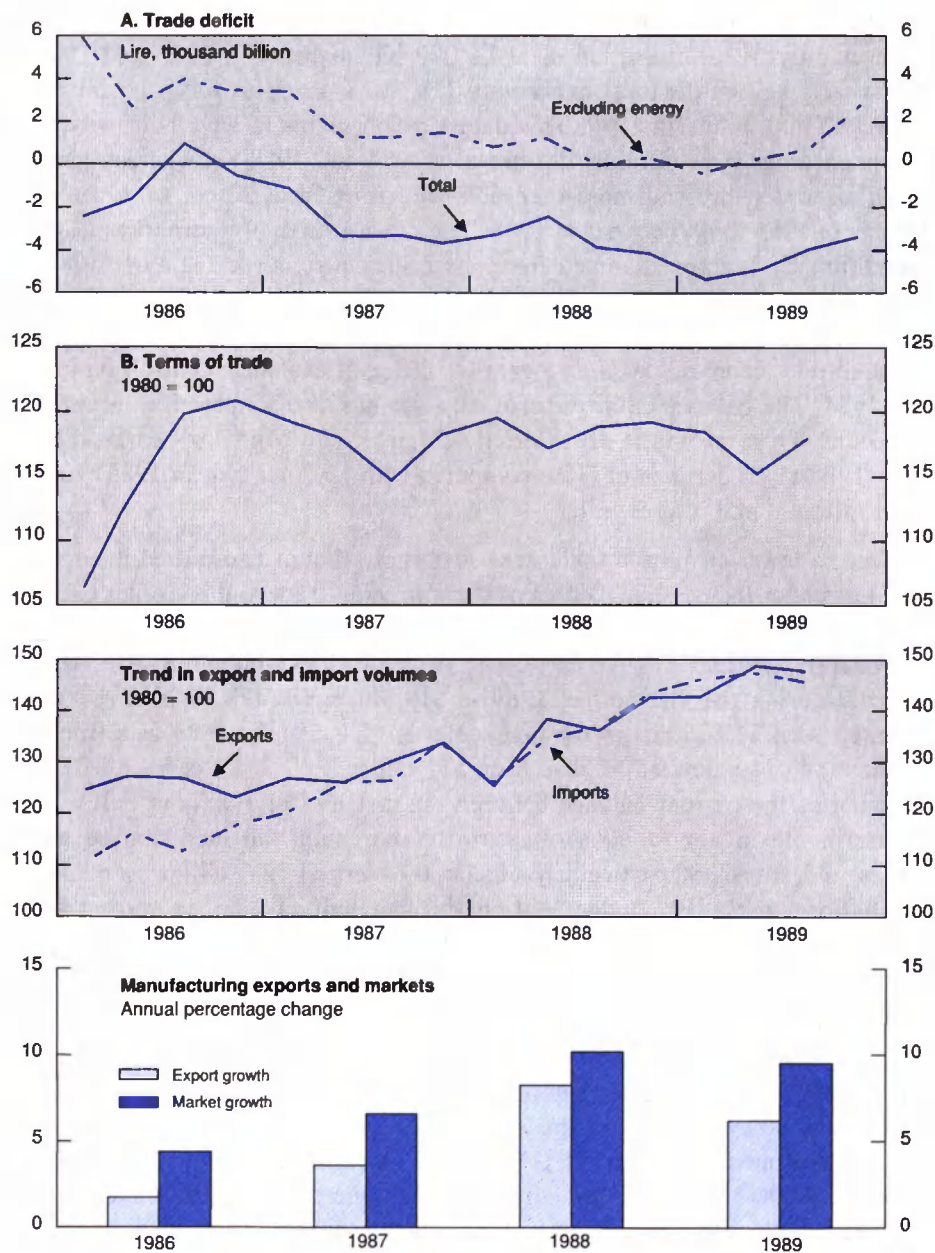
1. The change in the trade balance due to changes in foreign trade volumes is calculated by multiplying import and export values in year $n-1$ by volume growth rates in year n and by calculating the difference between this "volume balance" in year n and the trade balance in year $n-1$. The change due to the terms of trade is the difference between the total change in the balance between the two years and the change due to volume changes.

Sources: Banca d'Italia, *Annual Report*; ISTAT, *Relazione previsionale e programmatica*, 1990; OECD Secretariat.

The first half of 1989 was also marked by a large increase in foreign trade volumes. Quarterly swings are often erratic and difficult to interpret but, taking the first half of 1989 as a whole, export volumes on a customs basis were up by 10.4 per cent and import volumes by 12.4 per cent on the first half of 1988 – well above the increases recorded in 1988. Total domestic demand growth remained high during the first half of the year; the acceleration of imports resulted from strong demand pressure and stockbuilding of raw materials and semi-finished products at a time when their import prices were rising. Italy also experienced a loss of competitiveness *vis-à-vis* its European trading partners, her main supplier of finished products, as a result of the appreciation of the lira (Diagram 6). Nevertheless, merchandise export volume growth accelerated markedly during the first half of 1989, although to a lesser degree than imports. Merchandise exports benefited generally from the buoyancy of world demand, estimated to have grown at an annual rate of 7½ per cent during the first half of the year, and from the composition of Italy's exports which were mainly aimed at Europe where demand for consumer goods was strong. The beneficial effects from the regional trade structure appears to have more than offset the decline in competitiveness resulting from lira appreciation. In the second half, export volumes continued to grow briskly (at almost 8 per cent), whereas import volume growth fell sharply to 4.5 per cent.

The invisibles balance has been worsening steadily since 1983, moving into deficit in 1986. In 1988 the deficit reached L 6 000 billion, and it is estimated that

Diagram 6. **FOREIGN TRADE INDICATORS**



Sources : ISTAT ; Banca d'Italia, *Economic Bulletin* ; OECD, *Economic Outlook*.

it more than doubled in 1989, reaching L 12 500 billion, or 1 per cent of GDP. Virtually all items were affected, but the balances on tourism, government transfers and investment earnings worsened the most rapidly, accounting for L 9 000 billion of the cumulative deterioration of L 11 000 billion between 1985 and 1988, of which nearly half on the tourism account. The tourism surplus was probably cut by nearly L 2 000 billion in 1989. This deterioration seems to have had two causes: tourism earnings were virtually flat between 1985 and 1988-89, whereas spending by Italian tourists abroad more than doubled, rising from 22 per cent of tourism earnings in 1985 to 48 per cent in 1988. The rapid growth of international tourism expenditure by Italians stemmed from the coincidence, since the early 1980s, of Italy's worsening competitiveness (between 1979 and 1985 the index of relative consumer prices expressed in common currency rose by 25 per cent), the rapid growth of real incomes, and the progressive lifting of exchange controls on tourists since 1984. The balance on investment earnings has also worsened in recent years on account of the rise in the net external debt, which amounted to nearly \$120 billion in 1988 (14.5 per cent of GDP compared with 13.2 per cent in 1985), and the rise in international interest rates.

Due to lower oil prices, the current external account had posted a surplus in 1986, but under the combined effect of the worsening trade and invisibles balances, the current deficit widened steadily thereafter. On the provisional estimates of the Bank of Italy, the current payments deficit, which was \$5.2 billion in 1988, widened markedly during the first half of 1989 to \$10 billion (on the basis of raw data), compared with \$4.1 billion in the first semester of 1988. For 1989 as a whole the current deficit is estimated to have been \$11 billion, or 1.3 per cent of GDP. The worsening of the current balance between the first half of 1988 and that of 1989 was ascribable in almost equal measure to movements in merchandise and in services and transfers, particularly official transfers (L 2.5 billion were paid in contributions to the EC budget during the first half of 1989 in respect of the previous fiscal year). In the second half of the year, the pick-up in merchandise trade almost cancelled out the deficit (on the basis of raw data).

During the first nine months of 1989 net non-monetary capital inflows continued to increase rapidly, in line with the trend in 1987-1988 (Table 10). Inward investment continued to grow, with direct and portfolio investment during the first nine months of 1989 equaling the amount for the entire previous year, whereas outward investment grew much less rapidly. As a result, the amount of net capital inflows (L 4 000 billion) was twice that for the same period in 1988. Net medium and long-term lending during the first nine months amounted to L 18 100 billion, twice as much as in 1988. As for the banking system (including the specialised

Table 9. **Balance of payments**

\$ million

	1987	1988	1989	1987		1988		1989 ¹	
				I	II	I	II	I	II
	Seasonally adjusted								
Exports FOB	115 558	128 006	141 020	55 407	60 151	63 716	64 290	67 800	73 220
Imports FOB	115 617	128 579	143 180	54 970	60 647	60 640	64 939	70 300	72 880
Trade balance	- 59	- 573	- 2 160	437	- 496	76	- 649	- 2 500	340
Services, net	- 502	- 3 290	- 6 715	584	- 1 086	- 1 559	- 1 731	- 3 200	- 3 515
<i>of which:</i>									
Travel	7 636	6 414	4 740	4 062	3 574	3 398	3 016	2 300	2 440
Investment income	- 6 611	- 7 126	- 8 870	- 3 294	- 3 317	- 3 650	- 3 476	- 4 500	- 4 370
Private transfers	1 287	1 448	1 250	679	608	944	504	800	450
Government transfers	- 2 221	- 2 791	- 3 080	- 680	- 1 541	- 929	- 1 862	- 1 500	- 1 580
Current account balance	- 1 495	- 5 206	- 10 705	1 020	- 2 515	- 1 468	- 3 738	- 6 400	- 4 305
	Not seasonally adjusted								
Current account balance	- 1 495	- 5 206		- 1 389	- 106	- 4 105	- 1 103		
Non-monetary capital	2 423	5 731		- 41	2 464	2 012	3 719		
Long term	3 161	7 823		37	3 124	2 285	5 538		
Short term ²	- 739	- 2 092		- 78	- 660	- 273	- 1 819		
Balance on non-monetary transactions	929	523		1 429	2 358	- 2 093	2 616		
Private short-term monetary capital	- 4 297	- 7 856		- 3 141	- 1 156	- 3 682	- 4 174		
Net transactions by monetary authorities	5 226	8 379		1 712	3 514	1 589	6 790		

1. Secretariat estimates.

2. Including errors and omissions.

Sources: Banca d'Italia, *Annual Report*; OECD Secretariat.

credit institutions)¹⁴, it increased its foreign borrowing steeply from the beginning of 1989. This it had already started to do in 1987, encouraged by the big interest rate differential between Italy and its main trading partners, and also by the prospect for much of the year that exchange rates within the EMS would remain stable (see the section on monetary policy). Thus, changes in the net external position in foreign currency of commercial banks, bank capital inflows during the first nine months of 1989 amounted to L 12 600 billion compared with L 10 200 billion for the whole of 1988. As in the previous two years, net capital inflows more than offset the current account deficit during the first nine months of 1989, making possible an increase in official reserves (net of exchange rate readjustments and the revaluation of gold holdings) of L 19 300 billion, compared with

Table 10. **Capital movements**

Billion lire

	1988	1989
Inward investments	16 517	20 109
Outward investments	- 13 360	- 16 353
Borrowings abroad	11 500	19 640
Lending abroad	- 1 492	- 769
Bank capital	10 224	14 968
Changes in official reserves	10 906	15 386

Source: Banca d'Italia.

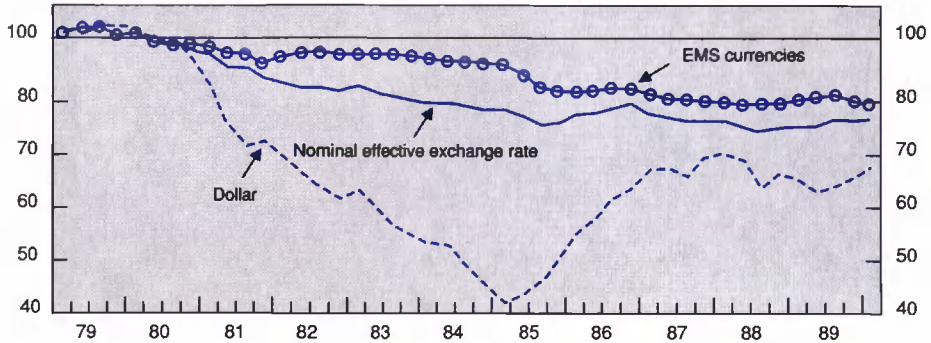
L 10 900 billion in 1988. The situation changed in the fourth quarter of 1989, with investment and foreign lending in Italy declining appreciably, whereas bank capital inflows remained high – in the region of L 2 000 billion. As a result of the latter shifts in the pattern of capital movements, foreign exchange reserves fell by L 4 000 billion in the last quarter. In January, after the realignment, there has been a reflow of foreign reserves of L 2 100 billion.

The lira appreciated fairly steadily against the other European currencies over the twelve-month period between September 1988 and September 1989, rising by 3.6 per cent against the ECU and the deutschemark. Over the same period the lira/dollar parity fluctuated markedly, with the lira falling on average by 1 per cent. All told, the lira's nominal effective exchange rate rose by 3.2 per cent over the period, and the lira's real effective exchange rate rose by nearly 4 per cent. Italy's competitiveness worsened as a result, especially *vis-à-vis* its European partners during the first part of the year. As discussed in the section on foreign trade, the decline in competitiveness seems to have affected import volumes more than export volumes.

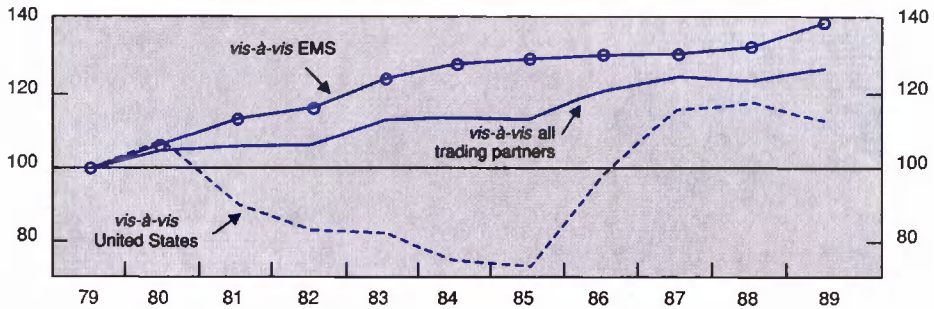
From September 1989, the upward trend of the lira in foreign exchange markets was reversed, a contributory factor undoubtedly being the Italian authorities' decision not to follow the more or less general rise in European interest rates. Between the first week of September, when the lira's parity in the EMS peaked, and the first week of January 1990 preceding the official readjustment, the lira fell by 4.6 per cent against the deutschemark and diverged by -4.2 per cent from the central rate. The -3.8 per cent downward adjustment of the lira in relation to the central rate when it joined the narrow fluctuation band in fact merely confirmed its fall in the markets since September.

Diagram 7. **THE EXCHANGE RATE AND COMPETITIVENESS**
1979 Q1 = 100

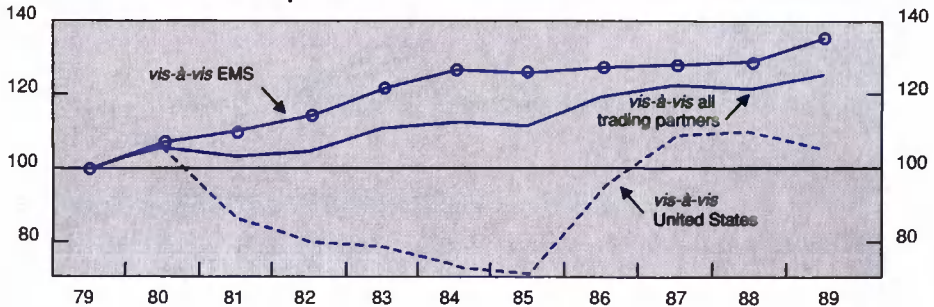
A. Nominal exchange rates



B. Relative wages

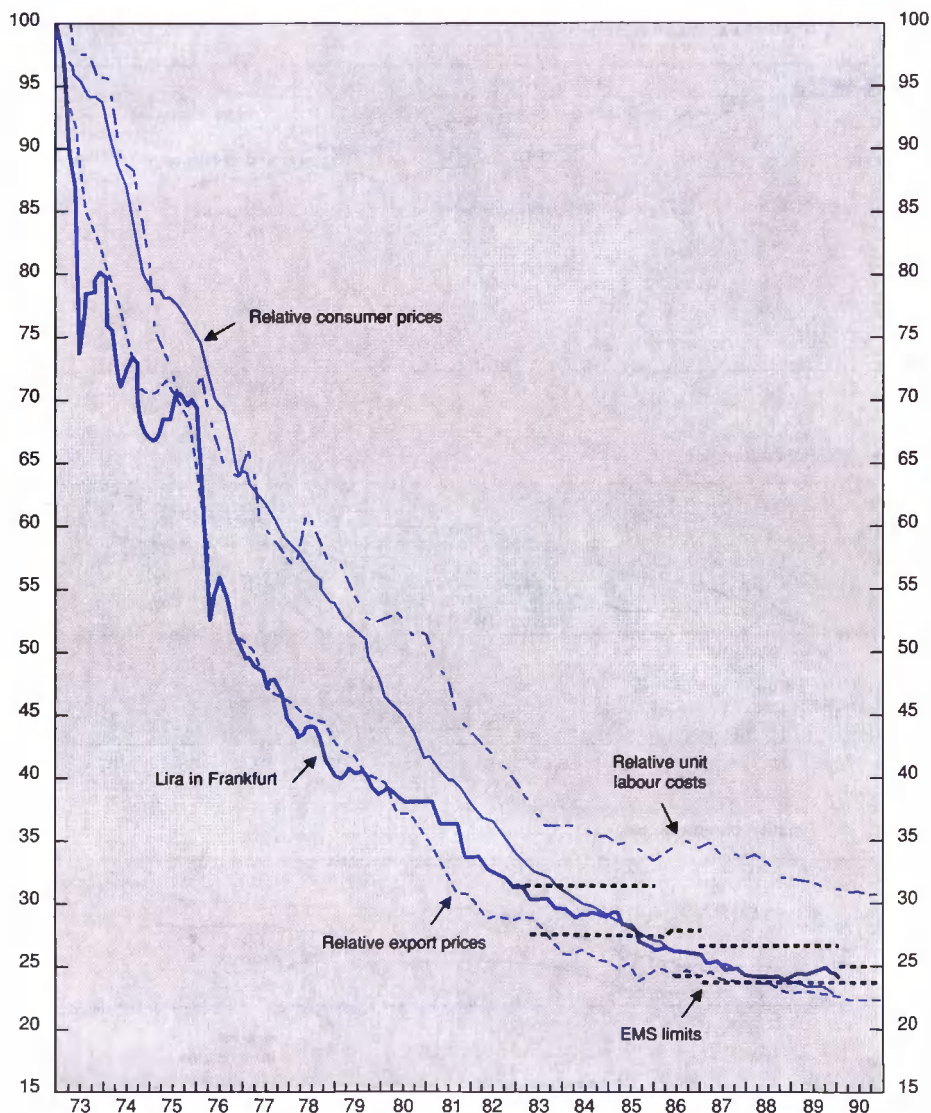


C. Relative consumer prices



Source : OECD Secretariat.

Diagram 8. MOVEMENT OF THE LIRA AGAINST THE DEUTSCHEMARK
 Exchange rate and indicators of Italy's competitiveness *vis-à-vis* Germany
 (April or Q2 1972 = 100)¹



1. A fall in the curves denotes a depreciation of the Lira against the Deutsche Mark or a rise in relative prices or costs *vis-à-vis* Germany.

Source : OECD Secretariat.

II. Economic policy

Economic policy conduct during recent years, and the policy objectives fixed for 1990, are part of a medium-term strategy aiming to achieve the following:

- A reduction in the rate of consumer price inflation to 3.5 per cent by 1991, and its stabilisation at this rate thereafter;
- A reduction in the public sector borrowing requirement from 11 per cent of GDP in 1989 to 7.4 per cent in 1992;
- The stabilisation of the public debt/GDP ratio at 103.6 per cent by 1992;
- Maintenance of medium-term growth at a rate ($3\frac{1}{4}$ per cent) sufficient to provide employment growth of slightly above 1 per cent per year.

These objectives are consistent with the structural policy strategy which aims at a reduction of regional discrepancies between the country's North and the South, and at preparing the Italian economy for a smooth entry into the Single European Market. In line with these medium-term objectives, the goals fixed for 1990 comprise the reduction in the rate of inflation¹⁵, in the rate of unemployment – notably via a reduction in the differences between the rate in the North and the South – and finally a reduction in the growth rate of private consumption¹⁶. The policy instruments chosen in pursuit of these objectives are the control of public finances and income policies. Concerning the latter, given the demonstration effect of public sector wage developments on those of the private sector, it is planned to limit real increases of compensation in the public and quasi-public sector during the upcoming wage round to 1 to 1.5 per cent. Concerning the budget, it is planned to reduce the deficit/GDP ratio to 10.4 per cent, a 0.6 percentage point reduction compared to 1989. The monetary policy objectives associated with the 1990 policy stance comprise 6 to 9 per cent M2 growth and also a 12 per cent projected increase in private sector credit – representing a significant slowdown compared to 1989.

Fiscal policy

The 1989 Finance Act was the first to be implemented under the revised budget procedure¹⁷. It was in line with the medium-term fiscal consolidation programme adopted in May 1988 which was primarily aimed at stabilising the debt/GDP ratio by 1992. At the time the draft 1989 Finance Act was drawn up, in autumn 1988, the 1988 budget deficit was estimated at L 118 000 billion and was expected to stabilise in nominal terms in 1989 (Table 11). However, the 1988 outturn showed a deficit L 7 000 billion higher than had been forecast and L 15 000 billion higher than had been initially budgeted, a slippage equivalent to 1.4 per cent of GDP. This overshoot was primarily due to a surge in transfer payments, health spending and wage costs (as a result of the renewal of civil service pay agreements and collective wage agreements for teachers, giving the latter a

Table 11. Central government budget
Thousand billion lire

	1988	1989	1989	1990	Percentage changes			
	Outturn (1)	Initial draft (2)	Estimates (Oct. 89) (3)	Initial draft (4)	(2) (1)	(3) (1)	(4) (2)	(4) (3)
Current revenue	300 927	326 400	344 550	382 000	8.5	14.7	17.0	10.9
Direct taxes	137 043	144 400	158 000	175 200	5.4	15.3	21.3	10.9
Indirect taxes	109 194	122 800	125 400	141 000	12.5	14.8	14.8	12.4
Other	54 690	59 200	61 150	65 800	8.2	11.8	11.1	7.6
Current expenditure	356 055	383 500	394 300	437 850	7.7	10.7	14.2	11.0
of which:								
Transfers	168 293	182 500	179 600	195 000	8.4	6.7	6.8	8.6
Interests	87 715	97 900	105 800	118 400	11.6	20.6	20.9	11.9
Saving	55 128	57 100	49 750	55 850	3.6	-9.8	-2.2	12.3
Capital expenditure (net)	58 958	61 450	63 400	68 600	4.2	7.5	11.6	8.2
Investments	3 488	3 900	3 900	4 300	11.8	11.8	10.3	10.3
Transfers	55 470	57 550	59 500	64 300	3.7	7.3	11.7	8.1
Budget balance	114 086	118 550	113 150	124 450				
Treasury operations	3 707	-8 950	9 500	1 100				
Financial transactions (net)	6 657	7 750	7 350	7 450				
Borrowing requirement	124 450	117 350	130 000	133 000				
Borrowing requirement as percentage of GDP	11.5	10.0	11.0	10.4				
Borrowing requirement (excluding interest as percentage of GDP)	3.4	1.6	2.0	1.2				

Sources: Ministry of the Treasury; *Relazione sulla stima del fabbisogno di cassa del settore pubblico per l'anno 1990*.

phased increase of around 30 per cent over the period 1988-1990). With interest rates rising, and increasing recourse to short-term debt financing, these overruns resulted in faster-than-expected growth of the public debt.

In 1989, as in the previous two years, Italy continued to make only modest headway with fiscal consolidation even though the general economic situation was such as to favour a more rapid improvement. The initial targets for reducing the budget deficit were again revised in the course of the year and outturns are expected to overshoot these targets substantially. Whereas the objective in the 1989 Finance Act was to stabilise the central government borrowing requirement at L 117 350 billion (10.2 per cent of forecast 1989 GDP), the provisional outturns point to a borrowing requirement of L 132 000 billion or 11.1 per cent of GDP. The causes for the 1989 overshoot are the same as in previous years, notably:

- The political difficulties of pushing through the measures needed to back up the Finance Act¹⁸, and slowness in implementing them;
- The over-optimistic assessment of the current year's outturns at the time the Act was being drafted;
- Conservative interest rate forecasts resulting in underestimation of the debt burden; and
- The difficulty of restraining spending of local government and health authorities out of unspent reserves.

The initial package of tax measures adopted in October 1988 should have curtailed the underlying 1989 budget deficit (i.e. the deficit that would have been recorded failing the introduction of corrective measures) by L 19 000 billion (Table 12). In the Finance Act passed by Parliament at end-December, the amount of the adjustment was cut to L 11 600 billion, with around half the amount obtained from tax increases (higher excise duties and VAT, revision of the system of presumptive assessment of the self-employed and revenue from the fines resulting from the tax amnesty)¹⁹ and improved collection of social insurance contributions. On the other hand, the revision of personal income tax scales was expected to have a negative impact on tax revenue estimated at almost L 6 000 billion. On the expenditure side, savings were expected to be made in health spending, as well as through the debudgetisation of part of employers' social insurance contributions and a reduction in transfers to local authorities.

