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# SPECIAL REPORT

## ITALY'S NATIONAL ECONOMIC PLAN

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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# ITALY'S NATIONAL ECONOMIC PLAN

The delays and frustrations which marked the three-year process of preparing a draft national economic plan for Italy illustrate the continuing difficulty of achieving consensus on important issues within Premier Moro's center-left government. While there is general agreement on the need for a plan to assure a more rational development of Italy's economy, there is wide disagreement on what the plan should contain. The progressive majority of the coalition is stressing basic social and economic reform, including a more equitable distribution of the national income aimed at reducing still-widespread poverty in Italy. Influential right-wing critics, however, fear that emphasis on reform will deter productive investments. In order to get some action, the cabinet may decide not to ask Parliament to vote the economic plan into law. Instead, it will probably seek a general endorsement of the document and then try to enact its separate proposals individually.

## Basic Economic and Social Problems

The draft Five-Year Economic Program was approved by the cabinet last January. The cabinet now is reviewing recommendations submitted by the National Economic and Labor Council, an advisory body composed of leading labor, industry, and government representatives.

This plan might have been ready for presentation to Parliament by 1 January 1965, the original deadline, had not the Moro government been obliged to devote its main energies in the months following its formation (December 1963) to serious problems of inflationary pressure and a critical balance-of-payments deficit. Conservative forces argued, and the Socialists in the government reluctantly agreed, that the question of basic reforms would be held in abeyance while priority attention was given to the critical economic situation. Although the country's finances have improved substantially since mid-1964, a general business recession continues.

The plan represents a first systematic approach to achieving the structural reforms that are prerequisite to rational economic development over the long term. The areas of structural defect in the Italian economy include: deficient transport facilities, lagging agricultural production, an inadequate educational system, an antiquated retail system, an outdated social



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EXCERPTS FROM ECONOMIC POLICY AGREEMENT AMONG
THE FOUR PARTIES OF THE MORO GOVERNMENT IN ITALY
(Approved 23 November 1963)

The Parties unanimously declare that they seek to achieve, through a policy of economic programing, the elimination of continuing territorial, sectoral, and income distribution imbalances, as well as the elimination of major deficiencies in our country's social facilities, thus ensuring a progressive advance toward the permanent objectives of economic development policy: full employment, widespread prosperity, and a rise in the standard of living.

This policy will also have to assure, together with the highest possible rate of economic development, a better coordination of this process, so that the nation's problems will be faced and solved in the broadest perspective on the basis of priorities of their respective importance and urgency.

... Economic policy shall be aimed not at perpetuating the present social and economic structure, but at effecting changes deemed useful to the community's best interests. Programing thus assumes the function of an instrument which, in a dynamic and coherent view of society, will make possible a thoughtful choice of the objectives of socio-economic progress and a joint effort to achieve these objectives through the timing, means and instruments required.

The Parties recognize the importance, for the success of such action, of the active and responsible contribution of all factors of production including labor, and re-emphasize that the cooperation required be carried out in conformity with the principles which lie at the foundation of our democratic society.

... The Parties confirm their will to assure entrepreneurs of the stability of the basic economic system, so that the latter will not be forced to run risks other than those inherent in a market economy. Within the framework of the Government's agreed program, the Parties do not foresee any nationalization measures.

Finally, the Parties believe that a policy of programing will achieve better results the more our economy retains the characteristics of an open system. Therefore, in acknowledging as an irreversible choice the repudiation of protectionist and autarchic policies, they agree on the need to develop international economic cooperation further toward increasing the integration of our national market into the international market.

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security system, an admittedly unfair tax system, insufficient scientific and technological research, and the lack of urban planning. The notoriously unwieldy bureaucracy is a major psychological as well as practical handicap in the solution of these problems.

One of the major objectives is to harmonize private and public investment, as well as the regional development plans, with the general aims of the national economic plan. A primary political issue here is the future role of state-owned industries --which probably account for as much as 20 percent of Italy's GNP. Business circles have been apprehensive that the new plan might favor the public sector and modify the role of the free market mechanism to their disadvantage. Government leaders have repeatedly sought to dispel this apprehension by assuring that there is no intention to enlarge the public economic sector significantly.