In March 1989, the government found itself obliged to take stiffer measures in an effort to counter the financial community's increasing misgivings with regard to public finance. These had manifested themselves at the end of 1988, resulting in the government experiencing growing difficulty in placing public securities, and in

Table 12. Summary of fiscal measures in 1989 and 1990

Billion lire

	FY 1989		FY 1990
	Autumn 1988 Finance Act 1989	March 1989 Additional measures	October 1989 Finance Act 1990
Underlying deficit excluding new measures	136 350	145 260	153 000
Target	117 350	134 500	133 000
Measures planned			
Revenue increases	+ 10 000	+ 4 560	+ 9 300
Expenditure cuts	- 9 000	- 6 200	- 10 700

Source: Ministry of Budget and Economic Planning.

financial markets being destabilised by the surge in interest rates on Treasury bills (the average interest rate on three-month Treasury bills jumped from 11.87 to 13.56 per cent between February and March). The crisis was sparked off by expectations of the budget deficit running out of control under the pressure of several factors:

- The final 1988 budget outturns which revealed a deficit L 7 000 billion higher than the one on which the 1989 target had been based, meaning that the latter was unlikely to be achieved;
- Many of the tax measures provided for in the 1989 Finance Act were still under discussion in Parliament and were not having an easy passage;
- Accelerating inflation was causing a rapid rise in expenditure, and particularly debt service, because of the resulting increase in nominal interest rates.

The package of new measures (advance payment of taxes, reduced budgetisation of employers' social insurance contributions, curb on local authority cash credits) was designed to reduce the underlying budget deficit (in the absence of corrective measures) by L 10 000 billion. A new estimate put the deficit at L 134 500 billion. In May the Treasury deficit target was lowered to L 130 000 billion for the year, the figure on which the the 1990-1992 Public Finance Programme was based).

On a national accounts basis, the general government borrowing requirement as a percentage of GDP would appear to have remained virtually static between 1988 and 1989 (Table 13), the reduction in the primary deficit having been almost entirely cancelled out by the rise in interest payments, up to 19.2 per cent between

Table 13. Consolidated general government account¹

	As % of GDP 1987	Thousand billion lire				Percentage change		
		1987	1988	1989	1990	1988 1987	1989 1988	1990 ² 1989
Current revenue	39.5	387.9	434.1	491.3	542.6	11.9	12.2	10.4
<i>of which:</i>								
Direct taxes	13.3	130.7	145.1	169.0	187.8	11.0	11.9	11.1
Indirects taxes	9.5	93.1	109.2	122.5	140.1	17.3	15.0	14.4
Social security contributions	13.9	136.5	149.9	168.0	180.9	9.9	11.7	7.7
Current expenditure	45.9	449.7	497.5	556.7	606.2	10.6	11.2	8.9
<i>of which:</i>								
Consumption	17.1	165.4	185.2	202.3	221.4	12.0	9.6	9.4
Transfers to households	18.2	170.0	186.3	204.9	223.7	9.6	9.6	9.2
Subsidies	2.7	26.7	26.8	29.0	29.9	0.4	6.0	3.1
Interest	8.1	78.9	88.9	107.6	118.5	12.7	19.2	10.1
Current saving	-6.3	-61.8	-63.4	-65.4	-63.6			
Capital expenditure (net)	4.8	47.4	50.8	56.2	59.9			
<i>of which:</i>								
Investment	3.5	34.4	37.3	41.5	45.0	8.4	11.2	8.4
Borrowing requirement		-109.2	-114.2	-121.6	-123.6			
<i>(as a percentage of GDP)</i>		-11.2	-10.6	-10.3	-9.4			

1. National accounts basis.

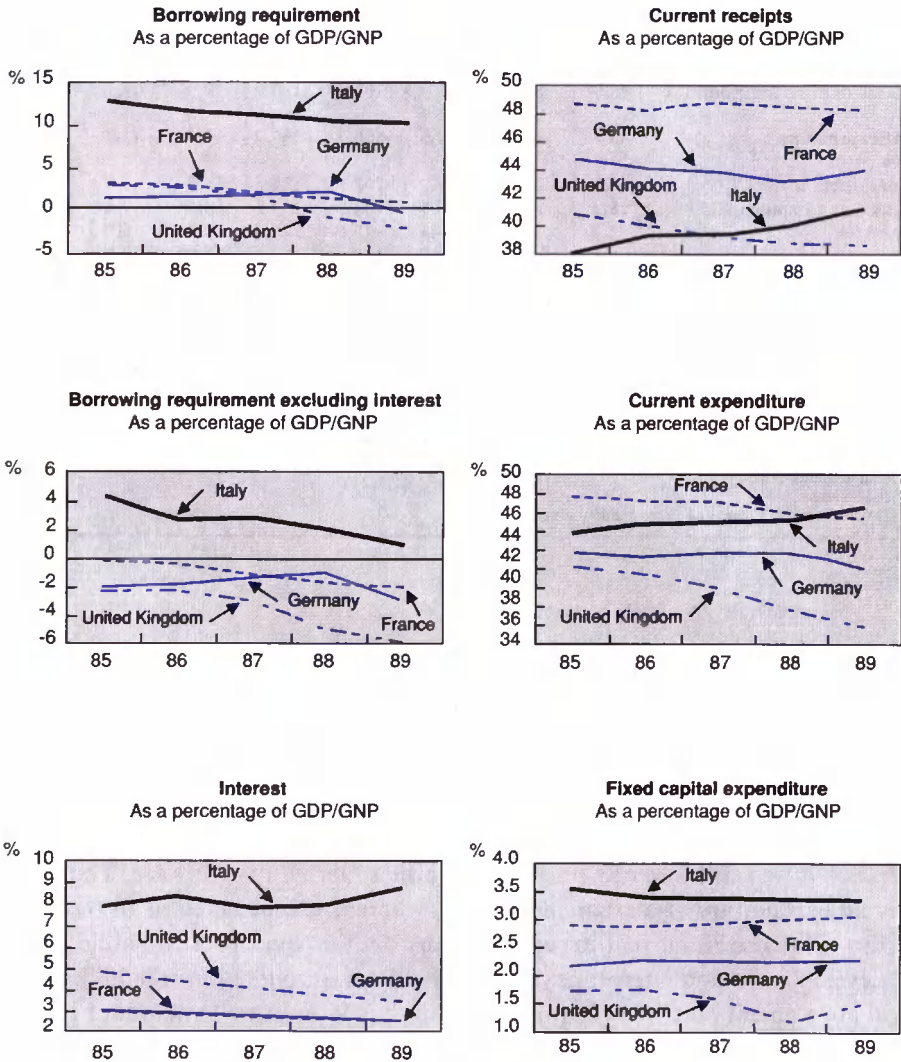
2. Official forecasts.

Source: Ministry of the Budget and Economic Planning.

1988 and 1989. Among the seven major OECD countries, and particularly compared with the three other major European countries, Italy's progress on fiscal consolidation was the poorest between 1985 and 1989 in terms both of the absolute level of the borrowing requirement and of the speed of adjustment (Diagram 9). While the ratio of current government receipts to GDP rose by 3 points between 1985 and 1989 – a period when it was falling in the other three major European countries – it was still lower in Italy than in either Germany or France. The share of current expenditure also expanded in Italy, whereas it contracted in all the other countries. This rise in current expenditure was due in equal part to public sector wage developments and interest payments. The latter accounted for the bulk of the general government borrowing requirement; but it is interesting to note that Italy is the only major European country in which the primary budget balance (i.e. the balance excluding interest payments) of the general government shows a deficit.

The draft 1990 Finance Act, which forms part of the three-year fiscal programme spanning the years 1990-1992 (Table 14), is based on projections of

**Diagram 9. GENERAL GOVERNMENT ACCOUNT OF
THE MAIN EUROPEAN COUNTRIES**



Source : OECD, *National Accounts* ; OECD Secretariat estimates.

3.2 per cent GDP growth and markedly slower inflation than in 1989 (with consumer price inflation targeted to fall from 6 to 4.5 per cent). The prime objective is to hold the central government deficit at L 133 000 billion, slightly up in nominal terms on the estimate for 1989 and equivalent to 10.4 per cent of forecast 1990 GDP. It is planned to reduce the primary deficit (deficit excluding interest payments) from 2 to 1.2 per cent of GDP between 1989 and 1990. With the underlying deficit (deficit with unchanged legislation), estimated to reach L 153 000 billion in 1990, the package involves the implementation of measures aimed at curbing expenditure by some L 5 300 billion (with transfers bearing the brunt of this effort), while revenue – mainly from indirect taxation – should rise by L 12 200 billion over and above the spontaneous trend. The reduction in the primary deficit is expected, on budget forecasts, to further ease the interest burden by L 1 800 billion. On a national accounts basis, the goal is to reduce the general government borrowing requirement from 10.4 to 9.4 per cent of GDP between 1989 and 1990 (from 1.5 to 0.4 per cent in the case of the primary deficit). To achieve these targets would imply fiscal policy taking on a more restrictive stance in 1990 than in recent years. The decrease in the cyclically-adjusted overall borrowing requirement and in the cyclically-adjusted primary deficit would each represent half a per cent of GDP.

The objective of reducing the central government deficit in 1990 (by 0.6 per cent of GDP relative to the 1989 estimate) could seem somewhat modest in view of the size of the deficit. The rate of growth of current revenue and of expenditures would be virtually identical, at around 11 per cent, implying a marked slowdown in the growth of both relative to the outturns expected for 1989. As can be seen from Table 11, the budget balance excluding Treasury fund operations probably deteriorated by L 11 200 billion between 1989 and 1990, whereas the total borrowing requirement rose by only L 3 000 billion. Treasury funds operations are one of the uncertain factors in government expenditure trends. Since the establishment of a centralised exchequer account in 1987, various public entities, in particular the local authorities, have been required to transfer to the Treasury the funds they had previously deposited with banks; they can then draw on these funds at their discretion. Ministries are allowed to spend any unused appropriations within four years, making it difficult to forecast how much will be effectively disbursed in any one year. For instance, although in the initial 1989 Finance Act Treasury funds were scheduled to rise by almost L 9 000 billion, they were in fact probably drawn on to the amount of L 9 500 billion, pushing up the Treasury borrowing requirement. At end-1988, available Treasury funds totalled some 60 000 billion, or roughly half the budget deficit for that year.

Table 14. Medium-term public finance programme¹

	1986	1989*	Programme			Automatic trends		
			1990	1991	1992	1990	1991	1992
I. CONSOLIDATED CENTRAL GOVERNMENT CASH BUDGET								
Current revenue	30.0	31.5	31.9	32.6	33.1	31.6	31.7	31.7
of which:								
Tax and social security contributions	22.4	24.6	25.0	25.6	26.1	24.7	24.7	24.7
Current expenditure	37.8	38.1	38.0	37.1	36.2	38.8	39.0	39.4
of which:								
Wage and salaries	8.9	9.1	9.1	8.9	8.7	9.2	9.2	9.2
Transfers	17.3	16.4	16.2	16.2	16.2	16.7	17.0	17.2
Interest	8.2	9.0	9.2	8.5	7.9	9.3	9.2	9.4
Capital expenditure	4.3	4.1	4.1	4.2	4.2	4.3	4.4	4.4
of which:								
Investment	1.5	1.6	1.7	1.8	1.8	1.7	1.8	1.8
Transfers	2.8	2.5	2.4	2.3	2.3	2.6	2.6	2.5
Total expenditure ² excluding interest	34.7	34.4	34.1	33.8	33.4	35.1	35.5	35.7
Total expenditure	42.9	43.3	43.3	42.3	41.4	44.4	44.7	45.1
Current saving	-7.8	-6.6	-6.1	-4.5	-3.1	-7.2	-7.3	-7.7
Borrowing requirement excluding interest ²	-4.0	-2.0	-1.2	-0.3	0.6	-2.5	-2.7	-2.9
Total borrowing requirement ²	-12.3	-11.0	-10.4	-8.8	-7.4	-11.8	-11.9	-12.3
Government debt	83.8	97.2	100.5	102.9	103.6	101.9	107.3	112.7
Nominal interest rate of debt	9.5	9.2	9.1	8.3	7.7	9.1	8.6	8.4
II. CONSOLIDATED PUBLIC SECTOR ACCOUNT								
Borrowing requirement excluding interest ²	-3.6	-2.2	-1.2	-0.3	-0.6	-2.5	-2.8	-2.9
Total borrowing requirement ²	-12.2	-11.4	-10.6	-9.1	-7.6	-12.0	-12.2	-12.6
Public debt	88.5	99.0	103.0	105.5	106.2	104.4	109.9	115.3
Nominal interest rate of debt	9.7	9.2	9.1	8.3	7.7	9.1	8.6	8.4

1. All data, except interest rates are expressed as a percentage of GDP.

2. Including financial transactions.

* Estimate.

Source: Ministry of the Budget and Economic Planning.

Because of the existence of these unused resources, the government annually commits less expenditure than will be effectively disbursed. Thus, the 1990 budget package is designed to reduce the "underlying" deficit on a commitments basis (Bilancio di Competenza) by L 46 000 billion (against L 20 000 billion in terms of

actual cash expenditure – Bilancio di cassa), mainly by carrying over payment authorisations under the multi-year Finance Act and reducing the amount of new funds earmarked for projects in the Mezzogiorno, equivalent funding for the latter being found from existing Treasury funds. Much of the fiscal consolidation effort is therefore based on curbing expenditure and ensuring that it does not overshoot budget appropriations.

The public debt, which in 1987 amounted to 93 per cent of GDP, continued to rise steeply during the following two years. Finance Act estimates suggest that by end-1989 it may have been almost on a par with GDP (Table 15). Central government debt in mid-1989 was 12 per cent up on the year-earlier figure. Uncertainty about foreseeable public finance and interest rate trends, as well as reduced Bank of Italy financing, resulted in much greater reliance on Treasury bill issues to finance the public deficit, so shortening the maturity of public debt. This trend was confirmed in 1989 when 30 per cent of financing was in the form of Treasury bills. The average maturity of public debt declined to 31 months in September 1989, a five-months reduction compared to the beginning of the year (Table 16). It is expected that 1990 will see a surge in public sector demand for funds. Given the maturity schedules for the different categories of government securities and the forecast 1990 deficit, the Treasury gross borrowing requirement has been estimated at L 500 000 billion in 1990 or around 40 per cent of GDP.

Table 15. **Financing the government deficit**

	1984	1985	1986	1987	1988	1989
<i>As per cent of total</i>						
Banca d'Italia	13.9	3.0	1.5	8.9	3.0	1.5
Foreign borrowing	2.4	2.4	0.8	5.3	3.4	6.5
Other	83.7	94.6	97.7	96.4	93.6	92.0
<i>of which:</i>						
Medium and long term	65.6	76.0	79.0	49.1	48.6	43.9
Treasury bills	9.7	10.7	8.8	24.1	33.5	32.3
Post Office savings deposits	6.7	7.4	10.2	11.3	8.6	11.1
Total	100	100	100	100	100	100
<i>Memorandum item:</i>						
Government deficit						
(billion lire)	95 965	122 626	110 159	114 258	125 405	133 669
(as a percentage of GDP)	13.2	15.1	12.3	11.7	11.6	11.3
Government debt	516 215	639 266	750 712	861 936	983 614	1 070 005 ¹
(as a percentage of GDP)	71.0	78.7	83.8	88.0	91.1	97.2

1. 10 months.

Source: Banca d'Italia; *Economic Bulletin* No. 9, October 1989.

Table 16. Public debt

	1984	1985	1986	1987	1988	1989
Total (billion lire)	561 489	683 058	793 597	910 563	1 088 205	
of which: With the Banca d'Italia and the Italian Foreign Exchange Office	92 863	120 286	130 954	137 968	140 344	
Total, as a percentage of GDP	77.2	84.0	88.5	92.9	96.1	99.0
Decomposition of the debt (as a percentage of total)						
Medium and long-term securities ¹	37.0	43.2	47.2	47.2	46.8	
Treasury bills ¹	27.2	22.1	20.1	21.0	23.1	
Post Office saving deposits	9.0	8.7	8.9	9.2	9.1	
Lending institutions	6.9	5.3	4.8	4.5	4.5	
Other domestic debt	0.4	0.4	0.3	0.3	0.3	
Foreign debt	2.9	2.7	2.2	2.6	2.7	
Borrowing by Banca d'Italia and the Italian Foreign Exchange Office	16.6	17.6	16.5	15.2	13.5	

1. Excluding Banca d'Italia.

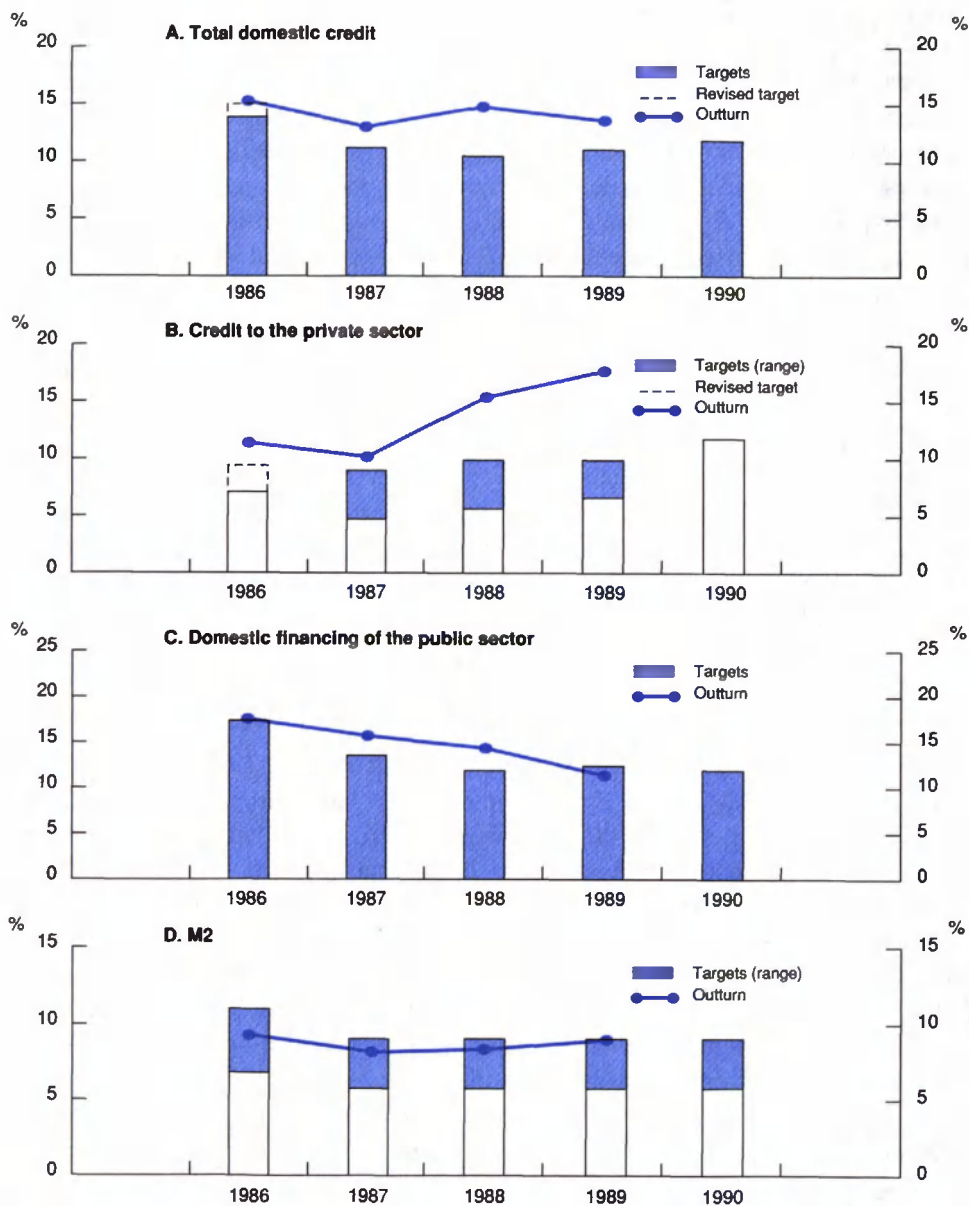
Source: Banca d'Italia; *Annual Report: Appendix*.

Monetary policy

In recent years monetary policy has continued to pursue the same basic objectives as in the early 1980s: curbing inflation in order to narrow the differential between Italy and its main trading partners, and maintaining the stability of the lira within the European Monetary System. The mid-term monetary policy objectives, which are announced every year when the draft Finance Act is presented, focus on the growth rates of lending to the non-State sector and of M2. These two objectives are set in the form of target ranges. Total domestic credit growth is also projected on the basis of targets for the Treasury borrowing requirement and growth of lending to the non-State sector. Whereas up to the mid-1980s growth of lending was managed by means of direct controls, it has since been controlled indirectly, chiefly through day-to-day money market intervention by the Bank of Italy.

The liberalisation of financial markets and Italy's increasing integration in international markets have made it more difficult to curb the growth of lending in recent years and, as a result, since 1988 and the beginning of 1989, growth of lending to the non-State sector has substantially exceeded official targets (Diagram 10). The acceleration in demand for credit at the end of the first quarter of

Diagram 10. **MONETARY POLICY : TARGETS AND OUTTURNS**
Annual percentage change



Sources : Banca d'Italia, Ministry of the Budget.

1988 – which at the time was ascribed to a temporary catch-up effect following the lifting of direct credit controls (temporarily reinstated between September 1987 and March 1988) – did not slacken until the third quarter of 1989, by which time lending to the non-State sector was expanding at an annual rate of 17.6 per cent. The twelve-month rate of growth of total domestic lending – close to 15 per cent in December 1988 – fell to under 14 per cent by the end of the third quarter of 1989 as a result of a very marked slowdown in growth of lending to the public sector (Table 10). This slowdown during the year was attributable to the Treasury borrowing requirement growing less rapidly than in the previous year following the decision in March 1989 to bring forward the date of payment of direct taxes. Given the total borrowing requirement targeted for 1989, growth of lending to the public sector could pick up again towards the end of the year which, *ceteris paribus*, would increase the rate of total domestic credit growth.

Growth of bank lending accounted for the bulk of the expansion in lending to the private sector; from 18.2 per cent in 1988, it rose to 21.4 per cent annualised in the first half of 1989, before slowing in the third quarter to 18.7 per cent. Both in 1988 and over the first nine months of 1989, bank deposits grew at a much more moderate pace, averaging around 8 to 9 per cent; also, the Bank of Italy intervened frequently on the market in order to neutralise the liquidity. In response to the heavy demand for credit, banks reduced their holdings of government public securities and stepped up their foreign currency borrowing. As a result, growth of foreign-currency lending surged from 29 per cent in 1988 to 37 per cent (annualised) in the first nine months of 1989, its share in total bank lending accounting for 14.2 per cent in September 1989 against 11.3 per cent in December 1987.

M2 growth remained within the target range in both 1988 and for the first nine months of 1989 (Table 17). The inflow of foreign currency has played a big role in money creation since the beginning of 1988, and its importance was accentuated in the first nine months of 1989 when it contributed L 19 000 billion to the change in the monetary base. Treasury financing by contrast slackened appreciably. However, the situation could well have changed in late 1989 and again in 1990 when the Treasury borrowing requirement will be greater. Because of investors' misgivings about government securities in the first half of 1989, private sector financial assets became significantly more liquid, the proportion of bank deposits in total assets rising from 21.5 per cent in the twelve months to July 1988 to 25.9 per cent a year later. These developments are a possible source of instability, given the continued uncertainty as to the extent of the slowdown in inflation.