## Earlier Plans

Despite the problems encountered in preparing the current proposal, Italy is not without experience in economic planning. Sixteen major development plans have been attempted for underdeveloped regions and for particular economic sectors. The most successful of these is associated with the Cassa per il Mezzogiorno (Fund for the South), established in 1950 to modernize southern Italy, Sicily, and Sardinia. In January, the Moro cabinet approved a draft bill to extend this plan for another 15 years and substantially increase its budget. The only attempt to establish a nationwide development plan, however, was an ill-fated effort launched in 1955 by then Budget Minister Vanoni.

The multiplicity of development programs and the lack of clear delineation of administrative responsibilities have led to a bureaucratic tangle among the ministries and agencies charged with implementation of the various plans as well as to heavy competition for financing in Italy's thin, relatively underdeveloped capital market.

In May 1962, a National Economic Planning Commission consisting of representatives of government, industry, and labor launched a basic fact-finding mission as the first phase of work on a comprehensive, integrated plan for the entire economy. Government guidelines called for planning to combine the standard objectives of economic policy--growth, full employment, balance of payments equilibrium,and price stability --with consideration of Italy's special needs for improved income distribution and elimination of structural differences among regions, economic sectors, and levels of society.

The political considerations involved in establishing the relative importance and urgency of such problem areas as agriculture, urban planning, education, science, and vocational training complicated the



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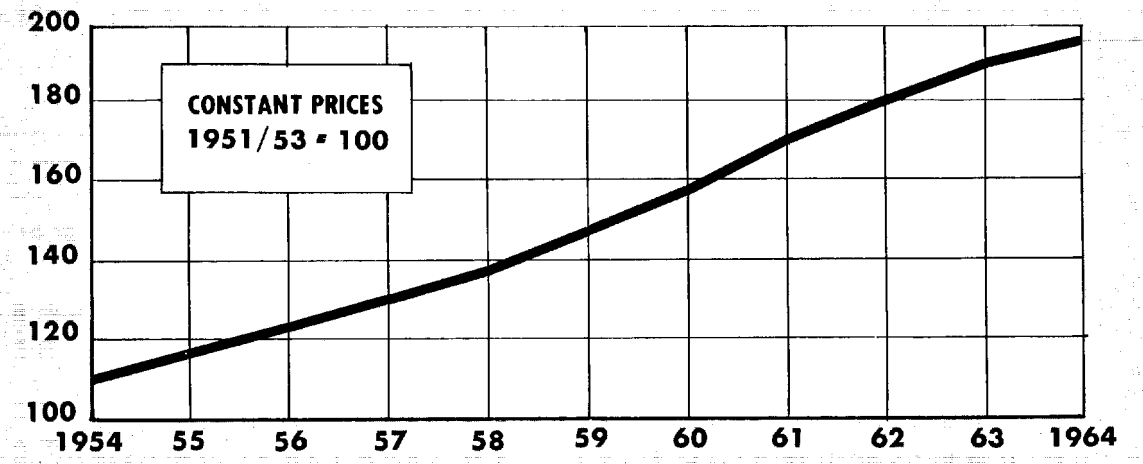
# ITALY