With the Treasury borrowing requirement expected to stabilise as a result of the adoption, in Autumn 1987, of the fiscal consolidation programme and with

Table 17. **Monetary aggregates**

	Thousand billion lire			Percentage changes from corresponding period of previous year				
	Outstanding at 31-12-1986	Change 1987	1988	December 1987	June 1988	December 1988	June 1989	December 1989
Currency in circulation	48.2	4.4	4.3	9.2	8.5	8.2	10.6	19.5
Sight deposits	287.7	20.5	23.1	7.1	6.4	7.5	9.3	9.5
M1	335.9	24.9	27.4	7.4	6.7	7.6	9.5	11.3
Time deposits	279.2	26.3	29.5	9.4	7.9	9.7	11.7	10.6
M2	615.1	51.2	56.9	8.3	7.2	8.5	10.4	11.0
M3	743.9	84.9	100.9	11.4	12.6	12.2	14.2	..
Total domestic credit	1 157.7	151.9	195.2	13.1	13.5	14.9	14.4	15.0
To public sector	712.9	105.9	118.7	14.9	14.6	14.5	12.5	13.2
To private sector	444.8	46.0	76.5	10.4	11.7	15.6	17.7	18.0
of which:								
Bank lending, total	266.0	22.8	52.7	8.6	11.2	18.2	21.5	21.0
In lire	238.6	17.5	43.2	7.3	9.8	16.9	18.6	20.8
In foreign currency	27.5	5.3	9.5	19.4	22.6	28.9	42.2	23.0

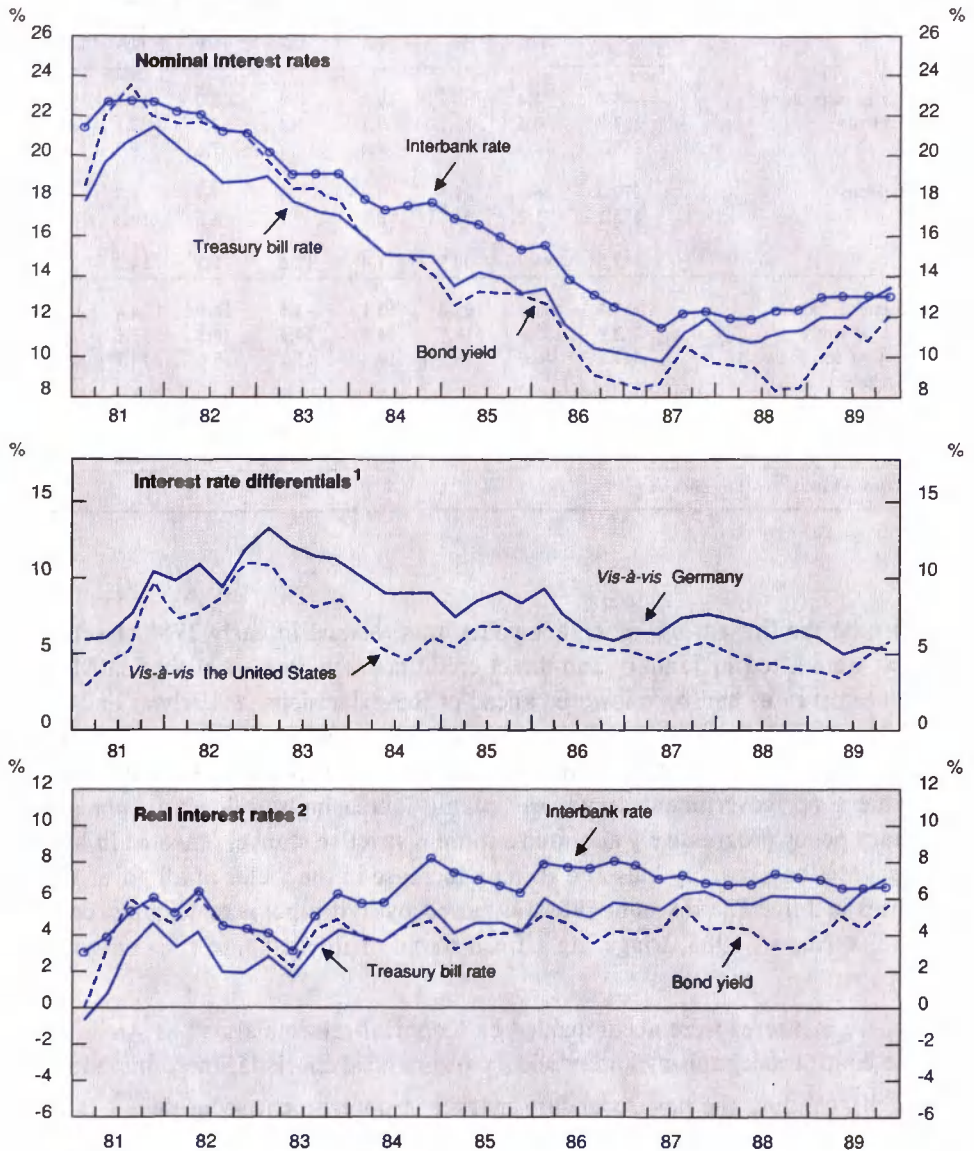
Source: Banca d'Italia; *Economic Bulletin*.

pressure on the lira easing, monetary policy was relaxed in early 1988. Exchange controls were lifted in January and direct credit controls were abolished in March. Also, interest rates had been lowered ahead of these decisions, as early as end-1987 (Diagram 11). But the easing of the monetary situation proved short-lived, credit growth accelerating both rapidly and steadily after the lifting of direct controls. At the same time, government securities became increasingly difficult to place and monetary policy progressively acquired a more restrictive stance, reflected in higher interest rates on Treasury bills and then an increase in the yields of all government securities in July. The discount rate was raised by half a point to 12.5 per cent at the end of August 1988, triggering a fresh round of interest rate rises on government paper.

These measures were accompanied by technical reforms aimed at strengthening the control mechanisms and efficiency of financial markets; these included:

- Expanding the new secondary market in government securities;
- Abolishing the floor price on Treasury bill issues in July 1988 for three-month bills and in March 1989 for six-month and twelve-month bills;
- Introducing the marginal auction price system for medium-term, fixed-interest Treasury bond issues in November 1988;

Diagram 11. **INTEREST RATES**



1. Uncovered differential : Italy (Treasury bills, 3 months) less Germany (interbank rate, 3 months) ; Italy (Treasury bills, 3 months) ; less United States (Treasury bills, 3 months).
2. Deflated by the consumer price index.

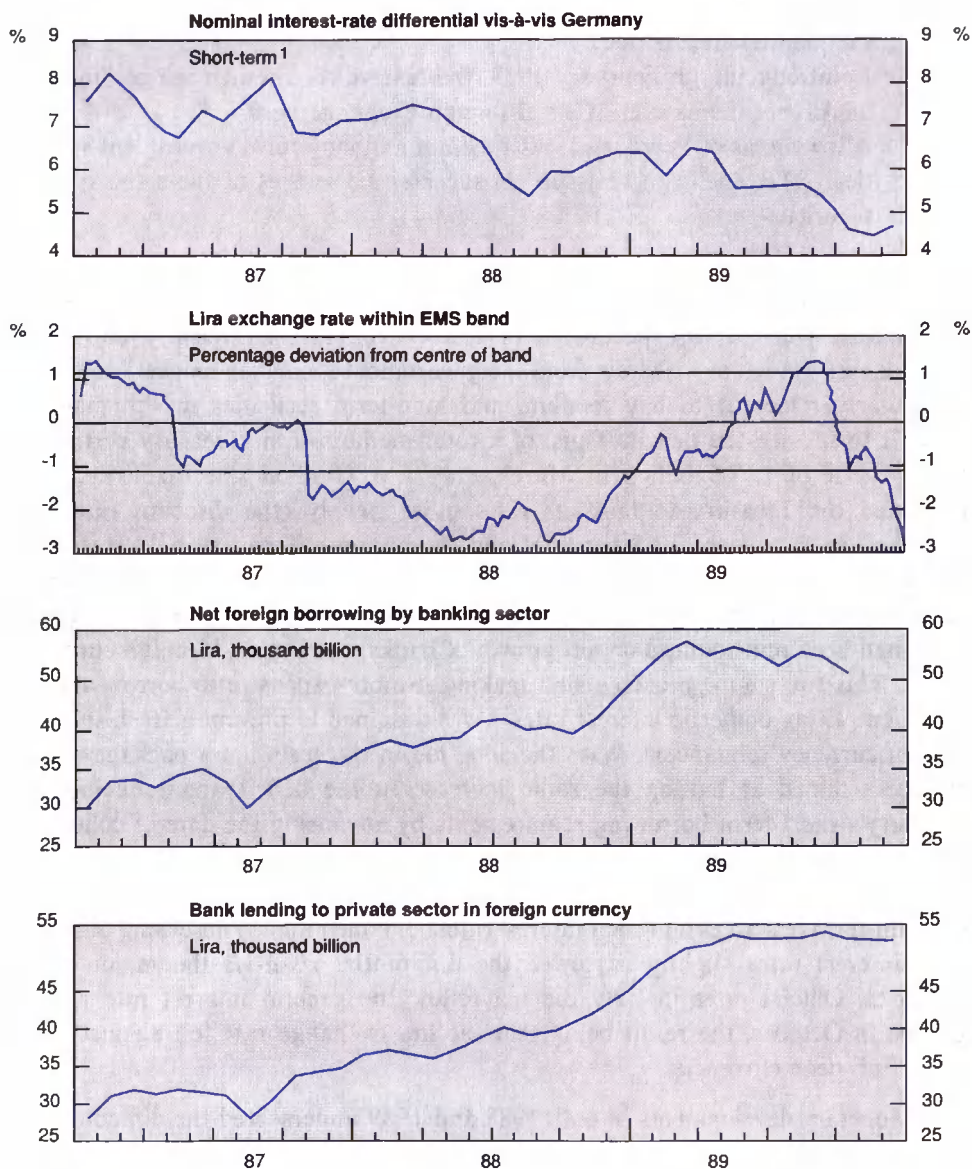
Sources : Banca d'Italia, OECD.

- Reforming the reserve requirement system – a decision taken in January 1989 allowing banks, as of July 1990, to mobilise the funds deposited as reserve requirement while satisfying the requirement on average over the maintenance period;
- Reintroducing, in February 1989, the reserve requirement on commercial banks' net increase in external foreign exchange positions;
- Allowing, as of February 1990, medium and long-term government securities (BTP, CCT) to be issued in successive tranches of the same type of security.

The monetary and financial situation worsened sharply in the first quarter of 1989. The problems in pushing through and implementing the measures detailed in the Finance Act led to expectations of a steep rise in the Treasury borrowing requirement. Investors withdrew from the government securities market, and were particularly reluctant to buy medium and long-term securities, which made it difficult to finance the deficit. Thus, of a total medium-term Treasury certificate (CCT) issue of L 7.5 billion in March, only L 1.7 billion was taken up. This prompted the Treasury to raise its rates quite steeply (the discount rate was increased by 1 point to 13.5 per cent and three-month Treasury bill rates were upped to 13.55 per cent in March from 11.87 per cent in February) and to rely more heavily on short-term borrowing. Prior to this, a 25 per cent reserve requirement had been reintroduced on net growth of banks' net external foreign currency assets. This two-step approach – first making it more expensive to borrow abroad and then raising domestic interest rates – was designed to prevent a fresh spurt in foreign currency refinancing. With the adoption in the spring of a package of tax measures aimed at halting the rapid increase in the deficit and reducing the Treasury's short-term borrowing requirements by advancing the date of collection of income tax, the money and financial market situation eased. This allowed short-term interest rates to be lowered and the Treasury was able to make greater use of medium-term resources on which interest rates remained high. This easing of short-term interest rates slightly narrowed the differential *vis-à-vis* the major EMS countries. Official rates in Italy did not follow the general interest rate rise in Europe in October, the result being that the lira exchange rate fell against most other European currencies.

Monetary developments in both 1988 and 1989 underscored the difficulties of implementing monetary policy. Financing a large public deficit with minimum recourse to money creation meant a policy of high interest rates. This led – as Diagram 12 shows – to major inflows of foreign capital, swelling money reserves and strengthening the lira which, up to a point, was supportive in the fight against

Diagram 12. CAPITAL MOVEMENTS AND MONEY CREATION



1. Italy less Germany.

Source : Banca d'Italia, *Economic Bulletin*.

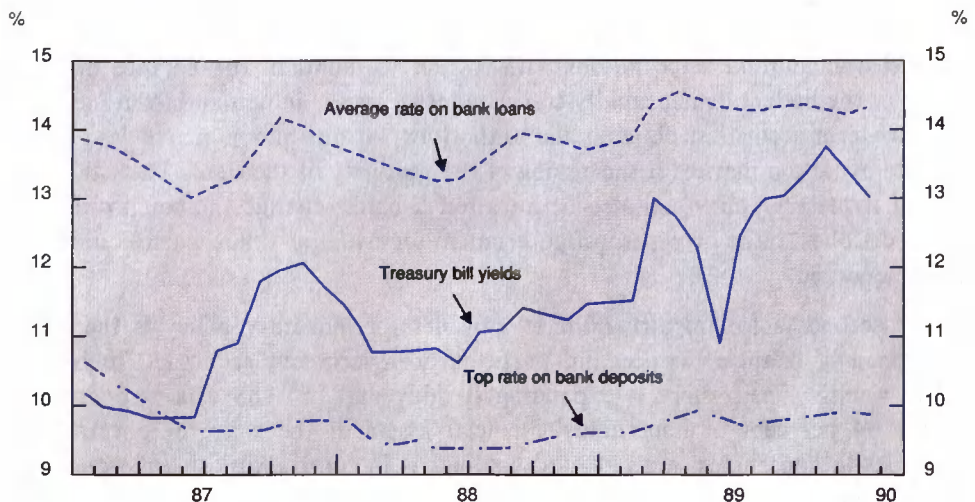
inflation. But there were other consequences. The first was the high cost in budgetary terms; with the interest burden on the public debt being equivalent to some 9 per cent of GDP, any rise in interest rates on government securities immediately and substantially pushes up the general government borrowing requirement. Moreover, the composition of holdings of government securities is highly volatile in Italy. Agents' unfavourable expectations with respect to inflation, the balance of payments or the budget deficit rapidly translate into a switch in demand from medium to short-term securities, obliging the authorities to raise medium and long-term rates to avoid too marked a shortening of the maturity of the debt. The effectiveness of monetary policy can also be impaired if banks change the composition of their portfolios to the detriment of government securities at times when liquidity is being squeezed.

A second factor impairing the effectiveness of monetary policy is the large proportion of financial assets, and particularly government securities, in households' wealth. Their share is expanding steadily and in 1988 was estimated at almost 34 per cent of households' financial assets, if the share of government securities in households' mutual fund holdings is included. Almost three-quarters of government securities are short-term and the interest rates on most medium and long-term securities are indexed on those of short-term Treasury bills. Thus, the effect of using interest rates as a short-term regulatory instrument is reduced because of the impact it has on household incomes via changes in the amount of interest received on government securities²⁰. Last, as has been seen, the real short-term interest rate differential between Italy and its main EMS partners has, since the liberalisation of international financial markets, led to inflows of capital which in 1988 and 1989 allowed domestic credit demand to be met at levels over and above the targets of monetary policy.

The effectiveness of monetary policy is also impaired by the financial markets' lack of responsiveness to the impetus imparted by monetary policy. This is reflected in the fact that when money market rates change, banks adjust their interest rates only slowly and to a limited degree (Diagram 13).

Total domestic credit growth is targeted at 12 per cent in 1990, evenly divided between credit to the State sector and credit to the non-State sector. The public sector is likely to rely heavily on the financial market in 1990, because of the large amount of government paper due to mature and the expected persistence of a high Treasury borrowing requirement. Whereas the amount of government securities maturing in 1989 was fairly small, particularly in the case of medium and long-term securities, in 1990 the situation will be reversed. While the amount of

Diagram 13. **INTEREST RATES ON TREASURY BILLS,
BANK DEPOSITS AND BANK LOANS**



Source : Banca d'Italia, *Economic Bulletin*.

medium-term Treasury Certificates maturing in 1989 was nil, some L 23 500 billion worth will mature in 1990, which is comparable with amounts maturing in 1986-1987. Treasury bonds (BTP) due to mature in 1990 will, on the other hand, total L 85 700 billion, whereas the average over the period 1985-1988 was L 13 000 billion. This bunching of repayments is due to the fact that the Treasury has had greater recourse to this type of fixed-interest loans in recent years but has also shortened their maturity. Last, because of the scale of Treasury bill issues in 1989, the volume maturing in 1990 will amount to around L 285 000 billion. Altogether, with the Treasury borrowing requirement estimated at L 133 000 billion, the Treasury's gross financing requirements could reach as much as L 750 000 billion, around a quarter more than in 1989. This situation could, particularly if the Treasury wants to try to lengthen the maturity of the debt again, cause serious strains on financial markets, particularly as regards long-term interest rates.

Structural policies

In the past two years, structural adjustment policy in Italy has been pursued through a number of measures designed to achieve fiscal consolidation, to improve financial and labour market efficiency, and to tackle the structural causes of inflation.

In order to curb medium-term growth of public spending more effectively, budget procedures were overhauled in the autumn of 1988. Every proposal for new expenditure must fit into a multi-year programme and every measure involving new outlays must be matched by corresponding receipts. In the field of welfare expenditure, medical expenses are no longer fully reimbursable but include a patient's contribution. It is also planned to raise the legal retirement age and to increase the number of years of contributions needed for full pension rights. On the receipts side, VAT rates were progressively raised between 1987 and the beginning of 1989. The number of personal income tax bands was reduced from 9 to 7 and the marginal rate of tax on the highest income bracket was lowered from 62 to 50 per cent. In 1990, the scales are to be adjusted in line with inflation whenever it exceeds 2 per cent a year. The system of presumptive taxation of the self-employed, traders and small businesses provisionally introduced in 1985 was confirmed and amended, and the turnover ceiling for entitlement to the system raised. This reform, accompanied by a tax amnesty for taxpayers in this category who had not paid all their past taxes, ought to enlarge the tax base and reduce tax avoidance. It is also planned, with a view to harmonising the tax treatment of savings, to reduce tax on bank deposits from 30 to 20 per cent in 1990.

In the financial domain, partial deregulation of the banking system is in progress, facilitating the establishment of branch banks, enhancing transparency with respect to the costs of bank services and reducing market segmentation. To develop the interbank market, computerised trading is to be introduced and banks will be allowed to place up to 5 per cent of the amount of their compulsory reserves on that market. A key public debt management objective has been to lower effective debt interest rate levels and to limit the extent of their index-linking. To this end, greater opportunities and facilities have been created for auctioning government paper, and the fixed-rate Treasury bill market has been given new impetus. A secondary computerised government securities market was opened in May 1988. Last, the Exchange Controls Act, which came into force in October 1988, has liberalised the majority of financial transactions, with full liberalisation scheduled for July 1990.

On the industrial adjustment front, a number of measures have been introduced, including a package of subsidies for SMEs to promote energy conservation, technological innovation and modernisation. On the other hand, privatisation has not been pursued to the same extent in Italy as in France or the United Kingdom. There are a number of reasons for this: the stock market has always played a more limited role and buying and selling shares is a much more cumbersome process. In recent years, these public enterprises have become more profitable, whereas previous efforts to increase their efficiency were hampered by such policy considerations as safeguarding employment, reducing regional imbalances, supporting key development sectors and promoting innovation.

Despite the improvement in economic conditions, sectoral subsidies are still substantial. Between 1980 and 1986 they reached $3\frac{1}{4}$ to $3\frac{1}{2}$ per cent of value added of the business sector, and this ratio was reduced to 3 per cent in 1987. Recent figures are hard to obtain, but the preliminary results of recent surveys do point to a steady and progressive reduction in the amount of such aid.

The legislation on competition at present under consideration should help to contain the risk of overconcentration. In 1987 and 1988 Italy introduced protectionist measures in the framework of EC regulation; chiefly concerned were textiles, clothing and footwear from South-East Asian countries, and cars, motorcycles and sewing machines from Japan. Trade with the East-European countries has, on the other hand, recently been liberalised, and a plan to liberalise trade with Japan is in course of being implemented within the EEC framework. The new regulations brought in between 1986 and 1988 with regard to financial and business transactions with the foreign sector removed the restrictions on capital exports and inward direct investment is now fully liberalised.

The measures to curb labour costs and enhance labour flexibility have played a crucial part in industrial adjustment. Recourse to the Cassa Integrazione dei Guadagni mechanism has helped to ease the constraints that the highly restrictive legislation imposed on businesses seeking to reduce overmanning. While enterprises' social insurance contribution rates have in the past been lowered on several occasions with the aim of reducing non-wage labour costs (budgetisation), the authorities have in recent years raised contribution rates in order to boost central government receipts and rates are now well above the OECD average. Youth employment measures have accounted for a growing proportion of government labour market support and there has been a big increase in the number of training contracts. Apart from reducing employers' social insurance contributions, these contracts provide for greater flexibility in hiring and firing labour. Employers can

now take on workers on a fixed-term and individual basis, whereas hitherto job-seekers had to be taken on in the order in which they appeared on a list (collocamento). The extension of part-time contracts has also had the effect of enhancing labour market flexibility.

III. Short-term forecasts

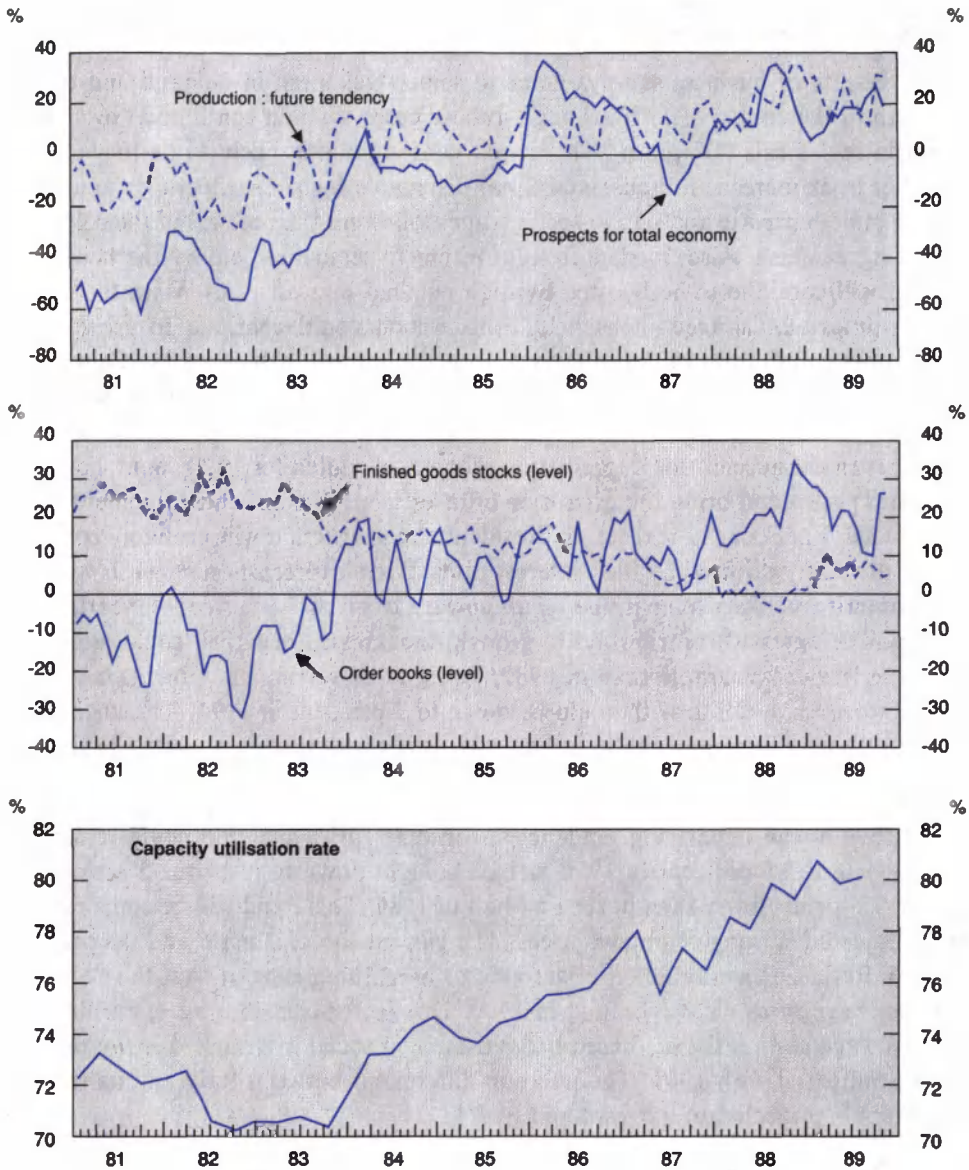
The forecasts below are the same as those published in the Economic Outlook No.46 of December 1989. They are based on the following underlying technical assumptions and assessment of international developments:

- Nominal exchange rates unchanged relative to the level prevailing at 31st October 1989, namely L 1 349 to the dollar and L 733 to the deutschemark;
- The fob price per barrel of oil, estimated at \$17 in the second half of 1989, is assumed to remain constant in real terms over the period;
- World trade growth is estimated at 6.4 per cent in 1990 and 6.8 per cent in 1991, while export market growth for manufactures is estimated at 7½ per cent in both years.

The changes that have occurred in foreign exchange markets since these projections were prepared are unlikely to have had significant effects. In January 1990 the dollar was traded on average against L 1 263, about 6½ per cent less than the technical assumption underlying the projections. However, the readjustment of the deutschemark exchange rate to L 748.2 implied a depreciation of 2 per cent. With one-third of Italian imports priced in dollars and one-third in EMS currencies, exchange-rate developments relative to the technical assumptions underlying the projections could – all else remaining equal – result in a 1 percentage point decline in import price inflation relative to the projection. The corresponding effect of the exchange rate changes on export prices would be more limited, since only 20 per cent of exports are priced in dollars, against 30 per cent in EMS currencies.

The stance of fiscal policy may be restrictive during the first half of 1990, following the decision to temporarily freeze expenditures, which accompanied the lira depreciation. Starting in the second semester the fiscal policy stance would become neutral. With respect to monetary policy, the introduction of a narrow fluctuation band for the lira in the EMS may result in a slight reduction in interest

Diagram 14. BUSINESS INDICATORS
Results of business surveys



Source : OECD, *Main Economic Indicators*.

rates, corresponding to the reduction in the exchange rate risk. The large Treasury financing requirement and the need to refinance an important part of the public debt maturing in 1990 will subsequently leave little room for a unilateral reduction in interest rates, given the persisting inflation differential between Italy and its major European trading partners.

Results of business surveys point to some slackening in demand and output growth in the course of 1990, though in both cases it could continue at over 3 per cent in real terms (Diagram 14). Private consumption is likely to be fuelled by a further brisk increase in households' real disposable income, reflecting the upward trend in both private and public-sector wages following the renewal of the collective wage agreements. Also, income from government securities held by the household sector will continue to be boosted by high nominal interest rates. With the saving ratio almost unchanged, household consumption could continue to grow at an average rate of close to 3.5 per cent until the second half of 1991. Continuing favourable demand prospects and high capacity utilisation rates should stimulate the growth of productive investment. The increase in wage costs in 1989 and the changes in the accelerated depreciation scheme scheduled for 1990 could, however, cut into profits and bring the expansion of investment in plant and equipment down to around 5 per cent in real terms. Residential construction will probably continue to be adversely affected by high interest rates. Budget forecasts suggest that public consumption is likely to continue on an upward trend of 2.5 per cent a year in real terms. The external contribution to growth, though still negative, could gradually become less unfavourable than in 1989, owing to slower import growth. In annual average terms, GDP growth could be down to 3 per cent in 1991. The unemployment rate may increase slightly in line with the deceleration in activity (Table 18).

If the slowdown in price increases observed in the third quarter of 1989 is indicative of the underlying tendencies, consumer price inflation could remain in the region of 5.5 per cent in 1990 and be brought down to just over 5 per cent in 1991, 1.5 points lower than in the first half of 1989. This trend will be supported by the projected slowing of import prices. The current social climate and the preliminary information available on private-sector bargaining suggest that the acceleration in wage rates will be limited in 1990. One factor contributing to curbing the rise in wage costs is the increased budgetisation of social insurance contributions in 1990 compared with 1989. The inflation differential between Italy and its trading partners is projected to narrow slightly.

The terms of trade should cease to worsen in 1990, as the rise in import prices slows. With domestic demand pressure likely to ease, the growth of imports may

decelerate compared with 1989, while exports should be boosted by the expected growth in markets (7 to 8 per cent for manufactured goods). All told, the current external deficit could stabilise at around its 1989 level, i.e. some \$11 billion.

Table 18. Short-term projections
Percentage changes from previous period, seasonally adjusted at annual rate

	1989	1990	1991	1989 II	1990		1991	
					I	II	I	II
Demand and output								
Private consumption	3.5	2.9	3.4	1.7	3.2	3.5	3.5	3.0
Public consumption	2.2	2.3	2.5	1.9	2.5	2.5	2.5	2.5
Gross fixed investment	5.7	4.2	3.8	5.3	4.1	3.5	3.9	3.9
Machinery and equipment	7.5	4.9	4.9	5.2	5.0	4.5	5.1	4.9
Construction	3.5	3.4	2.5	5.4	3.0	2.3	2.5	2.6
Final domestic demand	3.8	3.1	3.3	2.5	3.3	3.4	3.4	3.1
Stockbuilding ¹	-0.1	0.3	0	0.8	0.2	0.1	0	0
Total domestic demand	3.6	3.3	3.3	3.2	3.4	3.4	3.4	3.1
Exports of goods and services	8.9	5.3	5.3	6.2	5.0	4.9	5.3	5.6
Imports of goods and services	8.8	4.8	5.8	1.3	6.0	6.1	5.7	5.7
Foreign balance ¹	-0.3	-0.1	-0.4	1.1	-0.5	-0.6	-0.4	-0.3
GDP at market prices	3.4	3.2	3.0	4.5	3.0	3.0	3.2	2.9
Industrial production	3.1	4.4	3.6	6.0	4.0	3.8	3.5	3.5
Prices								
GDP price deflator	6.5	5.6	5.4	5.7	5.5	5.7	5.3	5.2
Consumer prices	6.2	5.5	5.2	5.5	5.6	5.4	5.2	5.2

1. As a percentage of GDP in the previous period.

Source: OECD Secretariat estimates and forecasts.

IV. Regional discrepancies and policies

The two major challenges facing economic policy makers in Italy are the large public sector deficit and the pronounced regional differences in economic performance. This chapter looks at the second of these problems, exploring its scope and describing past policy efforts to reduce it. The chapter closes with some considerations of what policy approach might be applied in the future.

The scale of regional disparities

The Italian economy has long been beset by pronounced regional disparities in a wide range of economic and social indicators. While no country is immune to spatial differences in the allocation of activity and incomes, available evidence suggests that regional discrepancies in Italy are particularly large. Table 19 presents some indicators of regional dispersion of per capita GDP and unemployment rates for several European countries, roughly comparable with Italy in terms of geographic size and level of development. The data have to be interpreted with caution, since they are sensitive to the number of regions chosen and to the type of indicator used, as well as being open to other methodological caveats²¹. They are, nonetheless, the best information that is available and provide some broad indication of international similarities and differences in this area.

The figures show that with respect to both income per capita and unemployment rates, regional discrepancies in Italy in the mid-1980s were more severe than elsewhere in Europe. The contrast is particularly marked *vis-à-vis* Britain, Germany and, to a lesser extent, France, economies in which spatial per capita income and output disparities appear relatively modest. In these countries, the regional problem is seen mainly as one of unemployment in older industrial areas and, increasingly, in some large conurbations. Italy's problem, on the other hand, is primarily one of poorer and less industrialised regions suffering from both high

Table 19. Regional disparities in selected European countries

		A. PER CAPITA GDP, 1983		
		Gini coefficient	Coefficient of variation	Ratio of top quarter to bottom quarter
Italy	(12 regions)	0.13	0.24	1.82
France	(11 regions)	0.11	0.19	1.64
Germany	(11 regions)	0.06	0.25	1.33
Spain	(11 regions)	0.10	0.19	1.56
United Kingdom	(11 regions)	0.05	0.08	1.27
		B. UNEMPLOYMENT RATE, 1987		
		Weighted standard deviation	Coefficient of variation	Ratio of top quarter to bottom quarter
Italy	(12 regions)	5.27	0.47	2.94
France	(11 regions)	1.69	0.16	1.50
Germany	(11 regions)	2.06	0.33	2.24
Spain	(11 regions)	4.95	0.24	1.88
United Kingdom	(11 regions)	2.58	0.25	1.79

Note: For a definition of the regions, see OECD, *Employment Outlook*, July 1989, pp. 128 and 129.
For an explanation of the various measures of regional disparities, see the notes in the Technical Annex.
Sources: Eurostat, *Regions - Statistical Yearbook*, 1987, and OECD, *Employment Outlook*, July 1989.

unemployment and low productivity. In this sense, the Italian situation is closer to that of Spain, yet, on the strength of the rough indicators of Table 19, Spanish disparities do not appear to be as acute. Indeed, it is quite likely that (with the exceptions of Yugoslavia and, possibly, Turkey) Italy's regional difficulties are the most pronounced in the OECD area.

The last column in Table 19 (the ratio of the top to the bottom quartile in each economy's per capita income or unemployment distribution), epitomises one of the most significant aspects of Italy's regional problem: the division of the country into two very distinct parts – the advanced and prosperous North (or North and Centre) on the one hand, and the backward and poor South on the other (Diagram 15)²². Examples of this gap are readily forthcoming – Southern unemployment, for instance, is well above average: in 1987-88, it affected 20 per cent of the region's labour force, as against 7 and 9 per cent in the North and Centre respectively; output per capita in the South was barely above 55 per cent of the Northern level in the late 1980s, while productivity per employed person stood at some 75 per cent of that achieved in the North. Within the European context, nominal GDP per head in the Northern part of the country, on a purchasing power parity basis, was above the average levels reached in such prosperous economies as Denmark, France or

Diagram 15. **ADMINISTRATIVE REGIONS**

VAPC = Value added per capita¹ ; Italy = 100

UNR = Regional unemployment rate² (as a percentage of labour force)



1. 1984

2. 1988

Sources : EUROSTAT, Regions, Statistical Yearbook ; ISTAT, Bollettino mensile di Statistica.

Germany; in the Southern half it was similar to that of Spain and not much higher than those of Greece and Portugal, countries at the bottom of the OECD income-per-capita scale.

The structures of Southern output and employment were also markedly different from those of the North and much closer to those of other low income Southern European economies (Table 20). Indeed, comparing the Mezzogiorno with Greece, Portugal or Turkey, suggests that the area is well behind such countries in the shares of industrial employment and value added in total activity – while recording above average shares of construction and, especially, public administration. A massive transfer of resources flowing from the rest of the country to the Mezzogiorno has in the past helped to reduce discrepancies in resource availability: in the late 1980s (as for virtually every post-war year), net imports of goods and services came to between 15 and 20 per cent of Southern regional GDP. In areas such as Calabria and Sicily, net imports in some years of the 1970s and 1980s were above the level of total gross investment. Very few developing countries and even fewer regions in developed ones can match such figures²³.

The origins of the problem go back at least to the time of the country's unification. Thus, according to some observers, it was precisely the 1860 economic

Table 20. **Structure of output and employment**
Italy and Southern Europe

Percentage

A. SHARE OF SECTOR IN GDP						
	Northern Italy 1984	Southern Italy 1984	Greece 1985	Portugal 1986	Turkey 1986	Yugoslavia 1986
Agriculture	4.5	10.3	17.1	7.6	17.2	13.4
Industry ¹	36.1	18.0	22.9	32.8	33.1	40.2
Construction	5.5	11.0	6.4	5.6	4.1	7.3
Services	42.2	40.0	42.4	42.5	40.2	
General government	11.7	20.7	11.1	11.5	5.4	39.1
B. SHARE OF SECTOR IN GDP						
	Northern Italy 1984	Southern Italy 1984	Greece 1985	Portugal 1986	Turkey 1986	
Agriculture	7.5	20.4	28.9	24.1	55.9	
Industry ¹	32.0	16.5	20.6	25.4	13.9	
Construction	6.4	11.0	6.8	9.0	4.2	
Services	39.1	33.1		29.2		
General government	15.1	19.0	43.7	12.4	26.0	

1. Mining and quarrying, manufacturing and distribution.

Sources: ISTAT and OECD.

union of the Northern provinces with the more agricultural South that worsened an already existing development gap. At the time, the North consisted of regions beginning to experience some industrialisation, while the South was an area poor in both human and physical capital, unable to compete with its more prosperous Northern neighbours. Over the next century or so, the "Questione meridionale" (or Southern issue), as the problem came to be called, was the focus of much debate, but relatively little policy action. And the policy intervention that took place (almost exclusively concentrated on the building of infrastructures), was never seen as part of a comprehensive development plan. By the early 1950s, the problem was as, or probably even more, acute than it had been half a century earlier²⁴.

Policy approaches since 1950

Fostering Southern development became an explicit policy goal only after World War II, with the creation, in 1950, of the *Cassa per il Mezzogiorno* (or Southern Development Fund) – an organisation devoted specifically to the improvement of economic conditions in the Southern half of the country, which represented a clear break with past uncoordinated and fragmented action²⁵. Though the Cassa's goals were kept vague and no quantitative targets were put forward, the implicit broad development aims were industrialisation of the South, a closing of the various social and economic gaps between the two parts of the country, and the generation of a self-sustaining growth process in the region. Since 1950, the Cassa has pursued several different strategies, changing its instruments in response to the perceived successes and failures of its earlier interventions.

The first policy phase, which broadly covers the 1950s, saw action concentrated in two areas – the provision of infrastructure investment and support for land reform. Industrialisation of the region was not a specific aim, though it was expected that the incomes and the positive externalities created by massive spending on public works would (together with a few minor incentives to the creation of new firms) generate a spontaneous "take-off". Overall Cassa expenditure during the 1951-60 period came to some 0.8 per cent of national GDP, a figure that rises to 1 per cent if investment estimated to have been induced by the Cassa's operations is also included. For the South, whose GDP at the time was less than 30 per cent of the country's total, the inflow may have represented over 3 per cent of regional output, or about 20 per cent of regional fixed investment²⁶. However, this figure probably overstates the development effort since some of the activities financed by the Cassa replaced public investment that would have taken place anyway.

By the late 1950s, and in the light of what were felt had been disappointing results, the emphasis shifted from the support of infrastructure investment and the restructuring of agriculture towards subsidising industrialisation. A 1957 law selected a number of "growth centres" into which resources were to be channelled and greatly increased the scope and generosity of financial incentives to industrial enterprises settling in the South. In principle, the latter measures were to apply only to small and medium-sized firms whose access to the capital market was limited; in practice, however, a significant share of the funds (particularly interest rate subsidies), accrued to large-scale concerns. The law also enforced an earlier directive towards public enterprises to allocate 60 per cent of their net investment in Southern Italy. The total contribution of the Cassa's operation to the region's capital formation during the 1960s rose to nearly 30 per cent, with a much more significant share accounted for by both public and private industrial projects. And while in the 1950s direct Cassa expenditure had been equivalent to less than one-quarter of the industrial investment effort, in the subsequent decade nearly two-thirds of the investment that occurred had been, directly or indirectly, induced by the Cassa's operations.

The new course was reinforced in 1965, and again in 1971, when the Cassa's resources were increased further, and existing financial incentives to industrial capital formation and to the establishment of new industrial firms in the South were strengthened. 1971 also saw an increase from 60 to 80 per cent in the share of public enterprise net investment that had to be located in the region – a figure which has in fact never been achieved. Cassa financed or induced investment had, by the early 1970s, reached some 40 per cent of total Southern capital formation. While the bulk of the development effort had been concentrated on subsidising capital (both in infrastructure and in industry), a 1968 measure, which reduced industrial firms' social security payments on newly hired employees by 20 per cent, also introduced a subsidy on labour.

A change in the policy framework occurred in the second half of the 1970s, when – as part of the country's more general move towards administrative decentralisation – Southern development programmes were devolved to the new regional authorities and the Cassa's role was greatly curtailed. More importantly, the last decade or so has seen a slackening in the regional support effort as other national economic problems became more pressing. Total Cassa expenditure in real terms fell, for instance, by some 45 per cent between 1977-78 and 1987-88, or from nearly 4 to less than 1.7 per cent of regional GDP. One particular aspect of this retreat has been a continuous shortfall of public enterprise investment in the South from the targets that had been set. Another was a decline in public funds directly

or indirectly allocated to investment. Given the South's relative backwardness in some areas of infrastructure, and hence its greater need for social overhead capital, budgetary stringency, by mainly affecting investment expenditure, penalised the area more than proportionately.

Conscious of the social consequences such a retreat was likely to have, the authorities stepped up their transfer payments to the South. There was a sharp increase in various direct and indirect forms of income maintenance. Disability pensions, in particular, seem to have been granted with great ease in Southern provinces. A not dissimilar role was fulfilled by the creation of a large number of additional public sector jobs. Furthermore, the 1968 partial relief on employers' social security contributions ("fiscalisation") was extended in 1976 to full exemption for all new workers hired in manufacturing. In terms of development, however, this shift of expenditure away from investment and towards transfers may well have had a negative impact: it slowed down the growth of labour productivity, reinforced the area's dependence on the rest of the country and, while creating additional demand, seems to have had only little direct effect on local supply in view of the disincentive effects of the policy reorientation.

Despite the partial retreat from the earlier more active and substantial intervention, Italy's regional support effort throughout the post-war period, has clearly been considerable, as suggested by the data presented in Table 21. Already in the 1950s, direct policy action amounted to close to 1 per cent of the country's GDP, and this figure rose to 2 per cent in the 1960s and probably more in the early 1970s. To this must be added the considerable investment effort undertaken in the South by public sector enterprises, much of which might have been located elsewhere in Italy had there not been the political will to channel resources to the Mezzogiorno. In terms of specific regional incentives, a late 1970s estimate suggests that Italy spent considerably more, both in absolute terms and on a per capita basis, than did other EEC Member countries for comparable purposes²⁷.

Regional development policies, however, were not the only form of government activity that effected the South's economy. Numerous measures, taken for macroeconomic, social or other reasons, have impinged on the area's fortunes, at times in counter-productive fashion. Thus, Social welfare expenditure, while not designed with Southern development needs in mind, had pronounced redistributive effects that favoured the poorer parts of the country. In the latter area, Italy's efforts are probably comparable to those made elsewhere in Europe²⁸. On the other hand, the need to curtail the country's budget deficit and the more than proportionate impact this had on investment rather than on consumption or transfer expenditure, had almost certainly disproportionately unfavourable effects on the Southern

Table 21. **Indicators of government aid to the South**
As a percentage of regional GDP

	1951-61	1962-74	1975-86
Expenditure by the <i>Cassa del Mezzogiorno</i> ¹	3.1	3.6	2.3 ²
Investment tax credit ³	..	0.8	0.7
Reduction in employers' social insurance contributions	..	0.7	2.4
<i>Memorandum item:</i>			
Net resource transfers ⁴	20.2	22.3	22.5
Share of public corporate investment in the South ⁵	32.4	50.5	37.9 ²

1. Figures cover the periods 1951-61, 1962-75 and 1976-86.

2. Indicative estimates.

3. Grants and interest-rate relief.

4. Net imports of goods and services as a percentage of regional GDP.

5. As a percentage of total investment by public enterprises.

Sources: G. Podbielsky, *Twenty-five Years of Special Action for the Development of Southern Italy*, Rome 1978; A. Del Monte, "The Effects of Regional Policy on the Industrial Development of the South of Italy" *Mezzogiorno d'Europa*, October-December 1984; A. Del Monte and A. Giannola, "I problemi dello sviluppo industriale del mezzogiorno e i riflessi di questi nella determinazione del quadro di politica industriale", in A. Battaglia and R. Valcamonic (eds), *Nella competizione globale*, Bari 1989; ISTAT and Svimez.

economy. Similarly, it has been argued that lira depreciation may have penalised the South relative to the North²⁹: the area has a much lower share in exports (in 1988 it accounted for 7 to 8 per cent of Italy's manufactured sales abroad, as against a 14 per cent share, or more, in value added), while many of the raw materials it needs for its basic industries come from abroad. It would also seem that the EEC's Common Agricultural Policy has had a negative impact on regional differentials since its expenditure is concentrated in the country's Northern areas. An analysis of the regional distribution of Guidance Funds (EAGGF) for 1975-77 showed, for instance, that only just over one-third of these went to the South, less than the area's share in total population and considerably less than its 42 per cent contribution to the country's value added in agriculture³⁰.

An important way in which policies may unintentionally have hindered Southern development may have been the pursuit of greater income equality. The decision taken in the late 1960s to abolish regional differentials in wage rates, despite the existence of significant productivity gaps, almost certainly diminished the flexibility of the country's labour market, so contributing to the increase in Southern unemployment and lowering output³¹. Similarly, the step-up in income maintenance support to the South may have raised the regional "reservation wage", as suggested by the simultaneous presence of large scale unemployment and a significant demand for foreign immigrant workers³². Estimates of labour cost differentials

between North and South suggest that, having been sizeable in the 1950s, they have progressively shrunk over time, and notably so in the 1970s and 1980s (Table 22). Given that labour productivity differences have not narrowed correspondingly in the last decade and a half, unit labour costs are now probably higher in the South than they are in the North.

Table 22. **Relative labour costs in the South**

Indices; Centre/North = 100

	1951	1963	1970	1980	1986
Total labour costs					
Manufacturing	54.0	56.9	69.3	79.5	85.5
Services	78.5	75.1	87.0	90.7	91.7
Unit labour costs¹					
Manufacturing	81.7	79.5	83.8	99.0	106.0
Services	91.0	83.0	97.3	103.2	..

1. Allowing for the productivity differential between the South and the rest of the country.

Sources: G. de Caprariis and A. Heimler, "Struttura produttiva del Mezzogiorno e commercio con l'estero", *Rassegna economica*, January-March 1988; Banca d'Italia, *Annual Report*, 1988; SVIMEZ, *Rapporto 1989 sull'economia del Mezzogiorno*, Bologna 1989.

In 1986 the Cassa, which was in charge of the planning and execution of multi-annual public infrastructure development programmes as well as the administration of subsidies to the private sector, was replaced by a more decentralised system. This had various consequences: the new system transferred most of the responsibility of aid administration to the regions, local public authorities and private entities. Projects proposed on their initiative were examined and financed by a central authority (Department for the Mezzogiorno and the Agency for Mezzogiorno Development) in the light of directives established within a triannual programme. During the first three years of the introduction of the new system the majority of funds distributed went nevertheless to projects previously approved by the Cassa. In fact, the new system lead to a fragmentation of investment into many small projects all over the South and without any project co-ordination. It seems that the regional authorities failed to develop a forward-looking and analytical view of regional problems, and besides they lacked the technical support to study and implement their projects, which – in the absence of political arbitration – were often competing with each other.

To achieve a better co-ordination of aid programmes, the Ministry for the Mezzogiorno was created in 1986. Its responsibilities are widespread, circum-

scribed by the creation of "strategic projects". They comprise the creation of factories, zoning, the development of transportation, environmental policies, protection of the cultural heritage, and the exploitation of resources. The ministry can intervene at two levels:

- Co-ordination of large "strategic projects" of inter-regional or national dimension, controlled and financed by both the Central and regional governments. In this category L 5 000 billion have already been allocated to tourism and the protection of the environment and the cultural heritage. It is planned to develop other "strategic projects" in the area of food processing and agriculture, regional planning and transportation;
- Programme contracts with large industrial groups for the promotion of technology intensive investment. Several of such contracts have been concluded (with FIAT, Texas Instruments, Olivetti, IRI), or are in the negotiating stage (with Honeywell Bull, ENI, EFIM).

The mode of intervention by the Ministry of the Mezzogiorno through the strategic projects thus takes an intermediate position between the direct financing of large isolated projects as undertaken by the Cassa and the far-reaching decentralisation of regional aid (to the detriment of its coherence) as decreed in the 1986 Law.

The modifications to the mode of financing of regional aid by the EEC introduced in 1986 also run counter to the 1986 Law for the Mezzogiorno, by replacing passive financial aid through direct involvement in the preparation, financing and progress control of regional development projects. A regional development plan is prepared jointly by the ministries and regions concerned. The first plan, covering the years 1989 to 1993, allocates funds to the different programmes after EEC agreement, and includes some technical support for their implementation and supervision. For the period 1989 to 1993 the financial plan for structural aid to the Mezzogiorno by the EEC comprises investment programmes for a total amount of L 16 000 billion (of which 7 600 are provided by the EEC, 6 800 by the central government and 1 600 by private enterprises).

Resulting developments

In order to assess the impact of the policies pursued, the next few paragraphs look at how the regional problem has evolved over the last few decades under the impact of active policy intervention. Gaps and revisions in the data present some difficulties, but (old basis) national accounts for the country's four main broad areas are available from 1951 to 1973. In addition, tentative national accounts for

all of Italy's twenty regions can be found for 1951 and the cyclical peaks of 1963 and 1974, while official annual figures exist from 1970 to 1984. New series, starting in 1980 and incorporating the latest revisions to the national accounts, are available, but so far only on a current price basis. In contrast to earlier regional data, the latest labour market data provide information not on numbers employed but on "work units"³³. These various statistical series suffer from numerous breaks. In order to provide a comprehensive picture of broad trends over four decades, the series have been linked with each other by the Secretariat.

The data reveal that, despite the persistence of large regional disparities, economic conditions in the Italian South have improved dramatically over the last three or four decades. While by Northern European standards the area is far from affluent, absolute poverty, very widespread not long ago, is now only a limited phenomenon. The infrastructure has greatly improved and social indicators (such as infant mortality, life expectancy, literacy, etc), have seen marked changes for the better. Even consumption patterns, radically different from those of the North soon after the war, are now much more uniform. Due principally to massive resource transfers, the North-South gap in total available resources per capita had, by the late 1980s, shrunk from 39 per cent in 1951 to 29 per cent. This allowed rising Southern shares for public consumption and investment, as well as a small reduction in the regional per capita private consumption gap (Table 23). If allowance could be made for the lower cost of living in many Southern areas, the divergence in real consumption levels per capita would most likely be less pronounced. As Diagram 16 demonstrates, most of the narrowing in the GDP per capita gap occurred between 1950 and 1970, and some of the progress made during that period was actually reversed after 1983, when regional output differentials (per capita) started increasing again.

Table 23. **Selected North-South differentials**

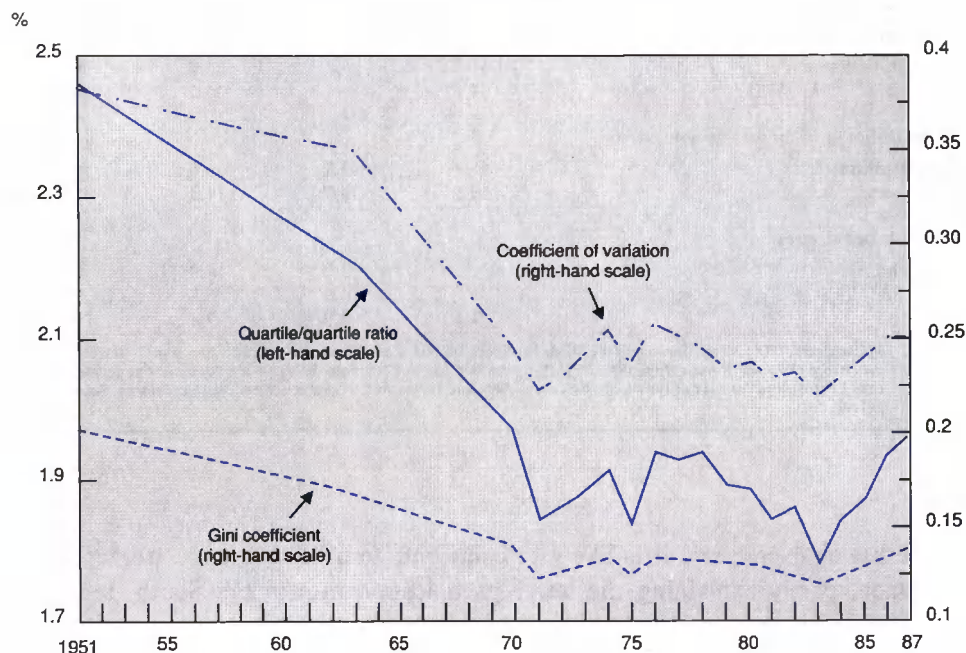
Indices; North = 100

	1951	1963	1973	1987
GDP per person employed	53.7	60.4	67.2	75.3
Total resources per head of population ¹	61.2	67.2	73.9	70.6
Private consumption per head of population	66.3	68.3	73.1	68.4
GDP per head of population	51.9	53.3	57.3	55.6

1. GDP plus net imports of goods and services.

Sources: ISTAT and SVIMEZ.