## GROSS NATIONAL PRODUCT

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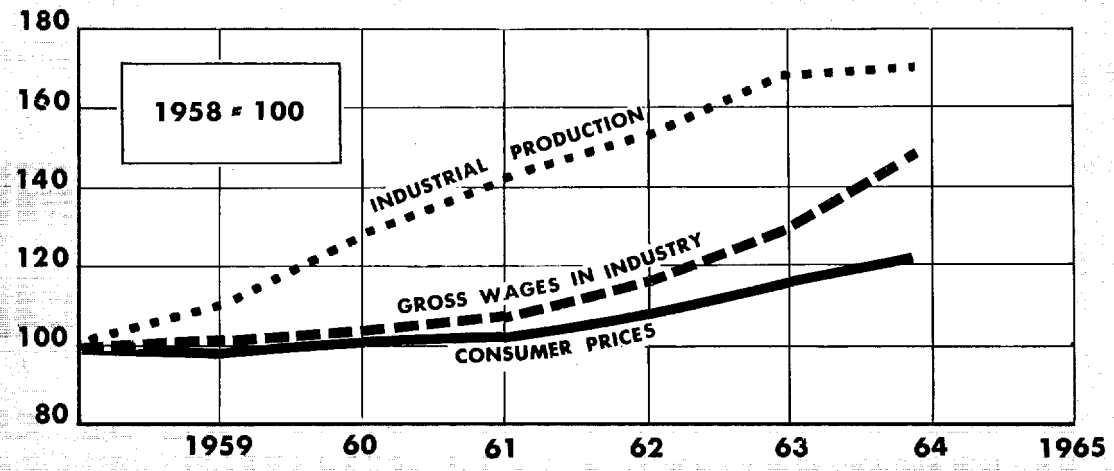
## SELECTED ECONOMIC INDEXES

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Note: Trends for 1964 based on incomplete data

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commission's task. Nevertheless, soon after the formation of the first Moro government in December 1963, a report listing the general aims and objectives of a national economic plan was released, and a study that spelled out the guiding economic principles to be followed was also published.

These efforts resulted finally in the formulation of a plan, but it was discarded at the time the first Moro government fell in June 1964. The present draft, prepared under the direction of Socialist Budget Minister Pieraccini, represents center-left accord on the text of a plan and reflects an evolving public consensus in favor of the concept of national planning.

## The Five-Year Program

The draft plan projects an annual rate of economic growth of 5 percent during the five-year period. Total public and private fixed investment during that period is expected to be approximately 23 percent of GNP. An annual 6-percent rise in industrial production and a 2.9-percent rise in agricultural output is forecast, while the target for consumption is a 4-percent average annual increase.

Although Italy's 1964 growth was well below these projected rates, the goals appear to be realistic as long-term projections from previous Italian experience. However, with business in continuing recession, growth in 1965 will almost certainly fall below the average and the slowdown in economic recovery may continue into 1966.

The process of coordinating plan objectives and private industry goals will involve continuous consultation between government and business representatives. As a basis for these discussions the planning authorities will, under the present draft program, be empowered to request industrial associations to provide information on development plans in various sectors and to ask large firms for information on their long-run investment programs.

In implementing the plan the government does not intend to impose binding commitments on individual business concerns. It will, however, influence their decisions to expand or contract operations through its actions in such fields as monetary policy, public works, and aid to underdeveloped regions. The plan is thus an instrument for guiding the economy, not for coercing it. The target figures will be subject to annual readjustment, if revisions seem warranted by changes in political or economic circumstances.

## The Next Step

The recommendations of the National Economic and Labor Council (CNEL) entail some deemphasis of allocations to social services--for example, education and low-cost housing --while increasing the resources