Diagram 16. **MEASURES OF REGIONAL DISPERSION
OF PER CAPITA GDP**



Sources : ISTAT, SVIMEZ and OECD Secretariat estimates.

Among the various regional discrepancies depicted in Table 23, the one which has narrowed the most is GDP per employed person, the Southern level rising from 54 per cent in 1951 to 75 per cent in 1987 of that observed in the North. This result was facilitated by the change in production structures, but is also closely related to the policy of enforcing equal wages in the two regions, without regard for differences in labour productivity (under comparable conditions). This has led to the dismissal of low productivity workers in the South: the region's unemployment rate, which was roughly equal to that of the Centre/North region in the early 1950s, had risen to a crisis level of over 20 per cent by 1988 – more than three times the level in the North (Table 24). Regional differences in the demographic composition of the labour force have also contributed to the observed regional unemployment differentials. The high unemployment in the South has become the most serious

Table 24. **Labour market indicators**

	Percentages			
	1951	1963	1973	1988
Participation rates				
North-Centre	61.5	..	50.9	50.7
South	57.1	..	46.2	48.0
Share of South in national employment				
Agriculture	41.3	43.2	50.6	50.1
Industry	16.1	14.7	14.3	15.2
Unemployment rates				
North		3.0	4.0	6.4
Centre	8.8	3.9	6.5	9.8
South	9.1	4.9	9.4	20.6

Sources: M. Sarcinelli, "The Mezzogiorno and the Single European Market: Complementary or Conflicting Aims", *Banca Nazionale del Lavoro Quarterly Review*, June 1989; SVIMEZ, "La formazione e l'impiego delle risorse e l'occupazione del Mezzogiorno e del Centro-Nord dal 1951 al 1983", *Studi Svimez*, 1985, and *Rapporto 1989 sull'economia del Mezzogiorno*, Bologna 1989; ISTAT.

single regional problem: it is likely to contribute to a "discouraged worker" phenomenon, partly explaining the lower participation rate in the South. It is also likely to entail the erosion of skills and other human capital, generating forms of "hysteresis". Despite particular policy efforts and targeted aid to Southern industry, there was no increase in the Southern share in industrial employment: in 1951, only 16 per cent of Italy's industrial labour was employed in the South. Nearly forty years later, this figure had barely changed, nor had there been any significant increase in the weight of industrial employment within the region.

These aggregate trends, and in particular the disappointing developments of the last decade or so, mask, of course, considerable diversity within the South. Several regions (e.g. Abruzzi, Molise, Puglia and to a lesser extent, Basilicata), have seen more significant progress than the aggregate regional figures suggest. Industrial output has grown quite sharply since 1970 (e.g. at over 4 and nearly 6 per cent per annum in Abruzzi and Molise respectively, against an Italian average of only 2½ per cent), and the income gap with the Northern half of the country has continued to close. Per capita income in the Abruzzi, for instance, is now close to that of Umbria and 50 per cent above that of Calabria (a gap larger than that between the poorest and richest regions of the Centre-North). In some ways the experience of these more successful Southern areas has been closer to that of Central Italy where relative developments over the recent period have been

rather favourable. Indeed, if attention is concentrated not on the traditional North/Centre-South divide, but on the performance of the Central and Adriatic regions (from Veneto down to Molise, or possibly even Puglia), then experience since the early 1970s suggests that this particular area has seen a vigorous industrial development (Table 25). It experienced, in particular, more than 80 per cent of Italy's job creation in manufacturing between 1971 and 1981.

Table 25. Regional changes in manufacturing employment

	Percentage share of population 1986	1951-61	1961-71 (thousands)	1971-81
North	44.6	629.4	470.5	305.9
Centre	19.1	167.7	178.7	215.4
South	36.3	44.7	75.3	177.4
North-West	26.5	389.0	220.1	28.2
North-East, Centre and South Adriatic ¹	47.0	414.1	478.5	585.4
Rest of South	26.5	38.6	25.9	85.2
Italy	100.0	841.8	724.5	698.7

1. Abbruzzes, Molise and Pouilles.

Source: R. Mazzoni, "Localizzazione industriale e livelli occupazionali: un'analisi empirica per il periodo 1951-1981", *L'industria*, October-December 1987.

A noteworthy difference in the experience of the North-Eastern and Central parts of the country relative to the *Mezzogiorno* has been the differential growth of large vs. small-scale industrial enterprises, at least between 1971 and 1981, the dates covered by the last two censuses (Table 26). Southern manufacturing growth in this period was dominated by the establishment and strengthening – with substantial public support – of large-scale production units in sectors such as basic metals, transport equipment and chemicals. Central and North Eastern development, on the other hand, was concentrated in small and medium-sized firms, often active in so-called "traditional" sectors (textiles, clothing, leather, ceramics). In these, employment in the South either stagnated or fell, particularly in small-scale establishments³⁴.

As a result, the mean size of Southern production establishments, traditionally well below that of the rest of the country, has come much closer to the national average. Mirroring the difficulties experienced by most heavy industry all over

Table 26. Industrial enterprises, by size

	Number of workers			
	1-9	10-99	100-499	500+
	Percentage of total regional employment			
1971				
North	36.1	29.0	17.6	17.3
Centre	45.2	28.1	13.8	12.9
South	54.4	22.3	12.0	11.3
1981				
North	38.6	32.6	15.8	13.0
Centre	40.4	32.4	14.0	13.2
South	43.2	31.7	13.5	11.6
	Percentage points			
Changes				
North	2.5	3.6	-1.8	-4.3
Centre	-4.8	4.3	0.2	0.3
South	-11.2	9.4	1.5	0.3

Source: ISTAT, *Annuario statistico italiano*.

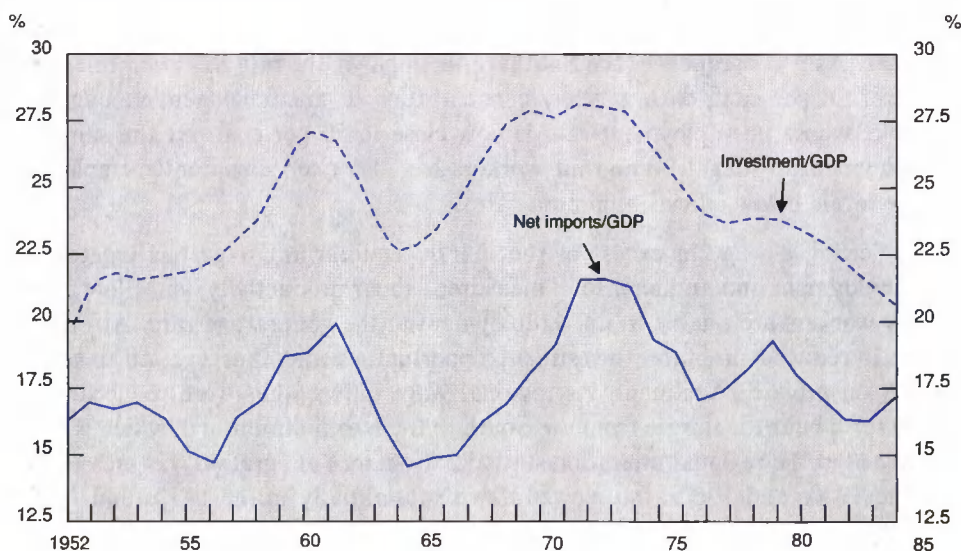
Western Europe since the first oil shock, the rapid build-up of large-scale heavy industry production units made the South highly vulnerable to the oil shocks in the 1970s. Yet the Mezzogiorno does not seem to have experienced so far the vigorous restructuring undergone by large-scale Northern industry in the 1980s. Nor does the presence of large-scale firms seem to have generated the spin-offs for smaller enterprises that had been expected. The inter-sectoral demands emanating from basic industries are predominantly either for raw materials (produced abroad) or for specialised services (often produced in the North). Though their outputs can be used locally, this has represented a merely permissive condition for Southern growth which so far has not been fully exploited³⁵.

A tentative assessment

Measuring the influence of policies on the trends depicted above is an exercise fraught with the well-known difficulties of constructing reliable "counterfactuals" of what might have happened in their absence. Tentative estimates of the impact of fiscal incentives to investment show that these were important in raising the profitability of Southern capital formation³⁶. Equally tentative estimates of the employ-

ment effects of regional policy likewise suggest that without such policies the creation of manufacturing jobs (one of the targets of policy action) would have been less than actually observed³⁷. A simple look at the major phases of policy intervention and regional development shows that the two are closely correlated. Regional differences in GDP and consumption per capita narrowed during the period 1950 to 1973, with progress being most pronounced during the decade to 1973, when public support to capital formation in the South reached its peak. But this period also coincides with conditions most favourable for rapid growth in Italy, Europe and the world in general, and thus it is difficult to disentangle the part of the progress made by the South that is due to active policy intervention (concentrated on investment promotion) from what is due to the exceptionally favourable economic environment. Finally, the reduction in public regional aid in the post oil-shock period and the increased reliance on income maintenance transfers, rather

Diagram 17. **SHARE OF NET IMPORTS AND FIXED INVESTMENT
IN SOUTHERN GDP**
(Moving 3-year average)



Source : ISTAT.

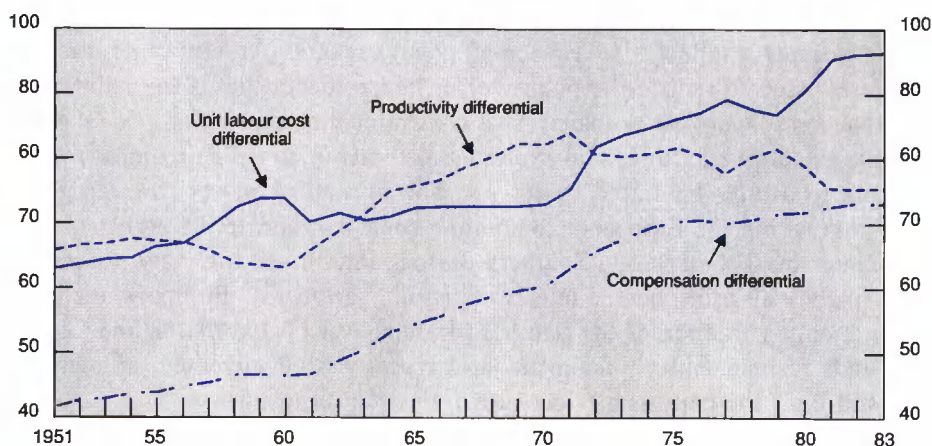
than investment promotion, have been accompanied by some re-opening of the North-South gap during the 1980s.

During the period when policy intervention was concentrated on support for investment (either public or private), there was a close relationship between real transfers to the South (as measured by the region's net imports) and its fixed investment ratio. As the policy emphasis shifted from investment promotion to income maintenance transfers and measures to reduce Southern labour costs, the close link between net regional transfers and the fixed investment ratio vanished (Diagram 17). Much of the substantial public support to Southern fixed capital formation preceding the first oil shock was concentrated on large scale industrial projects, which frequently turned out to be unprofitable in the changed economic environment of the post oil-shock era (creating so called "cathedrals in the desert").

During the sixties relative wages and productivity in the South had increased in parallel. However since the beginning of the seventies wages in the South continued to increase more rapidly than in the North, while relative productivity stagnated. This has pushed Southern unit labour costs above those of Northern producers, nullifying a major advantage of the South: a relatively abundant labour supply (Diagram 18). At the same time producers' efforts to adjust to high wage costs has led to the dismissal of low productivity workers, or – in combination with legislation restricting lay-offs – to a reluctance to hire new labour, such as school leavers. As a consequence, the Southern unemployment rate has risen relentlessly to over 20 per cent, with a heavy concentration of unemployment among young people, whose unemployment rate is now close to 50 per cent. At the same time employment of illegal immigrant workers has also risen, apparently employed at wage levels below official minimum rates.

Setting a wage in excess of the market equilibrium wage has created both unemployment and an increase in measured labour productivity, since low productivity workers are unable to find employment at the going wage rate. At the same time it reduced profitable investment opportunities and thus exerted a negative effect on private investment. As regional wage differentials were reduced, incentives for labour to migrate from the South to the North diminished, which is clearly reflected in the regional migration statistics: Southern emigration was massive both in the 1950s and 1960s, but slowed down substantially in the 1970s and 1980s³⁸. Overall, the influence of net emigration on closing regional gaps is ambiguous. Incomes were boosted by remittances and average productivity rose in the South as the marginal productivities of departing workers, particularly in agriculture, were

Diagram 18. **REGIONAL DIFFERENTIALS IN COMPENSATION, PRODUCTIVITY AND UNIT LABOUR COSTS**



Note : Due to differences of definition, data are not altogether identical to those in Table 22.

Sources : ISTAT, SVIMEZ and OECD Secretariat estimates.

very low. On the other hand, emigration is likely to have creamed off the more dynamic and entrepreneurial members of the population. Whether the recent emigration slowdown has thus further contributed to the worsening in relative performance is open to debate.

To sum up: the considerable post-war resource transfers to the Mezzogiorno from the rest of Italy have contributed to a reduction in the North/South output-per-capita differential by over 5 percentage points between 1950 and 1973, when public aid was concentrated on investment promotion. The subsequent shift in policy priorities from investment promotion to income maintenance was accompanied by a renewed widening of the regional output-per-capita gap by almost 2 percentage points. At the same time the unemployment differential between the two parts of the country widened dramatically, while the strong emigration from Italy's South to the North dried up. Both these latter trends reflect efforts to narrow North-South wage differentials through regulation rather than through a closing of the productivity gap.

Future policy options

The persistence of large per-capita-output differentials between the Mezzogiorno and the rest of Italy, and the dramatic increase in unemployment in the South pose a serious challenge to economic policy-makers. At the same time the recognised need to reduce the public sector budget deficit limits the public funds available for solving the problem. This constraint means searching for the most effective use of public funds and exploring alternatives to public regional resource transfers to attain the stated objectives. The impending moves towards greater unification within the European Community could complicate the problem: within the unified market of 1993, Southern Italian enterprises will have to compete increasingly with firms located in other parts of "peripheral" Europe where labour costs are only a fraction of the Southern Italian level (Table 27). While Community funds for regional development have recently been increased, stricter EEC rules will limit the permissible scope for Italian Government aid.

Table 27. **Manufacturing competitiveness in Southern Italy, 1986**

Common currency indices: Italy = 100

	Total labour costs	Output per dependent worker	Unit labour costs
Italy: Centre-North	103	104	99
Italy: South	86	81	106
Greece ¹	60	73	82
Ireland ²	92	98	94
Portugal ¹	26	34	76
Spain	68	83	82

1. 1983.

2. 1984.

Source: SVIMEZ, *Rapporto 1989 sull'economia del Mezzogiorno*, Bologna 1989.

Pressure to reduce the budget deficit precludes the option of closing the regional per-capita-income gap permanently through inter-regional transfers to households even if this were the most desirable solution on other grounds. In fact, such an approach appears clearly inferior to one based on reduction of income differentials by closing the regional gap in output per capita, since this would also be consistent with the important objective of reducing high unemployment in the South. Thus raising productive employment in the South is the key to attaining all

three major regional policy objectives: narrowing the regional gaps in output and income per capita and in the rates of unemployment.

In the light of high Southern unemployment and the desirability of increasing Southern output and employment, the emphasis on regional wage equality – irrespective of existing productivity differentials – appears clearly inappropriate. Making regional wages more sensitive to regional labour market conditions would help to restore a Southern unit labour cost advantage which in turn should attract productive investment. There is, however, a risk attached to such a strategy: a re-opening of the wage gap (combined with a reduction of income transfers) might induce massive migration from the South to the North of Italy (or even Europe), as it did in the 1950s and 1960s.

If heavy migration were considered undesirable on social or political grounds (or because of its possible negative effects on economic growth in the South) and could not be prevented administratively, the maintenance of approximate regional parity of incomes would be required to reduce migration incentives. To the extent this were the result of wage parity, it would tend, as now, to lead to high differential unemployment in the South in the light of the region's lower factor productivity. To counter this effect, it would be necessary to subsidise labour in order to bring unit labour costs down to encourage labour demand, as currently attempted by preferential "fiscalisation" of employers' social security contributions in the Mezzogiorno. Alternatively it is possible to subsidise capital to induce investment, which in turn would raise labour productivity and thus justify wage parity. The optimal choice between subsidising labour or capital will depend on the relative mobility of the two factors. Assuming that both capital and labour are mobile – at least at the margin – and adding the policy goal of retaining labour in the South, the optimal policy mix will normally include the subsidisation of both capital and labour in a proportion such that the marginal subsidy to either factor has an identical effect on moderating regional migration. Labour subsidies would discourage substitution of capital for labour and increase the cost competitiveness of production in the South, the effect of which, in a regional context, could be sizeable. It is well known that by far the most important employment effect of labour-cost cuts occurs through increased international competitiveness. Given the openness of regional economies and their increasingly easy access to the greater European market, labour subsidies could be expected to have significant income and employment-generating effects. Regional capital subsidies, though driving a wedge between the marginal product of capital in the North and the South, have the advantage of attracting firms that, if only because of managerial myopia, might not otherwise move to the region, despite the presence of subsidised labour.

Subsidisation of productive factors to restore full employment without massive regional migration raises two obvious problems. First, subsidising labour and/or capital requires spending of public funds. Given the constraints on Italy's public expenditure as fiscal consolidation is pursued, the funds for financing such activities might have to come from the scaling down of some of the transfer programmes that at present benefit mainly the inhabitants of the South (invalidity pensions being an obvious example). Since the employment and long-term income generating effects of sums spent on subsidising labour and on investment incentive programmes are almost certainly greater than those of income maintenance support, efficiency criteria (as well as longer-run development prospects) would seem to dictate such a move despite the possible short-term cost in terms of equity. The role of direct transfers to households should be limited to the prevention of absolute poverty rather than bringing Southern income levels in general up to the standards in the more productive North.

Active policies have to be efficiently implemented. The accomplishment of major inter-regional projects requires close collaboration between central and local government. Past experience shows that discretionary intervention in the South was subject to significant bureaucratic inefficiency, extremely long delays, political lobbying and even corruption³⁹. Such considerations strongly suggest that the instruments of intervention should be as "automatic" as possible. In an ideal world, discretionary policies could be both cheaper and more effective, but the informational and efficiency requirements of such an ideal world are hardly met by the Italian administration. In the presence of widespread examples of "government failure", only minimal powers of discretion should be left in the hands of the administration. This argues for simple measures such as payroll subsidy schemes and corporate tax concessions, rather than for special measures designed to promote selected sub-sectors or particular types of firms. Government, local, regional and national, should concentrate on developing infrastructures and on the efficient provision of public goods (e.g. preserving law and order) rather than allocating and controlling business capital. In contrast with the past concentration of aid on industry, it would be preferable to envisage sectorally neutral schemes, not excluding service production, tourism in particular.

Even the best-administered automatic incentives will, on their own, be insufficient to overcome the entrenched economic differentials that characterise Italy. Increased labour and managerial flexibility in the South are also essential. To the extent that the rigidities that have increasingly taken hold in Italy, as well as in other industrialised economies, since the two oil shocks were defensive responses to (rather than causes of) the worsening in economic performance, the better eco-

conomic climate that has emerged at the end of the decade in Italy and in the OECD area at large suggests that some earlier unfavourable developments could be reversed. Labour and capital mobility, in particular, may increase again. It will be the task of policy to try to strengthen any such spontaneous forces so that the indispensable process of lifting the relative performance of the Mezzogiorno can be resumed.

V. Conclusions

Following 1988, a year when – in the context of virtual balance-of-payments equilibrium and moderate average inflation – the Italian economy recorded high growth, an increase in employment and a slight fall in the unemployment rate, its performance in 1989 was more uneven. Although the GDP growth rate remained high – probably in the region of $3\frac{1}{4}$ per cent, around the European average – the unemployment rate remains unacceptably high. As in other OECD countries, inflation picked up in the first half and consumer prices rose by some $6\frac{1}{2}$ per cent over the year, so that the differential *vis-à-vis* other European countries did not narrow. The external situation worsened, the trade deficit being larger than in 1988, while for the year as a whole it is estimated that the current deficit could approach $1\frac{1}{4}$ per cent of GDP, making it twice as big as in 1988. The last few months have, however, seen a slowdown in inflation and an improvement in the external position. The lira, which for much of the year had appreciated against the other European currencies, fell rapidly after interest rates were raised in many European countries, but not in Italy, in October 1989. When the lira's margin of fluctuation within the EMS was reduced at the beginning of 1990 from 6 to 2.25 per cent, the authorities confirmed the lira's earlier depreciation by adjusting its central rate downwards by 3.7 per cent.

The outlook for real economic growth between now and end-1991 remains relatively good, and total domestic demand may grow at a rate close to $3\frac{1}{2}$ per cent. Although inflation is expected to slow compared with 1989, the differential between Italy and its EMS partners will probably not narrow appreciably, judging from the economic policies announced at end-1989 and also bearing in mind the uncertainty surrounding price and wage developments. Industrial relations in the private sector do not appear to be strained, though the outcome of the wage negotiations is still uncertain. In the public sector the experience gained in recent years has shown that more rapid wage inflation remains a risk. A substantial and lasting reduction in inflation will require improving the flexibility of the wage formation mechanism,

which is at present highly centralised and to a large extent shaped by labour market conditions in northern Italy where capacity utilisation rates are high and unemployment is at a level generally considered to be close to full employment. More pronounced regional wage differentials might also lead to a more rapid growth of employment and a fall in overall unemployment.

Although results in 1989 were less favourable, they do not affect the assessment of Italy's medium-term performance. Between 1983 and 1989 average annual GDP growth was 3.2 per cent, while real per capita national income rose by 3 per cent. Employment increased by 0.7 per cent on average each year, and the share of investment (housing excluded) in GDP grew by 2 percentage points. During the same period the annual rate of consumer price inflation fell by 9 percentage points, while on average the current external deficit did not exceed 0.5 per cent of GDP.

Despite this protracted period of expansion, the traditional imbalances in the Italian economy have persisted. The general government borrowing requirement continued to grow in nominal terms and fell only slightly as a percentage of GDP – from a peak of 12½ per cent in 1985 to 10½ per cent in 1989. OECD estimates indicate there has been almost no change in the cyclically adjusted budget deficit in recent years, mainly because of the constant increase in the debt service burden. Fiscal 1989 was the first year of the medium-term fiscal programme presented in 1988 and designed to bring the budget balance exclusive of interest from –3.5 per cent of GDP in 1987 up to +0.4 per cent in 1992, while the target for 1989 was to stabilise the deficit in nominal terms at the anticipated 1988 level of L 117 000 billion. This target was substantially overshoot, the deficit currently being estimated at some L 130 000 billion. This overshooting may be partly ascribable to the underestimation of the 1988 deficit at the time the programme was drawn up. However that underestimate reflects the failure of fiscal policy in 1988: the measures taken to restore equilibrium relied mainly on boosting tax revenue, but their deficit reducing impact was to a large extent cancelled out by the explosive increase in social transfers and wage costs.

The implementation of the fiscal strategy ran once more into difficulties – partly political – in early 1989. The prospect of a further surge in the Treasury borrowing requirement caused expectations to deteriorate. The financing of the Treasury deficit became more and more difficult and uncertain, and this in turn had the effect of reducing the already short maturity of government debt and raising coupon rates. Following the introduction, at the end of the first quarter, of tighter monetary policy, with measures aimed at checking the growth of demand and inflation, and of a budget programme designed to halt a further deterioration in the

public finance situation, expectations were reversed. This episode sharply underscored both the destabilising effect of public finance disequilibrium in an increasingly open economy, and the way that changes in fiscal policy can influence agents' expectations.

Having failed in 1986-1989 to take advantage of the then prevailing favourable economic context to reduce the structural imbalances in the public sector massively and lastingly, in particular via stringent cuts in expenditure, the authorities find themselves still faced with a situation in which short-term macroeconomic adjustment depends mainly on monetary policy. Because of the opening up of financial markets and Italy's membership in a quasi-fixed exchange rate system *vis-à-vis* the main European currencies, changes in interest rates have had consequences which reduce the effectiveness of monetary policy and may have undesirable repercussions. For example, in 1988 and for much of 1989, the steps taken by the Bank of Italy to curb the rate of money creation resulted in a substantial inflow of short-term capital which caused the lira to appreciate within the EMS. While useful for combating inflation, this damaged competitiveness. Furthermore, the inflow of capital allowed excessive growth of bank lending, which was contrary to the government's intentions. Moreover, because of the size of the public debt, and above all the large proportion of it which is short-term or whose rates are indexed on short-term rates (some 60 per cent at end-1989), increases in short-term interest rates swell the budget deficit rapidly and substantially and increase the income of households, which hold some two-thirds of government securities, thus making monetary policy less effective.

The fact that Italy has now joined the narrow exchange-rate band of the EMS is indicative of the government's determination to pursue a corrective policy; this increases both the urgency and the scale of the progress to be made in fiscal consolidation and in reducing the inflation differential *vis-à-vis* the main EMS Member countries. The room for manoeuvre previously afforded by the relative flexibility of the lira exchange rate within the broad fluctuation margin has diminished since January, and the new situation will probably necessitate more frequent adjustments of interest rates. It is essential, in these circumstances, that fiscal policy should be targeted towards achieving the clearcut and lasting consolidation that will reassure holders of lira-denominated assets, and so prevent speculation against the lira and the resulting increase in interest rates. This will ease the burden on monetary policy and, by ensuring that the latter is no longer faced with sharply conflicting objectives – as has been the case for the past two years – allow priority to be switched back to reducing inflation and achieving exchange rate stability.

The budgetary and tax policy measures taken during the last two years are a first step in the right direction. The transparency and equity of the tax system have been improved by the simplification of the personal income tax system, the broadening of the tax base, the stepping up of measures to counter tax evasion, the increased yield from indirect taxation, and local authorities' greater freedom with regard to taxation. The proposed reduction in tax on bank deposits is, moreover, consistent with moving closer towards European taxation prior to lifting all restrictions on capital movements. Some of these measures have helped to increase the ratio of tax revenue to GDP, which is, however, still lower than in many other European countries. Indexing income tax scales on a cost-of-living index which includes indirect taxes has, on the other hand, restricted automatic increases in taxes and reduced the government's room for manoeuvre. Efforts must clearly be directed first and foremost towards curbing expenditure so as to ensure that new resources are not immediately swallowed up, as happened in 1988 and early 1989. The reform of budget procedures adopted in 1988, the main thrust of which was to ensure that new additional expenditure was matched by corresponding revenue, has not so far had the opportunity to prove its effectiveness because of the cash reserves available to the local authorities and health services. In the 1990 Finance Act, commitments were substantially reduced, specifically in order to limit this risk. This, however, is a measure which would seem less suited to reducing the deficit than to preventing it from growing.

The three-year budget programme, which is the framework in which the 1990 Finance Act was drawn up, is not more ambitious than the previous year's programme, even though actual performance in 1988 and 1989 did not come up to expectations. The objective is to reduce the public sector borrowing requirement by $3\frac{1}{2}$ percentage points of GDP between 1989 and 1992; by then the primary budget should show a surplus of 0.6 per cent of GDP, which would stabilise the debt/GDP ratio. This target projection assumes a 1.5 percentage point fall in nominal interest rates on the public debt compared with rates in 1989. Secretariat estimates suggest, however, that the general government financial balance on a cyclically-adjusted basis will probably remain virtually unchanged during the years 1990-1991. With the rate of growth of domestic demand still high and uncertainty about the current account balance and inflation persisting, it is desirable that the most ambitious possible fiscal consolidation programme be implemented and carried through without delay. This would undoubtedly have a favourable impact on expectations and the stability of the lira.

Because of the scale of the debt service burden (9 per cent of GDP in 1989) and the fact that the level of interest rates is, and will continue to be, largely

determined by external factors, any appreciable and lasting reduction in the public debt/GDP ratio will, *ceteris paribus*, require achieving a large primary surplus. This would certainly necessitate – as happened in those countries which have eliminated major imbalances – reforming socio-economic structures, in particular through changing the role of transfers in household income. This has to be a medium-term objective, and to achieve it means that part of the social welfare presently provided by the public sector will have to come from private insurance systems; this would involve simultaneously transferring part of household saving from the public to the private sector. Outstanding public debt could be reduced by privatising part of the assets of the public sector (put at some 60 per cent of public debt and on which the total nominal yield is less than 2 per cent). Over and above the direct arithmetic impact that this would have on the gross public debt and debt service, the effects deriving from the turnaround in expectations could certainly be expected to help lower interest rates on government borrowing. The beginnings of such a policy are envisaged in the 1990 budget package, but are as yet modest. Within this framework, considerable budgetary discipline would also be needed in order to achieve and maintain the primary budget surplus.

The fundamental objectives of monetary policy since the early 1980s, controlling inflation and maintaining exchange rate stability, have remained unchanged in the last few years. These constraints have been partially eased by means of the financial market reforms introduced in recent years, particularly as regards the financing of the public sector via the development of the secondary market for government securities, the abolition of the floor price for Treasury bill auctions and the relaxation of the provisions concerning issues of medium and long-term securities. On the other hand, it has proved difficult over the past two years to control the growth of credit to the private sector which, in particular, funds a very large proportion of investment by small and medium-sized enterprises. By increasing their foreign borrowing and reducing their holdings of government securities, banks have been able to meet demand for credit even though their deposits have been growing much more slowly. Narrowing the differential between bank lending and deposit rates, via increased competition, could make it easier for the financial institutions to attract saving. An improvement in financial structures would also have the effect of mobilising a larger proportion of savings for increasing banks' net capital.

Together with the growth and magnitude of public debt, the considerable differences in regional economic performance have been and remain one of the most important problems facing economic policy-makers in Italy. Per capita output in the South is only 56 per cent of that of the North whereas the unemployment

rate, at over 21 per cent, is three times higher. Massive transfers of resources, mainly in the form of government aid to investment, and large-scale migration to the North had, over the twenty years leading up to the first oil shock, slowly but surely narrowed the per capita output differential. Since then, however, government aid has been targeted more towards household income support and subsidising the cost of labour in the South, to the detriment of investment promotion – particularly infrastructural – while regional wage parity was pursued. As a result, the per capita output differential ceased to narrow and the rate of unemployment in the South rose uninterruptedly compared with the North, while regional migration slowed appreciably. These overall trends mask situations in the South which differ widely from one region to another.

As long as productivity in the South continues to fall well short of that of the North, income differentials can only be reduced by income transfers. In the long term, however, allocating these funds to the development of physical and human capital rather than to income support would be a better way to reduce regional per capita output differentials. Regional wage parity, without regard to productivity differentials, coupled with the provision of social welfare, has the twofold effect of discouraging labour mobility between regions and increasing unemployment in low productivity regions. This latter effect could be averted by subsidising the factors of production on a massive scale; this would, *ceteris paribus*, run counter to the objective of fiscal consolidation. A further effect of such a policy would be to reduce economic efficiency by increasing “tax wedges” and maintaining regional factor productivity differentials.

Within the strategy for Southern development, which aims at reducing per capita differences in incomes before transfers, a permanent increase in employment and productivity is essential. This strategy requires the maintenance of significant transfers during the transition period. Due to the severity of budgetary constraints and renewed emphasis on increasing the efficiency of the economy, these transfers should primarily be allocated to infrastructure formation and training, and their effectiveness needs to be enhanced. Transfers to households should be strictly limited to combating absolute poverty. Institutional arrangements which aim at enforcing strict regional wage parity should be abandoned. This would once again give a more important role to the regional mobility of factors of production. To enhance the effectiveness of transfers, the discretionary role of both the local and central authorities in resource allocation should be minimised. Instead, the authorities should focus on increasing the efficiency of public service provision in the strict sense (in particular justice, law and order, and the development of infrastructures),

whose shortcomings are considered by a number of commentators to be one of the main reasons why the South continues to lag behind.

Italy's acceptance of the strict conditions of the EMS exchange rate agreement is an important step towards European integration. This choice means eliminating the inflation differential and reducing the public debt burden. Failure to achieve these adjustments would have damaging consequences, given the imminent prospect of the complete opening of the economy. A major task therefore remains, and is one that must be accomplished if fiscal policy is to be given more leeway and monetary policy be enabled more effectively to pursue price stabilisation.

Notes and references

1. These figures are for *domestic* private consumption, which includes consumption by foreign tourists in Italy but excludes that by Italian tourists abroad. *National* private consumption, which does not take account of the deterioration in the tourism balance, grew on average 0.3 of a percentage point faster than domestic private consumption.
2. This account was compiled from Istituto centrale di statistico (ISTAT) statistics for wage incomes and households' consumption, from Ministry of the Budget statistics for income tax and social insurance contributions, and from Istituto nazionale per lo studio della congiuntura (ISCO) statistics on other elements of household accounts.
3. Constant price series are not available for general government investment. However, given that a large proportion of this investment relates to construction and public works, an approximation of its real rate of growth can be obtained by using the national accounts non-residential construction deflator.
4. Enterprises with an annual turnover in excess of L 200 billion.
5. See the 1988 annual report of the Banca d'Italia, pp.266-269.
6. These statistics are compiled from the surveys (Table 5, panel A) on which the national accounts are based, using the standard labour unit concept which corresponds to the volume of work done by an average worker on a full time job. Another series exists which is based on quarterly surveys (Table 5, panel B) and refers to the number of employees.
7. It should be noted, however, that agriculture is a sector in which a large amount of work, particularly by illegal immigrants, goes unreported.
8. The quarterly survey (Table 5, panel B) shows a fall in total employment in each sector, with the exception of services. In contrast, the quarterly national accounts estimates (Table 5, panel A) indicate continuing growth of total and dependent employment, though at a slower rate than in 1988. Comparison of the results of the April 1988 and April 1989 surveys is probably distorted by a statistical overestimate of employment growth in April 1988.
9. The results of this survey are not available for 1989 as far as the number of hours worked is concerned.
10. Three consumer price indicators are available for Italy: the monthly national consumer price index for the whole country, the monthly cost-of-living index for manual and non-manual workers' families, and the quarterly and annual national accounts

household consumption deflator. The most frequently used cyclical indicator is the cost-of-living index for manual and non-manual workers' families, which is the most readily available. Beginning in January 1990, ISTAT also publishes this index *excluding* tobacco and cigarette prices. On the other hand, the analysis of prices by components was based on the global national index. In 1989 the private consumption deflator rose less rapidly (+6.8 per cent during the first half of the year on the same period a year earlier) than the other two indicators (+7.4 per cent for the monthly national index and +7.8 per cent for the cost-of-living index) on account of differences in weighting and seasonal adjustment.

11. Public utility charges and controlled prices relate to goods and services whose weighting makes up nearly 24 per cent of the national consumer price index. The main items concerned are: foodstuffs (sugar, bread, whole milk, beef, pasta); energy (electricity, town and bottled gas, petrol, heating oil). The prices of many services are also regulated, particularly the telephone, rail and urban transport, and postal services, but also those of hotels and camping sites, as well as insurance premiums.
12. See Banca d'Italia, *Economic Bulletin*, October 1989, pp.18-19.
13. Regression results on which this analysis is based are presented in the Technical Annex notes.
14. Since 1st January 1989 foreign exchange transactions by specialised credit institutions (housing, agriculture, public works) have been recorded under banking sector transactions in the balance of payments.
15. The official target is to reduce the average rate of consumer price increases estimated at 6 per cent in 1989 to 4.5 per cent in 1990.
16. See: *L'economia italiana nel 1990. Relazione previsionale e programmatica* Vol. I, pp.160-166.
17. See Structural policies at the end of this part.
18. The specific measures to achieve the targets set out in the Finance Act are separately enacted after the adoption of that Act.
19. The tax treatment of small and family businesses was reformed broadly along the lines, but with some variations, of the scheme provisionally adopted in 1985, which introduced presumptive assessment for the self-employed, traders and small businesses. The earlier scheme's fairly low qualifying thresholds (based on turnover) were raised. Businesses that had underpaid past taxes may benefit from a tax amnesty by paying a predetermined fine. Access to the new scheme is conditional on the regularisation of past tax liabilities.
20. Figures on the households' appropriation account allowing income from capital to be separated from other property income were not available at end-1989, but Bank of Italy estimates suggest that households hold around 60 per cent of the public debt.
21. As a rule, the measures of dispersion increase as the number of regions rises; hence the choice of a virtually equal number of regions for the five countries shown. Also, regional data tend to be less accurate than national ones, but virtually nothing is known on the extent of their relative reliability across countries. Furthermore, regional classifications are usually based on administrative (rather than economic)

criteria, and this can bias international comparisons (e.g. in the case of some German *Länder* which are little more than cities). Finally, the indicators shown are not without problems – the Gini coefficient is a relatively insensitive indicator of disparities, the quartile ratios could be biased by the simple interpolation technique used to derive them, while the (unweighted) coefficient of variation, used for per capita GDP can (and does in the German case) give excessive importance to outlying observations for some relatively small regions.

22. The South (or *Mezzogiorno*) consists of eight regions (Abruzzi, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia and Sardinia); eight regions also compose the North, four in the North-West (Piemonte, Valle d'Aosta, Lombardia and Liguria) and four in the North-East (Trentino-Alto, Adige, Veneto, Friuli-Venezia Giulia and Emilia-Romagna); while the Centre comprises four regions (Toscana, Marche, Umbria and Lazio).
23. This judgement is based on data contained in World Bank, *World Development Report* (various issues), and on earlier figures on inter-regional resource transfers for a number of OECD countries published by the EEC in the so-called MacDougall Report (Commission of the European Communities, *Report of the Study Group on the Role of Public Finance in European Countries*, Brussels 1977).
24. Tentative regional accounts for 1928 and 1938 suggest that, if anything, the spatial distribution of net regional product worsened between 1928 and 1938 and again between 1938 and 1951: SVIMEZ, *Statistiche sul Mezzogiorno d'Italia, 1861-1953*, Rome 1954. Similarly, the South's share in industrial employment seems to have fallen from roughly one quarter in 1903 to only 15 per cent in 1951: *Cento anni di statistiche sulle regioni d'Italia*, Rome 1961.
25. For an English language account of the operation of the *Cassa per il Mezzogiorno*, see G. Podbielsky, *Twenty five years of special action for the development of Southern Italy*; Rome 1978.
26. *Cassa* expenditure covers a slightly larger geographical area than the South, since parts of Southern Lazio and Southern Marche were also considered development areas.
27. Spending on such programmes came to \$2 ½ billion in 1979, double the amounts spent in Germany and the United Kingdom and four times more than comparable expenditure in France: D.M. Yuill and K.J. Allen (eds), *European Regional Incentives, 1981*, Glasgow 1981.
28. According to estimates contained in Commission of the European Communities, *op. cit.*
29. T. Jappelli, "Politica valutaria e distribuzione territoriale dell'industria", in T. Jappelli et al. (a cura di) *Cambi e struttura industriale*, 1984.
30. A. Giannola and C. Imbriani, "Regional Policy and Regional Disparities in the EEC. The Case of Italy", *Mezzogiorno d'Europa*, October-December 1984.
31. Until 1967, Italy was divided into four salary negotiation areas which established different minimum wage levels and provided, therefore, some regional differentiation in labour costs.

32. M. Sarcinelli, "The Mezzogiorno and the single European market: Complementary or conflicting aims?", *Banca Nazionale del Lavoro Quarterly Review*, June 1989.
33. See note 6 for a definition of "work units".
34. A. Giannola, "Problemi e prospettive di sviluppo nel Mezzogiorno d'Italia", in Ente Einaudi, *Oltre la crisi*, Bologna 1986.
35. As argued in: A. Graziani (a cura di), *L'economia italiana dal 1945 a oggi*, Bologna 1979.
36. M. Leccisotti et al., "Incentives in Favour of the Mezzogiorno: their effects on the profitability of investment", *Journal of Regional Policy*, January-March 1986.
37. A. del Monte, "The effects of Regional Policy on the Industrial Development of the South of Italy", *Mezzogiorno d'Europa*, October-December 1984.
38. Some two million migrated from South to North between 1951 and 1961 and again between 1961 and 1971, but only some 600 000 in the subsequent decade to 1981 and 100 000 from 1982 to 1988.
39. This point is made in M. Sarcinelli, *op cit.* where also other sources expressing similar views are quoted.

Annex I

Main policy measures

Fiscal policy

1988

18th March

Pension contribution rates and pension ceilings for senior executives raised. The daily unemployment benefit, set at L 800 since the end of World War II, raised to 8 per cent of the average wage, pending the reorganisation of all the schemes.

31st May

Presentation of the government's *medium-term fiscal programme*, aimed at stabilising the public debt as a percentage of GDP by 1992. Relative to the spontaneous trend, the proposed measures are designed to boost revenue by 1.8 per cent of GDP (of which 1.1 per cent from direct taxes and 0.7 per cent from indirect taxes) and to cut spending by 1.5 per cent of GDP. The total tax take over the next four years is targeted at L 45 000 billion. It is planned to reduce the interest burden by 2.5 per cent of GDP. Under the proposed Programme the sector most affected will be social security; the retirement age will be raised to 65 for men and 60 for women; the minimum number of contribution years will be 20, instead of 15 as now; and it will no longer be possible to combine a retirement pension and earned income. Pension rights are to be calculated on the basis of ten years (instead of five as now); the amount of overtime counting towards pension rights is to be reduced. The health insurance system is to be reformed: patients will once again have to contribute to the cost of medical tests; an indirect health insurance scheme is to be set up for people with high incomes; medicines will be packaged in "therapeutic doses", i.e. in smaller quantities. The railways and postal services, which generate very sizeable deficits, are to be restructured. Local authorities will be given greater freedom in their tax policies. A programme is to be launched to enhance the productivity of the civil service. Last, the government plans to sell off assets to raise between 1 900 billion and L 15 000 billion.

30th July

Adoption of a package of economic measures to curb the budget deficit:

- Raising of the central VAT rate from 18 to 19 per cent;

- Natural gas and fuel oil prices raised by L 50 per litre;
- Local authorities to be empowered to levy a surtax of L 5 per kwh on electricity consumption to boost their revenue;
- Patients to bear a portion of medical prescription costs.

September

Reform of budget procedures. This constitutes the second phase of the 1986 reform limiting the Finance Act to a few major objectives and making the structural reforms needed to achieve them the subject of separate legislation. Under the new procedure, the government will submit the forecasts and assumptions underlying its budget policy before Parliament in mid-May of the preceding year. The annual budget, which simply sets out the spontaneous public finance trends for the year ahead on unchanged tax assumptions, will now be presented in July, while the Finance Act and the Medium-term Fiscal Programme are to be presented in mid-September. The Finance Act will no longer include new expenditure or new taxes. It will simply adjust the parameters of existing legislation (e.g. income tax scales), set out the amount of expenditure in the coming year under existing multi-year appropriations and the expenditure ceilings with respect to civil service pay. All new measures will have to be the subject of separate legislation specifying the multi-year expenditure programme and the nature and amount of new resources required to fund it.

5th September

The 1989 Finance Act and accommodating legislation. Under the Act, the deficit is budgeted at a maximum of L 117 350 billion; the accommodating measures must thus achieve a reduction of L 20 000 billion relative to the spontaneous trend. This is to be achieved as to 50 per cent by revenue-boosting measures with the remainder coming from expenditure cuts.

Revenue-boosting measures include:

- A tax amnesty for small enterprises and family concerns. To qualify indefinitely for flat-rate tax treatment, they must pay a pro rata fine according to the amount of unpaid tax due;
- Consolidation in 1989 of the indirect tax increases introduced on a temporary basis in 1988;
- The cost of lowering personal income tax rates to be met almost entirely by closing tax avoidance loopholes.

Measures to cut spending include:

- Limiting the carryover of expenditure from one financial year to the next (residual liabilities) which should help rein back current spending growth in each ministry (in terms of budget commitments) to 14 per cent between 1987 and 1989;
- A partial price freeze on medicines to curb growth of health spending;
- Central government transfers to public transport enterprises to remain at present levels.

October

Abolition of secret Parliamentary ballots, notably with respect to voting on the Finance Act.

December

Immediate application by decree-law of the 1989 Finance Act accommodating legislation: lowest VAT rates of 0 and 2 per cent raised to 4 per cent; personal income tax schedules linked to inflation; a tax amnesty for self-employed workers opting for the flat-rate tax regime.

1989

February

Following an agreement between the government and the unions, some of the tax measures that had been implemented by decree-law were amended:

- Income tax schedules to be fully linked to inflation if annual rate of price increases exceeds 2 per cent;
- Unions agree to the effects of the January VAT increase being excluded from the wage escalator reference index;
- Measures to combat tax avoidance and evasion reinforced, and authorised tax reliefs reduced.

1st March

As Parliament had not passed the Finance Act accommodating legislation, the government decided to implement it under a new decree-law replacing that of December 1988. The new measures include:

- Benefits of the tax amnesty for self-employed workers reduced;
- Agreement between the government and unions on the index-linking of income tax schedules takes effect.

23rd March

To check the growth of the deficit, adoption of a L 12 000 billion package of budget measures aimed primarily at cutting health expenditure (patients required to contribute to the costs of medical examinations and tests, and also hospitalisation; prices of medicines raised; local health authorities and hospitals transformed into enterprises). Public spending on goods and services cut by 2 per cent. Budgetised proportion of employers' social insurance contributions reduced by L 2 000 billion.

May

Medium-term fiscal programme updated with the object of stabilising the public debt as a percentage of GDP by 1992.

30th June

Employees' social security contributions raised by 0.14 per cent, and those of employers by 0.27 per cent.

August

Decree reducing the budgetised proportion of employers' social insurance contributions extended.

September

Decree-law to increase tax revenue by L 4 850 billion ahead of the 1990 Finance Act, mainly by raising energy taxes.

October

Presentation of the 1990 Finance Act.

Budget deficit set at L 133 000 billion (compared with an estimated L 130 000 billion for 1989), and scheduled to be cut from 11 to 10.4 per cent of GDP. For this purpose, a package of measures amounting to L 20 000 billion is proposed.

The measures designed to increase tax revenue should yield L 11 700 billion. In addition to the rises in energy tariffs contained in the decree-law of 30th September, it is planned to raise local taxes (L 1 950 billion), to reduce the system of accelerated depreciation (L 2 000 billion) and to speed up the payment of VAT on services (L 2 000 billion).

On the expenditure side, it is planned to cut transfers to local government by L 2 000 billion. The reductions in transfers to enterprises and the continuing reduction in the budgetised proportion of employer's social insurance contributions should trim expenditure by L 2 000 billion. It is also planned to make a saving of L 2 000 billion by reducing interest payments on public debt relative to the spontaneous trend.

1990

January

Adoption of an additional package of measures to accompany the depreciation of the lira:

- Reserve funds (fondi globali) reduced from L 16 000 to 10 000 billion to finance expenditure under the new legislation in 1990. Use of these funds requires the prior approval of the Prime Minister;
- Three-quarters of the discretionary funds earmarked for the various ministries in 1990 frozen until June 1990;
- Ceiling placed on loans to communes; only 30 per cent of the funds earmarked for 1990 can be used during the first half of the year, and only 40 per cent of loan commitments for the year may be made during the first half;
- Price of cigarettes raised and rail price increases frozen.

Monetary, financial and exchange control policy

1988

20th January

Exchange control measures lifted ahead of schedule.

4th February

Adoption of provisions implementing the exchange control liberalisation measures to come into effect on 1st October 1988.

- Italian tourists may export all means of payment, provided these have been properly obtained from an authorised bank; the amount that can be taken out in banknotes raised from L 500 000 to L 1000 000; no ceiling on credit card use for purposes of tourism, health, cultural activities, etc.
- Use of cheques drawn on Italian accounts authorised without any special formalities; amount of transfers by international postal order raised from L 2 million to L 5 million. Foreign securities bought by residents to be deposited with banks as before.

11th March

Provisions on reorganisation of stock market to achieve greater transparency.

30th March

Bank credit ceilings lifted with growth set within a target range of 6 to 10 per cent until end of year.

18th June

Residents authorised to make out cheques drawn on Italian bank accounts, in Italy or abroad, to non-residents, under the following conditions:

- The name of the non-resident must appear on the cheque;
- The cheque must be transferable;
- The amount must not exceed L 5 million.

Tourists are free to spend up to a total of L 3 million (of which L 2.1 million in foreign currency); they may use credit cards freely and, if necessary, cheques drawn on their Italian accounts under the conditions specified above, provided they retain evidence of expenditure.

26th August

Central bank discount rate raised from 12 per cent to 12.5 per cent. According to the Treasury Minister, this decision was taken both to take account of international trends and to curb the growth of domestic credit demand.

1989

17th February

The Treasury Ministry decided to introduce a 25 per cent reserve requirement on banks' net increase in external foreign exchange position from 1st March 1990.

Floor price abolished for 6 and 12-month Treasury bill auctions, as had been the case for 3-month bills since February 1988.

3rd March

Bank of Italy raised discount rate from 12.5 to 13.5 per cent.

1990

January

Readjustment of the lira's parity *vis-à-vis* the Ecu in the EMS from 1 483.6 to 1 529.7. The lira also joined the 2.25 per cent fluctuation band.

The intervention rates for the lira against the deutschemark and French franc are the following:

	Current rates		Former rates	
	DM	FF	DM	FF
Upper limit	731.6	218.1	678.7	202.4
Central rate	748.2	223.1	720.7	214.9
Lower limit	765.4	228.2	765.4	228.2

Two new exchange control liberalisation measures were announced:

- Abolition of the time limit on the use of foreign currency;
- Purchases of foreign securities with a residual maturity of less than six months authorised.

Other measures

September 1989

Employees' guarantees in cases of dismissal on disciplinary grounds extended to small firms (with less than 16 employees).

January 1990

Decree allowing illegal immigrants to regularise their situation before the end of April 1990.

Annex II

Additional information

I. Impact of regional disparities in unemployment on wage determination

To show the regional influences on wage determination, two wage equations were estimated: the first relates per capita wages in the private sector (on a national accounts basis) to the unemployment rate in the North-Centre region; the second equation seeks to estimate the impact of the national unemployment rate. The unemployment rate coefficient is higher and more significant in the first equation than in the second.

The equations are as follows:

$$\text{i) } dW_r = 12.76 - 1.20 \text{ UNR.NC} + 0.82 \text{ dPCP}$$

(1.46) (0.25) (0.06)

where dW_r = percentage change in per capita wages in the private sector

UNR.NC = unemployment rate in the North-Centre

dPCP = percentage change in the private consumer price deflator

The standard deviations are given in brackets.

The standard deviation of the estimate is: 2.08

Adj. R^2 = 0.87

D.W. = 2.28

$$\text{ii) } dW_r = 11.5 - 0.76 \text{ UNR} + 0.83 \text{ dPCP}$$

(1.34) (0.17) (0.06)

where UNR = national unemployment rate

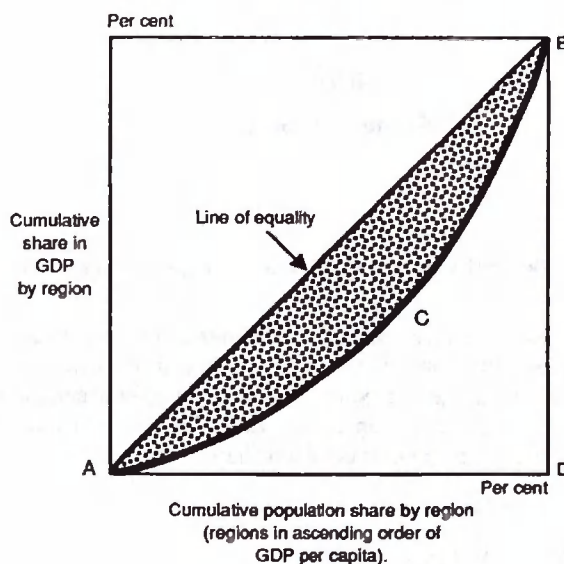
The standard deviation of the estimate is: 2.18

Adj. R^2 = 0.85

D.W. = 2.13

II. Technical notes for Table 19: Regional differences in selected European countries

Diagram A 1 : THE GINI COEFFICIENT



The Gini coefficient referred to in Table 19 is a measure of inequality in regional income distribution: a higher coefficient indicates greater inequality. The coefficient is computed as the ratio of the (shaded) area between the diagonal AB in Diagram A1 and the curve ACB, to the area of the triangle ABD. The curve ACB is traced out by connecting the points in Diagram A1 which plot the regions cumulative share in total GDP against the regions' cumulative share in the total population, listing regions in order of the size of GDP per capita (starting with the region with the lowest per capita GDP).

The coefficient of variation measures the relative dispersion and is defined as the standard deviation divided by the mean.

Per capita GDP for the bottom quartile of regions is calculated by ordering regions in ascending order of per capita income, including regions until their cumulative GDP exceeds one-quarter of total GDP, and including the last region in the calculation with an appropriate fractional weight; and similarly for the top quartile.

In the weighted standard deviation of regional unemployment rates the weights used are regional labour force shares.

The unemployment rate for the bottom quartile of regions is calculated by ordering regions in ascending order of unemployment rates, taking regions until their cumulative force exceeds one-quarter of the total, and including the last region in the calculation with an appropriate fractional weight; and similarly for the top quartile.

STATISTICAL ANNEX

Selected background statistics

	Average 1979-88	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
A. Percentage changes											
Private consumption ¹	3.3	7.3	5.6	1.4	1.3	0.6	2.1	3.1	3.8	3.9	3.8
Gross fixed capital formation ¹	2.3	5.7	8.7	-3.2	-5.2	-0.9	4.5	1.4	1.6	6.8	4.9
Public investment ¹	5.5	3.6	14.2	12.0	3.7	2.8	4.1	4.0	1.7	5.3	4.2
Private investment ¹	1.8	6.0	7.9	-5.4	-6.8	-1.7	4.5	0.9	1.5	7.1	5.1
Residential ¹	-0.1	3.0	4.9	-0.1	-5.0	3.9	0.7	-4.5	-1.6	-1.6	-0.2
Non-residential ¹	2.7	7.6	9.4	-7.9	-7.7	-4.6	6.7	3.8	3.1	11.3	7.3
GDP ¹	2.8	6.0	4.2	1.0	0.3	1.1	3.0	2.6	2.5	3.0	3.9
GDP price deflator	12.5	15.3	20.0	18.6	17.1	14.9	11.4	8.9	7.5	6.1	6.0
Industrial production	2.2	6.7	5.5	-1.6	-3.1	-3.2	3.3	1.2	3.5	4.0	5.9
Employment	0.5	1.0	1.3	0.2	-0.3	0.2	0.4	0.4	0.5	-0.1	1.7
Compensation of employees (current prices)	14.8	19.8	23.5	22.4	17.3	15.4	10.7	11.9	7.8	9.8	10.5
Productivity (real GDP/employment)	2.2	5.0	2.9	0.7	0.6	0.9	2.6	2.2	2.0	3.1	2.2
Unit labour costs (compensation/real GDP)	11.7	13.0	18.5	21.2	16.9	14.1	7.5	9.1	5.1	6.6	6.3
B. Percentage ratios											
Gross fixed capital formation as percent of GDP at constant prices	22.4	23.3	24.3	23.3	22.0	21.5	21.9	21.6	21.4	22.2	22.4
Stockbuilding as percent of GDP at constant prices	1.6	1.7	2.7	0.7	1.0	0.6	1.9	1.9	1.4	1.6	2.0
Foreign balance as percent of GDP at constant prices	-2.5	-1.7	-4.2	-1.8	-1.8	-0.9	-1.8	-2.0	-2.2	-3.9	-4.3
Compensation of employees as percent of GDP at current prices	46.6	47.7	47.1	48.1	48.0	47.7	46.0	46.1	45.0	45.2	45.4
Direct taxes as percent of household income	9.3	6.4	7.6	8.7	9.3	10.0	9.9	10.0	10.1	10.3	10.4
Household saving as percent of disposable income	24.9	31.0	28.8	27.3	25.9	24.4	23.6	22.9	22.3	21.0	21.9
Unemployment rate	9.9	7.8	7.7	8.5	9.2	10.0	10.1	10.2	11.2	12.1	12.1
C. Other indicator											
Current balance (billion dollars)	-2.9	5.9	-10.0	-9.1	-6.2	1.5	-2.5	-3.7	2.6	-1.5	-5.6

1. At constant 1980 prices.

Table A. Expenditure on gross domestic product, current prices

Trillion lire

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Private consumption	189.7	241.4	289.1	342.5	396.8	453.1	509.3	559.5	611.4	665.3
Public consumption	45.7	58.1	75.4	88.8	105.2	120.0	135.5	147.7	167.9	187.9
Gross fixed investment	70.8	94.1	110.7	121.7	134.6	153.4	168.2	176.8	195.5	214.6
Final domestic demand	306.2	393.5	475.2	553.0	636.6	726.5	813.1	884.0	974.8	1 067.8
	(23.2)	(28.5)	(20.8)	(16.4)	(15.1)	(14.1)	(11.9)	(8.7)	(10.3)	(9.5)
Stockbuilding	5.6	10.5	4.2	6.5	2.9	13.9	15.0	8.7	8.0	15.7
	(0.8)	(1.6)	(-1.6)	(0.5)	(-0.6)	(1.7)	(0.1)	(-0.8)	(-0.1)	(0.8)
Total domestic demand	311.8	403.9	479.3	559.5	639.5	740.4	828.0	892.7	982.8	1 083.6
	(23.7)	(29.5)	(18.7)	(16.7)	(14.3)	(15.8)	(11.8)	(7.8)	(10.1)	(10.2)
Exports	68.3	77.3	100.0	114.2	126.9	150.7	169.0	167.2	176.0	194.9
Imports	70.3	93.5	115.3	128.6	132.9	163.9	184.3	163.6	179.1	199.6
Foreign balance	-2.0	-16.3	-15.3	-14.4	-6.1	-13.2	-15.3	3.6	-3.2	-4.7
	(-1.4)	(-4.6)	(0.3)	(0.2)	(1.5)	(-1.1)	(-0.3)	(2.3)	(-0.8)	(-0.2)
GDP (market prices)	309.8	387.7	464.0	545.1	633.4	727.2	812.8	896.3	979.7	1 078.9
	(22.2)	(25.1)	(19.7)	(17.5)	(16.2)	(14.8)	(11.8)	(10.3)	(9.3)	(10.1)

Note: Figures in parentheses are annual growth rates; for stockbuilding and the foreign balance they are contributions to GDP growth.

Sources: ISTAT; 1979, Secretariat estimates.

Table B. Expenditure on gross domestic product, constant 1980 prices

Trillion lire

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Private consumption	228.5	241.4	244.8	248.1	249.5	254.8	262.8	272.9	283.6	294.3
Public consumption	56.9	58.1	59.6	61.3	63.1	64.7	66.9	68.9	71.4	73.5
Gross fixed investment	86.5	94.1	91.1	86.4	85.6	89.4	90.6	92.1	98.3	103.2
Final domestic demand	371.9	393.5	395.5	395.8	398.2	408.9	420.4	433.8	453.3	471.0
	(6.3)	(5.8)	(0.5)	(0.1)	(0.6)	(2.7)	(2.8)	(3.2)	(4.5)	(3.9)
Stockbuilding	6.3	10.5	2.8	4.1	2.5	7.6	7.8	6.2	7.1	9.4
	(0.6)	(1.1)	(-2.0)	(0.3)	(-0.4)	(1.3)	(0.1)	(-0.4)	(0.2)	(0.5)
Total domestic demand	378.2	403.9	398.3	399.9	400.7	416.5	428.2	440.0	460.4	480.4
	(6.7)	(6.8)	(-1.4)	(0.4)	(0.2)	(3.9)	(2.8)	(2.8)	(4.6)	(4.3)
Exports	84.6	77.3	83.1	82.2	84.2	90.3	93.8	97.4	100.6	106.5
Imports	90.9	93.5	90.1	89.4	87.8	97.7	102.2	107.0	117.7	126.2
Foreign balance	-6.3	-16.3	-7.0	-7.2	-3.6	-7.4	-8.4	-9.5	-17.1	-19.7
	(-0.8)	(-2.7)	(2.4)	(-0.1)	(0.9)	(-1.0)	(-0.2)	(-0.3)	(-1.8)	(-0.6)
GDP (market prices)	371.9	387.7	391.4	392.7	397.1	409.0	419.8	430.5	443.3	460.7
	(6.0)	(4.2)	(1.0)	(0.3)	(1.1)	(3.0)	(2.6)	(2.5)	(3.0)	(3.9)

Note: Figures in parentheses are annual growth rates; for stockbuilding and the foreign balance they are contributions to GDP growth.

Sources: ISTAT; 1979, Secretariat estimates.

Table C. **Gross domestic product, by kind of activity**

Trillion lire and percentage changes

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
At current prices (Trillion lire)										
Agriculture	19.3	22.3	24.8	27.9	33.3	33.9	36.6	38.7	40.3	39.7
Industry ¹	100.2	122.9	140.0	163.0	184.9	210.4	232.9	255.2	276.9	303.5
Energy	12.4	15.1	16.2	22.0	29.0	33.8	37.1	44.3	49.5	53.3
Manufacturing	87.8	107.8	123.9	141.0	156.0	176.6	195.8	210.8	227.4	250.2
Construction	22.1	28.5	34.6	37.9	41.4	45.6	48.6	51.6	54.3	59.7
Services	165.8	210.5	261.1	309.7	365.5	426.6	484.4	542.6	593.2	656.9
Market services	130.1	164.8	201.5	240.0	284.1	334.1	381.3	430.0	465.8	514.4
Public administration	35.7	45.7	59.6	69.7	81.5	92.5	103.1	112.6	127.4	142.5
Subtotal	307.4	384.1	460.6	538.6	625.1	716.4	802.5	888.1	964.7	1 059.7
GDP (at market prices)	309.8	387.7	464.0	545.1	633.4	727.2	812.8	896.3	979.7	1 078.9
At 1980 prices (Percentage changes)										
Agriculture	6.0	3.7	0.6	-2.6	8.3	-3.6	0.4	2.0	3.4	-3.3
Industry ¹	8.4	6.0	-1.6	-0.9	0.1	4.0	2.8	2.5	3.8	5.4
Energy	-2.5	10.7	-0.6	-2.2	-5.3	0.3	1.3	4.2	2.8	2.3
Manufacturing	10.0	5.3	-1.7	-0.7	0.8	4.5	3.0	2.3	3.9	5.7
Construction	2.1	2.8	-0.7	-3.3	-1.9	-3.5	-1.4	0.9	1.5	3.8
Services	5.0	2.9	2.4	1.7	1.4	3.8	3.4	2.7	2.5	4.2
Market services	6.1	3.2	2.5	1.7	1.4	4.4	3.9	3.1	2.9	4.8
Public administration	1.4	1.8	2.2	1.7	1.4	1.7	1.4	1.3	1.0	1.8
GDP (at market prices)	6.0	4.2	1.0	0.3	1.1	3.0	2.6	2.5	3.0	3.9

1. Including mining.

Source: ISTAT.

Table D. Household appropriation account

Trillion lire

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Compensation of employees	147.7	182.5	223.3	261.9	302.2	334.5	374.4	403.5	443.0	489.5
Property and entrepreneurial income	147.5	186.8	209.9	246.4	277.9	319.3	350.4	390.7	417.4	452.3
Transfers received	46.8	58.4	77.4	95.4	116.6	128.5	148.1	162.7	173.7	193.7
Gross total income	342.0	427.7	510.6	603.7	696.7	782.4	872.9	956.8	1 034.1	1 135.5
Direct taxes	22.0	32.6	44.3	56.3	70.0	77.8	87.2	96.6	106.5	118.2
Social security contributions	45.1	56.2	68.4	85.1	101.9	111.8	124.9	140.5	153.5	165.7
Disposable income	274.9	339.0	397.8	462.2	524.8	592.8	660.9	719.7	774.1	851.6
Consumption	184.3	235.6	282.8	334.0	386.2	442.0	497.4	549.4	601.8	657.4
Savings ratio ¹	33.0	30.5	28.9	27.8	26.4	25.5	24.7	23.7	22.3	22.8
Real disposable income, (percentage change)	5.6	2.4	-0.6	-0.6	-1.4	1.0	2.3	2.9	2.3	4.9

1. As a percentage of disposable income.

Sources: OECD Secretariat, based on ISCO and Bank of Italy estimates.

Table E. General government account
Trillion lire

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Current receipts	97.5	129.3	159.5	197.5	240.5	274.0	310.8	352.0	387.9	434.1
Direct taxes	26.1	37.3	50.9	64.5	78.4	91.4	105.5	115.5	130.7	145.1
Social security contributions	39.8	49.7	59.8	74.9	89.2	98.5	110.2	125.4	136.5	149.9
Indirect taxes	24.9	33.5	38.3	46.6	58.0	67.3	72.7	81.7	93.1	109.2
Other current receipts	6.6	8.7	10.4	11.4	14.9	16.7	22.4	29.3	27.6	30.0
Current expenditure	116.2	146.9	192.3	236.2	283.9	325.6	367.0	412.4	449.7	497.5
Expenditure on goods and services	45.0	57.0	74.2	87.4	103.2	118.0	133.3	145.3	165.4	185.2
Subsidies	9.6	11.1	13.3	16.9	18.1	22.2	22.8	27.7	26.7	26.8
Interest paid	15.7	21.1	28.8	39.3	48.0	58.1	65.1	76.8	78.9	88.9
Social benefits	43.6	55.0	73.1	88.9	109.7	121.6	139.1	154.7	170.0	186.3
Other current transfers	2.3	2.7	2.9	3.6	4.9	5.7	6.8	7.9	8.8	10.4
Saving	-18.7	-17.6	-32.9	-38.7	-43.4	-51.6	-56.2	-60.4	-61.9	-63.4
Fixed investment	8.9	12.3	16.9	20.3	23.5	26.2	30.4	32.0	34.4	37.3
Capital transfers, net	-4.6	-4.3	-4.9	-4.1	-2.3	-7.9	-17.4	-14.5	-15.7	-16.8
Consumption of fixed capital	0.7	0.9	1.1	1.3	1.4	1.7	2.0	2.3	2.7	3.2
Net lending (as a percentage of GDP)	-31.5 -10.2	-33.3 -8.6	-53.6 -11.6	-61.9 -11.3	-67.7 -10.7	-84.0 -11.6	-102.0 -12.5	-104.5 -11.7	-109.2 -11.2	-114.2 -10.6

Source: Relazione generale sulla situazione economica del paese (1988); 1979, OECD Secretariat estimates.

Table F. Prices and wages

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Indices, 1985=100										
Consumer prices										
Total	43.4	52.5	61.9	72.1	82.7	91.6	100.0	105.9	110.9	116.5
Food products	48.7	56.3	65.4	75.4	84.2	91.9	100.0	105.3	109.2	112.9
Non-food products	41.2	51.1	60.6	70.8	82.1	91.5	100.0	106.0	111.5	117.7
Services (excluding rent)	39.8	48.0	58.6	69.2	80.1	89.7	100.0	112.6	120.0	128.3
Per capita compensation										
Total economy										
Nominal	40.5	49.2	60.3	70.0	81.3	90.8	100.0	107.4	117.4	127.7
Real	93.4	93.6	97.4	97.1	98.3	99.2	100.0	101.4	105.9	109.6
Industry										
Nominal	40.4	47.5	58.0	68.0	78.9	89.7	100.0	107.6	116.8	125.9
Real	93.3	90.4	93.7	94.3	95.5	98.0	100.0	101.7	105.3	108.1
Percentage changes										
Consumer prices										
Total	14.8	21.2	17.8	16.6	14.6	10.8	9.2	5.9	4.7	5.0
Food products	13.8	15.7	16.1	15.3	11.7	9.2	8.8	5.3	3.6	3.5
Non-food products	15.2	23.9	18.5	17.0	15.9	11.4	9.3	6.0	5.1	5.6
Services (excluding rent)	14.6	20.6	22.0	18.2	15.7	12.0	11.5	12.6	6.6	7.0
Per capita compensation										
Total economy										
Nominal	19.9	21.5	22.6	16.2	16.0	11.8	10.1	7.4	9.3	8.8
Real	4.4	0.2	4.1	-0.3	1.3	0.9	0.8	1.4	4.4	3.6
Industry										
Nominal	20.0	17.5	22.1	17.3	16.0	13.7	11.4	7.6	8.5	7.8
Real	4.6	-3.1	3.7	0.6	1.3	2.6	2.1	1.7	3.6	2.6

Sources: ISTAT; OECD, *National Accounts*.

Table G. Employment indicators

Labour units, thousands

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total employment	21 641	22 062	22 061	22 182	22 325	22 413	22 613	22 786	22 924	23 241
Dependent employment	15 211	15 409	15 301	15 337	15 210	15 188	15 404	15 473	15 538	15 782
Agriculture	949	937	875	848	827	792	784	767	753	743
Total industry	6 528	6 584	6 380	6 204	5 970	5 699	5 614	5 544	5 502	5 559
of which: Manufacturing	5 121	5 136	4 918	4 767	4 565	4 343	4 281	4 228	4 216	4 271
Construction	1 220	1 259	1 270	1 248	1 217	1 166	1 141	1 120	1 087	1 089
Market services	4 140	4 242	4 312	4 473	4 532	4 737	4 967	5 091	5 161	5 283
General government	3 595	3 646	3 734	3 811	3 882	3 960	4 038	4 071	4 122	4 196
Self-employment	6 430	6 653	6 760	6 845	7 114	7 225	7 209	7 314	7 386	7 459
of which: Agriculture	2 095	2 057	1 970	1 835	1 918	1 894	1 796	1 795	1 761	1 680
Total industry	1 215	1 334	1 354	1 378	1 378	1 306	1 300	1 328	1 304	1 320
Market services	3 119	3 262	3 436	3 632	3 818	4 025	4 113	4 191	4 321	4 459

Source: ISTAT.

Table H. Money and credit

a) The monetary base

Changes in billion lire

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Origin of liquid assets										
Net impact of the foreign sector	2 868	708	25	-5 647	8 840	5 141	-13 677	3 543	6 756	10 947
Net impact of the public sector	760	9 740	14 233	12 676	4 514	10 027	27 519	10 994	9 240	2 677
Banks	2 624	-2 576	119	638	-3	-218	5 881	-4 333	-730	-30
Other sectors	689	-2	-5 739	2 670	-747	-1 103	-647	-1 004	-1 321	-637
Total net impact	6 941	7 869	8 639	10 336	12 604	13 847	19 076	9 200	13 946	12 957
Use of liquid assets										
Liquidity in the hands of the public	2 631	3 670	4 430	3 528	4 081	3 861	4 002	3 143	4 386	4 445
Compulsory bank reserves	5 508	3 046	2 946	8 544	9 092	8 855	12 213	9 022	8 740	9 444
Bank liquidity	-1 198	527	442	-1 218	359	1 133	2 860	-2 965	162	-274
Compulsory bank deposits	..	626	821	-519	-927	-2	657	-657
Total	6 941	7 869	8 639	10 336	12 604	13 847	19 076	9 200	13 946	12 957

Source: Banca d'Italia, Annual Report.

Table H. Money and credit
b) Selected indicators
 Billion lire, outstanding end of year

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Money¹										
Currency in circulation ²	21 000	24 545	28 839	32 309	36 256	39 921	43 729	46 838	51 157	55 369
Sight deposits	110 057	125 777	143 822	170 500	190 022	217 125	238 986	270 531	289 262	312 553
Saving deposits	100 837	112 163	124 214	151 744	169 687	188 198	207 866	217 674	231 777	247 933
Post office saving deposits	24 755	28 450	30 366	33 262	36 952	42 924	50 712	61 261	73 405	86 673
Money supply M2	256 649	290 935	327 241	387 815	432 917	488 168	541 293	596 304	645 601	702 528
 Treasury bills	18 007	33 737	57 983	70 024	85 561	107 550	123 224	127 180	160 433	205 441
Money supply M3	274 658	325 805	387 071	459 310	519 579	596 262	664 865	723 784	807 095	908 742
 Central bank										
Credit to Treasury	40 508	50 320	63 738	75 135	76 399	90 127	117 588	128 531	135 106	137 384
Credit to banking sector	3 602	496	971	2 020	4 788	1 238	6 912	3 552	3 880	4 357
 Banking sector										
Credit	105 673	126 693	142 455	155 312	178 800	215 596	244 225	266 035	288 817	341 546
Government securities, shares and bonds	102 112	115 559	123 875	157 109	186 694	195 637	208 679	222 873	231 854	220 739
 Special credit institutions										
Credit	63 091	72 175	86 104	101 515	115 354	130 653	140 575	156 854	178 785	204 724
 Total domestic credit	349 760	412 994	486 330	587 067	707 696	851 773	1 005 501	1 157 690	1 309 287	1 504 778
Private sector	175 175	204 394	233 492	265 096	300 528	352 896	399 343	444 823	490 541	567 309

1. Data refers to households and firms only.

2. Excluding banking sector.

Source: Banca d'Italia, *Annual Report*.

Table 1. Foreign trade by main commodity groups

Million US dollars

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Imports, total	76 474	98 443	88 999	83 818	78 323	81 998	88 144	99 775	122 211	..
Food, drink and tobacco	10 851	11 793	10 192	10 839	10 285	9 703	11 443	13 931	16 513	..
Crude oil	14 716	20 166	22 202	18 924	15 904	13 259	13 339	8 341	8 888	..
Other fuels	3 749	7 312	8 676	8 324	8 753	10 039	10 457	9 093	8 157	..
Metals, ores and scrap	7 593	9 573	5 786	5 554	5 133	6 111	6 221	7 308	8 579	..
Textile materials and products	4 178	4 517	3 702	3 636	3 553	4 221	4 525	5 258	6 702	..
Chemical products	6 992	7 993	7 020	6 890	7 307	7 813	8 476	11 001	13 689	..
Motor vehicles and parts	4 600	6 810	5 937	5 444	4 152	4 633	5 190	7 366	10 572	..
Machinery and other transport	9 635	12 835	11 352	10 368	9 633	11 172	12 619	16 787	22 791	..
Wood and products	1 998	2 606	1 856	1 535	1 323	1 423	1 304	1 601	2 119	..
Miscellaneous manufactures	6 898	9 170	7 996	7 682	7 346	7 947	8 764	12 117	16 477	..
Other imports	5 263	5 667	4 279	4 621	4 934	5 677	5 805	6 972	7 724	..
Exports, total	73 250	78 530	75 303	73 551	72 670	73 358	78 682	97 815	116 582	..
Food, drink and tobacco	5 419	5 286	5 415	5 299	4 724	4 805	5 562	6 221	7 243	..
Refined petroleum products	4 591	4 164	4 494	4 822	3 667	3 103	3 460	2 616	2 695	..
Mineral manufactures	5 839	6 851	6 364	5 865	5 983	5 686	5 657	7 349	8 841	..
Metals, ores and scrap	4 289	4 747	4 978	4 619	4 135	4 250	4 448	4 815	5 316	..
Textile materials and products	4 465	4 466	4 511	4 398	4 628	4 868	5 207	6 917	7 915	..
Chemical products	5 810	5 505	5 214	5 296	6 116	6 203	6 608	7 060	8 745	..
Motor vehicles and parts	5 425	5 483	4 590	4 033	4 183	4 080	4 242	6 139	8 007	..
Machinery and other transport	15 349	18 256	18 229	17 806	18 086	17 727	19 500	25 506	31 136	..
Clothing and shoes	8 120	8 205	7 444	7 890	7 949	8 300	9 038	12 323	14 303	..
Miscellaneous manufactures	10 901	11 315	11 134	11 095	10 745	11 547	12 432	15 763	19 073	..
Other exports	3 042	4 251	2 930	2 428	2 455	2 789	2 527	3 105	3 308	..

Source: OECD, Foreign Trade Statistics, Series B.

Table J. Geographical breakdown of foreign trade

Million US dollars

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Imports, total	76 474	98 443	88 999	83 818	78 323	81 998	88 144	99 775	122 211	..
OECD countries	48 968	62 004	52 781	50 796	47 969	51 994	56 990	73 253	92 614	..
EEC	36 308	45 845	38 349	37 460	35 638	38 100	42 628	55 951	70 611	..
of which: Germany	13 351	16 473	14 190	13 813	12 743	13 397	15 033	20 415	26 308	..
Belgium-Luxembourg	2 778	3 536	2 815	2 774	2 716	3 098	3 359	4 639	6 217	..
France	10 967	13 807	11 358	10 774	10 112	10 468	11 275	14 582	18 248	..
Netherlands	3 265	4 133	3 763	3 724	3 911	4 116	4 605	6 450	6 991	..
United Kingdom	3 141	4 393	3 508	3 386	3 115	3 665	4 466	5 092	6 562	..
USA	5 312	6 912	6 137	5 789	4 751	5 121	5 349	5 645	6 653	..
Canada	749	1 013	867	740	522	583	525	573	812	..
Japan	885	1 299	1 261	1 096	1 112	1 348	1 479	2 092	2 676	..
Non OECD countries	27 204	36 080	36 190	33 008	30 279	29 830	30 848	26 160	29 421	..
COMECON	3 761	5 290	4 738	5 194	5 251	6 110	4 883	4 798	5 131	..
OPEC	12 864	16 988	18 477	14 235	11 972	11 182	12 619	9 377	8 904	..
Others	10 578	13 803	12 975	13 579	13 056	12 537	13 345	11 985	15 386	..
Exports, total	73 250	78 530	75 303	73 551	72 670	73 358	78 682	97 815	116 582	..
OECD countries	51 762	53 337	47 653	49 116	49 741	51 944	57 749	76 272	93 402	..
EEC	38 642	40 126	34 309	35 596	35 267	34 802	37 975	52 392	65 403	..
of which: Germany	13 663	14 212	11 679	11 467	12 053	11 817	12 705	17 742	21 667	..
Belgium-Luxembourg	2 467	2 583	2 073	2 132	2 089	2 123	2 335	3 260	3 936	..
France	10 696	11 757	10 222	11 184	10 687	10 280	11 040	15 283	19 041	..
Netherlands	3 311	2 864	2 294	2 258	2 175	2 109	2 434	3 201	3 596	..
United Kingdom	4 720	4 723	4 358	4 605	4 615	4 955	5 475	6 931	8 672	..
USA	4 670	4 124	5 109	5 182	5 605	7 989	9 645	10 503	11 201	..
Canada	502	485	562	558	636	807	982	1 204	1 356	..
Japan	784	705	667	791	790	843	928	1 323	1 863	..
Non OECD countries	19 651	23 200	26 655	23 387	22 146	20 685	20 152	20 999	22 659	..
COMECON	2 748	2 824	2 532	2 501	2 753	2 553	2 699	2 955	3 673	..
OPEC	7 289	9 175	11 956	9 793	8 852	7 529	6 552	5 428	5 230	..
Others	9 615	11 200	12 167	11 093	10 542	10 603	10 901	12 616	13 755	..

Source: OECD, Foreign Trade Statistics, Series B.

Table K. **Balance of payments**
Million US dollars

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
<i>Current account</i>										
Merchandise exports	71 340	77 031	76 272	72 695	72 056	73 790	75 686	96 395	115 558	128 005
Merchandise imports	72 292	93 952	87 936	81 537	74 500	79 627	81 933	92 181	115 617	128 578
Trade balance	-952	-16 921	-11 664	-8 842	-2 444	-5 837	-6 247	4 214	-59	-573
Services, net	5 840	5 501	1 702	1 499	2 525	1 754	1 466	-64	-501	-3 293
Travel	6 695	7 006	5 889	6 601	7 211	6 496	6 474	6 944	7 634	6 414
Investment income	-543	-655	-3 194	-3 923	-3 896	-3 902	-3 979	-6 210	-6 610	-7 127
Other services	-312	-850	-993	-1 179	-790	-840	-1 029	-798	-1 525	-2 580
Transfers, net	1 002	1 458	899	1 110	1 449	1 627	1 061	-1 600	-935	-1 342
Private	1 416	1 372	1 442	1 469	1 403	1 455	1 323	1 458	1 286	1 447
Official	-414	86	-543	-359	46	172	-262	-3 058	-2 221	-2 789
Current balance	5 890	-9 962	-9 063	-6 234	1 529	-2 456	-3 719	2 550	-1 496	-5 208
<i>Capital account</i>										
Long-term capital, net	-314	3 281	8 353	5 176	657	1 486	2 441	-2 700	3 162	7 824
Private, direct	-183	-167	-258	-389	-936	-705	-815	-2 676	1 733	1 389
Private, portfolio	111	-926	-404	-376	232	99	375	-1 043	-7 416	331
Public ¹	1 426	3 597	4 439	2 369	1 836	2 542	2 300	1 833	4 463	2 204
Short-term capital, net	-1 332	7 741	185	-3 791	3 696	1 475	-1 973	4 202	6 170	6 683
Private non monetary	-2 573	-356	1 526	-1 527	406	-1 450	802	-127	1 873	-1 172
Private monetary institutions	1 241	8 097	-1 341	-2 264	3 290	2 925	-2 775	4 329	4 297	7 855
Miscellaneous official accounts	-494	224	-4	-276	98	-208	181	210	-115	-847
Allocation of SDRs	167	160	139	0	0	0	0	0	0	0
Errors and omissions	-780	-272	536	721	-97	2 452	-3 898	-1 712	-2 612	-920
Change in reserves	-378	1 998	57	-2 738	4 586	2 647	-4 124	-437	4 573	8 270

1. Excludes special transactions.

Sources: OECD Secretariat.

STRUCTURAL ANNEX

Table L. Public sector

A. Budget indicators: general government accounts

Per cent of GDP

	1970	1980	1985	1988
Current receipts	27.9	32.3	37.2	39.1
Non-interest expenditures	31.3	36.5	42.8	42.6
Primary budget balance	-3.5	-4.2	-5.6	-3.5
Net interest	-0.6	-4.3	-7.0	-7.1
General government budget balance	-4.0	-8.6	-12.5	-10.6
of which:				
Central government	n.a.	n.a.	-12.6	-9.8
Social security	n.a.	n.a.	0.1	0.4
General government gross debt	41.7	58.9	84.0	95.0

B. Structure of expenditure and taxation

Per cent of GDP

	1. GENERAL GOVERNMENT EXPENDITURE			
	1970	1980	1985	1988
Expenditure: total	33.0	41.9	50.8	50.8
Current consumption	13.2	15.0	16.7	17.4
Transfers to households	12.8	14.9	17.9	18.2
Subsidies	2.0	2.9	2.8	2.5
Fixed investment	3.2	3.2	3.7	3.5
	2. TAX STRUCTURE			
	Italy		EEC	
	1980	1987	1980	1987
Tax receipts	30.2	36.2	36.4	40.6
Income tax	9.4	13.1	12.4	13.7
of which:				
Personal income tax	7.0	9.5	10.5	11.2
Corporate profits tax	2.4	3.8	2.5	3.1
Social security contributions	11.5	12.4	10.5	11.7
Taxes on goods and services	8.0	9.6	11.2	13.0

Sources: OECD, *National Accounts*; *Revenue statistics of OECD member countries*.

Table M. Financial markets

	1970	1980	1985	1988
Financial institutions plus insurance sector¹				
Sectoral employment over total employment (per cent)	1.0	1.6	1.7	1.7
Domestic net assets/GDP (per cent)	120.9	131.1	131.7	117.9
Structure of financial assets				
Share of financial institutions' financial assets in domestic assets (per cent) ²	39.9	36.2	34.8	34.1
Share of Treasury securities in NFC total assets (per cent) ³	0.5	1.9	3.6	5.7
Structure of NFC portfolios:				
Deposits (as per cent of total NFC financial assets)	57.4	29.2	19.5	18.2
Corporate bonds (as per cent of total NFC liabilities)	0.2	0.1	0.3	0.4
Mutual fund shares (as per cent of total NFC financial assets) ⁴	—	—	—	—
Structure of non-financial corporate liabilities⁵				
NFC deb/equity ratio (per cent)				
Short term ² : Securities and mortgages	—	0.7	0.1	0.1
Other	48.1	51.5	47.3	47.3
Long term ² : Bonds	12.4	7.3	5.3	5.4
Other	37.1	39.8	32.6	33.0
Debt (per cent of GDP)				
Public sector				
Domestic	40.2	58.1	81.8	93.5
Foreign	1.1	0.9	2.2	2.7

1. Banca d'Italia, commercial banks, specialised credit institutions, finance companies, mutual funds, insurance companies.

2. Non-consolidated.

3. Including unincorporated enterprises.

4. Mutual fund certificates can be bought in Italy only by individuals and life insurance companies.

5. Excluding shares.

Source: Data submitted by national authorities.

Table N. Labour market indicators

A. Evolution				
	Cyclical peak 1979	Cyclical trough 1982	1980	1988
Standardised unemployment rate	7.6	8.4	7.5	11.3
Unemployment rate				
Total	7.6	8.4	7.5	11.8
Male	4.8	5.6	4.7	8.0
Female	13.1	13.9	13.0	18.6
Youth ¹	25.6	28.0	25.2	34.5
Regional unemployment rates				
North-Centre	7.7	9.1	7.6	7.7
South	10.9	13.0	11.5	20.6
Share of long-term unemployment ²	n.a.	n.a.	n.a.	56.8
Hours worked, 1980=100 ³	98.3	99.2	100.0	103.3
B. Structural or institutional characteristics				
	1970	1980	1985	1988
Participation rate ⁴				
Global	59.5	60.8	59.8	61.2
Male	86.8	82.8	79.3	78.8
Female	33.5	39.6	41.0	43.9
Employment/population between 15 and 64 years	54.7	54.7	52.2	52.6
Part-time work ⁵	n.a.	n.a.	5.3	n.a.
Non-wage labour costs ⁶	21.4	21.8	22.0	22.8
Government unemployment insurance benefits ⁷	4.6	7.9	10.1	4.7
	1970-80	1980-85	1985-88	
Employment (yearly rates of change)				
Total (persons)	0.6	0.2	0.6	
Total (labour units)	1.0	0.5	0.9	
Agriculture	-2.3	-2.9	-2.1	
Manufacturing	1.0	-3.2	0.0	
Services	2.7	3.3	2.0	
of which:				
Government	2.8	2.1	1.3	

1. People between 16 and 24 years as a percentage of the labour force of the same age group.

2. People looking for a job since one year or more as a percentage of total unemployment.

3. Index of monthly hours effectively worked per worker in industry.

4. Labour force as a percentage of the corresponding population aged between 16 and 64 years.

5. As a percentage of dependent employment.

6. As a percentage of wages and salaries.

7. Unemployment benefits per unemployed worker as a per cent of compensation per employee.

Sources: ISTAT and OECD Secretariat.

Table O. Production structure and performance indicators

	GDP share (% of total)				Employment share (% of total)			
	1970	1980	1985	1988	1970	1980	1985	1988
Production structure (constant prices)								
Tradeable goods and services								
Agriculture	8.8	6.6	6.3	5.8	10.8	8.0	6.9	6.4
Manufacturing	26.8	31.9	31.2	31.7	42.1	43.7	37.7	36.9
<i>of which:</i>								
Food, beverage and tobacco	2.8	3.1	2.8	2.8	3.1	3.1	2.8	2.7
Textiles, wearing apparel and leather industries	4.7	5.2	4.8	4.8	9.7	9.1	7.9	7.8
Non-metallic mineral products except products of petroleum and coal	2.1	2.4	2.0	2.1	3.2	2.8	2.4	2.8
Basic metal industries	2.6	1.6	1.6	1.6	2.0	1.9	1.6	1.4
Fabricated metal products, machinery and equipment	9.2	12.0	11.8	12.1	14.6	17.0	14.4	13.5
Non-tradeable goods and services								
Electricity, gas and water	5.3	4.4	3.9	3.8	1.6	1.6	1.7	1.7
Construction	12.6	8.4	7.0	6.7	15.4	10.7	10.0	9.4
Wholesale and retail trade, restaurants and hotels	20.2	20.8	21.1	20.6	14.0	15.4	17.7	17.9
Transport, storage, communications	5.2	5.9	6.1	6.5	7.8	8.8	9.5	10.2
Finance, insurance, real estate and business sector	21.1	22.0	24.4	24.8	8.4	11.8	16.5	17.4

Productivity growth
(Sector GDP/sector employment)
Average annual percentage growth

	1971-80	1981-85	1986-88
Industrial sector performance (constant prices)			
Manufacturing	4.7	4.9	4.1
<i>of which:</i>			
Food, beverages and tobacco	4.5	2.3	4.3
Textiles, wearing apparel and leather industries	5.0	3.4	3.2
Non-metallic mineral products except products of petroleum and coal	6.4	1.7	-0.7
Basic metal industries	-0.8	5.8	6.6
Fabricated metal products, machinery and equipment	4.5	5.4	5.8

Source: OECD, *National Accounts*.

BASIC STATISTICS :
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period ¹	Australia	Austria		Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population																												
Total	Thousands	1987	16 249	7 575		9 868	25 803	5 130	4 932	55 627	61 149	9 998	245	3 542	57 331	122 091	372	14 671	3 284	4 184	10 280	38 830	8 399	6 610	52 010	56 890	243 915	23 410
Inhabitants per sq.km	Number		2	90		324	3	119	15	102	246	76	2	50	190	328	143	432	12	13	112	77	19	160	67	232	26	90
Net average annual increase over previous 10 years	%		1.4	0.0		0.0	1.0	0.1	0.4	0.4	0.0	0.7	1.0	0.8	0.3	0.7	0.3	0.6	0.5	0.3	0.5	0.7	0.2	0.5	2.2	0.1	1.0	0.8
Employment																												
Total civilian employment (TCE) ²	Thousands	1987	7 079	32 997		3 645 (86)	11 954	2 630 (86)	2 414	20 988	25 456	3 601 (86)	117 (86)	1 068 (86)	20 584	59 110	164 (86)	5 135 (86)	1 517 (86)	2 090	4 156	11 370	4 337	3 219 (86)	15 632 (86)	24 987	112 440	..
of which: Agriculture	% of TCE		5.8	8.6		2.9	4.9	5.9	10.4	7.1	5.2	28.5	10.3	15.7	10.5	8.3	3.7	4.9	10.5	6.7	21.9	16.1	4.2	6.5	55.7	2.4	3.0	..
Industry	% of TCE		26.6	37.7		29.7	25.3	28.2	31.2	30.8	40.5	28.1	36.8	28.7	32.6	33.8	32.9	25.5	28.9	27.0	35.8	32.0	30.2	37.7	18.1	29.8	27.1	..
Services	% of TCE		67.6	53.7		67.4	69.8	65.9	58.4	62.1	54.3	43.4	53.0	55.5	56.8	57.9	63.4	69.6	60.6	66.3	42.3	51.8	65.6	55.8	26.2	67.8	69.9	..
Gross domestic product (GDP)																												
At current prices and current exchange rates	Billion US\$	1987	193.7	117.2		138.9	410.9	101.3	89.5	879.9	1 117.8	47.2	5.3	29.4	758.1	2 376.5	6.0	213.2	35.1	82.7	36.7	289.2	158.5	171.1	67.4	669.8	4 472.9	61.7 (86)
Per capita	US\$		11 919	15 470		14 071	16 019	19 750	18 151	15 818	18 280	4 719	21 813	8 297	13 224	19 465	16 138	14 530	10 620	19 756	3 761	7 449	18 876	25 848	1 296	11 765	18 338	2 652 (86)
At current prices using current PPP's ³	Billion US\$	1987	204.9	88.4		116.5	444.5	68.4	63.3	712.2	814.7	63.6	3.8	26.7	702.5	1 609.4	5.5	179.7	35.3	64.5	61.4	337.1	115.7	104.9	220.9	702.5	4 472.9	..
Per capita	US\$		12 612	11 664		11 802	17 211	13 329	12 838	12 803	13 323	6 363	15 508	7 541	12 254	13 182	14 705	12 252	10 680	15 405	6 297	8 681	13 771	15 842	4 247	12 340	18 338	..
Average annual volume growth over previous 5 years	%	1987	3.7	1.8		1.5	4.2	2.7	3.2	1.6	2.1	1.4	3.1	1.8	2.6	3.9	4.0	2.1	2.1	4.1	2.1	2.9	2.4	2.3	6.0	3.2	4.3	..
Gross fixed capital formation (GFCF)	% of GDP	1987	23.8	22.6		16.3	21.0	18.8	23.5	19.4	19.4	17.4	18.8	17.4	19.9	28.9	22.6	20.3	21.2	28.0	25.3	20.7	19.0	25.2	24.5	17.3	17.3	21.6 (86)
of which: Machinery and equipment	% of GDP		11.5 (86)	9.7		7.0 (86)	6.9 (86)	7.8	9.7	8.3	8.4	7.1	6.5	9.4 (86)	10.0	10.5 (86)	9.0 (82)	10.0	13.1 (85)	7.9 (86)	14.7 (81)	6.4 (86)	8.5 (86)	8.8	8.6 (84)	8.1 (86)	7.6	..
Residential construction	% of GDP		4.7 (86)	4.6 (86)		3.4	6.4 (86)	4.4	5.5	5.2	5.2	4.6	3.5	4.6 (86)	5.2	5.0 (86)	4.7 (82)	5.2	4.6 (85)	5.0 (86)	6.4 (81)	4.0 (86)	3.8 (86)	16.4 (9)	2.7 (84)	3.8 (86)	5.0	..
Average annual volume growth over previous 5 years	%	1987	1.7	2.3		2.0	4.8	6.5	1.9	0.6	1.8	-2.2	1.8	-3.7	2.8	5.3	0.8	4.8	2.0	4.1	-0.7	3.8	3.6	6.0	7.3	4.7	7.0	..
Gross saving ratio⁴	% of GDP	1987	20.3	24.1		17.6	18.8	15.5	22.5	19.6	23.9	14.7	15.2	18.6	20.9	32.3	56.5	21.8	20.3	23.4	27.5	21.9	18.0	31.7	24.1	17.2	14.7	..
General government																												
Current expenditure on goods and services	% of GDP	1987	18.2	19.0		16.3	19.5	25.4	20.7	19.1	19.8	19.5	17.7	18.0	16.7	9.6	16.7	16.1	17.6	20.9	14.4	14.4	26.7	12.8	9.1	20.9	18.6	14.3 (86)
Current disbursements ⁵	% of GDP	1987	35.0 (86)	46.6 (86)		51.6 (86)	43.3 (86)	53.4 (86)	38.2	48.4	43.0 (86)	42.9 (86)	27.3 (86)	49.2 (84)	45.2	27.4 (86)	45.3 (84)	54.0 (86)	..	47.8 (86)	37.6 (81)	36.1 (86)	60.0 (86)	30.1	..	42.9 (86)	35.5 (86)	..
Current receipts	% of GDP	1987	34.7 (86)	47.9 (86)		45.0 (86)	39.4 (86)	58.0 (86)	39.6	49.4	44.9 (86)	36.6 (86)	32.1 (86)	43.3 (84)	39.3 (86)	31.3 (86)	54.1 (84)	52.8 (86)	..	56.5 (86)	33.3 (81)	35.0 (86)	61.6 (86)	34.5	..	41.6 (86)	31.2 (86)	..
Net official development assistance	% of GNP	1987	0.33	0.17		0.49	0.47 ¹	0.88	0.50	0.74	0.39	..	0.05	0.20	0.35	0.31	0.10	0.98	0.26	1.09	0.08	0.06	0.88	0.31	..	0.28	0.20	..
Indicators of living standards																												
Private consumption per capita using current PPP's ³	US\$	1987	7 389	6 535		7 593	10 059	7 236	6 966	7 796	7 374	4 273	9 930*	4 378	7 543	7 623	8 694	7 461	6 236	8 155	4 167	5 521	7 273	9 349*	2 844	7 731	12 232	1 335 (86)*
Passenger cars, per 1 000 inhabitants	Number	1985	..	306 (81)		335 (84)	421 (82)	293	329 (86)	369 (86)	441 (86)	127	431	206 (83)	355 (84)	221 (83)	439 (87)	341	455	382 (86)	135 (82)	252	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)		414 (83)	664 (83)	783	615	614 (86)	641 (86)	373	525 (83)	235 (83)	448 (84)	535 (83)	425 (86)	410 (86)	646	622 (84)	166 (83)	381 (86)	890 (83)	1 334	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)		303 (84)	471 (80)	392	370 (86)	394 (86)	377 (86)	158 (80)	303	181 (80)	244 (84)	250 (80)	336 (83)	317 (86)	291	346 (86)	140 (80)	256 (82)	390	337	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)		2.8 (84)	1.8 (82)	2.5 (84)	2.3 (86)	2.3 (86)	2.5 (84)	2.8 (83)	2.4 (84)	1.3 (82)	3.6 (82)	1.3 (82)	1.9 (86)	2.2 (84)	2.4	2.2	1.8 (82)	3.4 (86)	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.0 (85)	1.6 (82)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0		9.4	9.1 (83)	7.9	5.8 (86)	7.0 (86)	9.1	14.1	5.7	8.9	10.9	5.9 (84)	9.0	9.6 (86)	10.8	8.5 (86)	17.8	7.0 (84)	6.8	6.9	..	9.4	10.4 (86)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)																												
Wages (earnings or rates according to availability)	%	1987	5.7	4.9		3.4	3.6	6.1	8.5	6.4	3.6	17.4	..	8.8	10.5	2.6	..	2.3	7.4	10.2	17.9	10.3	7.6	8.5	3.1	..
Consumer prices	%	1987	7.0	3.0		3.5	4.2	4.7	5.0	4.7	1.1	19.3	25.7	5.2	7.6	1.1	2.2	1.3	12.6	7.0	17.2	8.5	5.9	2.1	41.6	4.7	3.3	56.3
Foreign trade																												
Exports of goods, fob*	Million US\$	1987	26 484	27 084		82 824 ⁷	94 320	25 632	19 404	147 936	293 424	6 516	1 368	15 948	116 004	230 220	.. ⁸	92 592	7 164	21 804	9 144	33 972	44 388	45 312	10 344	130 632	254 124	11 425
as % of GDP	%		13.6	23.0		59.8	22.8	25.3	22.1	16.8	26.2	13.9	25.8	54.8	15.4	9.7	..	43.1	20.1	26.2	25.3	11.8	27.9	26.6	15.7	19.7	5.7	16.3
average annual increase over previous 5 years	%		4.4	11.6		9.6	6.5	11.1	8.2	9.0																		

- * At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour Force Statistics*.
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources:
Population and Employment: OECD *Labour Force Statistics*.
GDP, GFCF, and General Government: OECD *National Accounts*. Vol. 1 and OECD *Economic Outlook*.
Historical Statistics.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators*.
Foreign trade: OECD *Monthly Foreign Trade Statistics, series A*.
Total official reserves: IMF *International Financial Statistics*.

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department, OECD

The Economics and Statistics Department of the OECD offers challenging and rewarding opportunities to economists interested in applied policy analysis in an international environment. The Department's concerns extend across the entire field of economic policy analysis, both macroeconomic and microeconomic, and it is also responsible for the collection, processing and dissemination of a wide range of internationally consistent statistics. On the economic side, its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- To prepare regular surveys of the economies of individual Member countries;
- To issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- To analyse specific policy issues in a medium-term context for the OECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work and its statistical output, appear in published form in the *OECD Economic Outlook*, *OECD Economic Surveys*, *OECD Economic Studies*, the Department's Working Paper series, and an extensive list of statistical publications.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 90 professional economists and statisticians from a variety of backgrounds from all Member countries. Most projects are done by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange; and all professional staff have the opportunity to contribute actively to the programme of work.

Skills ESD is looking for

- a) Solid competence in using the tools of both microeconomic and macroeconomic theory to answer policy questions. In our experience this requires the equivalent of a PhD in economics or substantial relevant professional experience to compensate for a lower degree.
- b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply and interpret basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.
- c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.

- d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.
- e) The ability to write clearly, effectively, and to the point. The OECD is a bilingual organisation with French and English as the official languages. Candidates must have excellent knowledge of one of these languages, and some knowledge of the other. Knowledge of other languages might also be an advantage for certain posts.
- f) For some posts, expertise in a particular area may be important, but a successful candidate can expect to be asked to contribute in a broader range of topics relevant to the work of the Department. Thus, except in rare cases, the Department does not recruit narrow specialists.
- g) The Department works on a tight time schedule and strict deadlines. Moreover, much of the work in the Department is carried out in small groups of economists. Thus, the ability to work with other economists from a variety of professional backgrounds, and to produce work on time is important.

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