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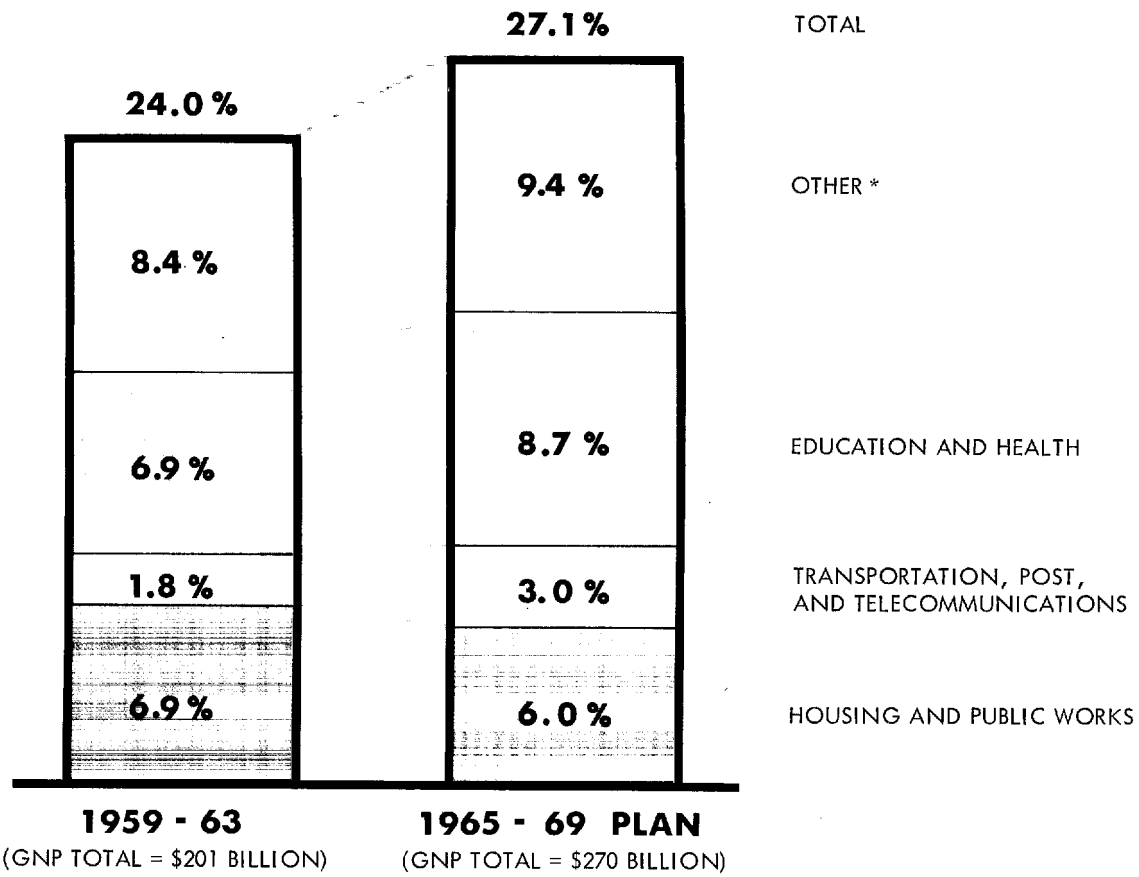
# ITALY: PERCENT OF GNP EXPENDED FOR PUBLIC SERVICES AND ECONOMIC INFRASTRUCTURE




*Includes expenditures predominantly for national defense, internal security, and scientific and technical research.

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available for directly productive investments in industry and agriculture. As a result, planning officials have indicated that some increases may have to be made in the volume of planned investments in northern industry at the expense of public services and social infrastructure, particularly in the South. The cabinet is not legally bound to adopt CNEL's recommendations, but, in practice, the council's stature requires that its advice be accepted in some form.

The CNEL recommendations have been exploited by the Communists for political ends. After CNEL's opinion was given, Italy's largest labor confederation, the Communist-dominated CGIL, expressed "fundamental disagreement" with features of the plan. CGIL's basic objections are that the program is not oriented to eventual greater state control over the direction of the economy and that the "incomes policy" is too rigid, i.e., that wage hikes are tied to increases in productivity. CGIL's position points up the dilemma which faces the cabinet in attempting to strike an acceptable compromise between labor and management.

The government expects to present to Parliament a bill to expand the Budget Ministry, making it responsible for planning. This, however, may be watered down as certain cabinet members assert their political interests against the transfer of functions from their ministries to the Budget Ministry. A recently established "Committee of Ministers for Economic Planning," to be presided over by the premier, is to have over-all responsibility for supervising implementation of the plan.

## Planning Hurdles

The objective of Italian economic planners is a reasonably high rate of growth without the inflationary impact of excessive increases in wages and consumer expenditures. The anti-inflationary effort involves a politically awkward "incomes policy" that would resist labor's demands for more rapid improvement of living standards. Treasury Minister Colombo has stressed that the economic program requires "balance and proportion with respect to the interrelationship of productivity, wages, and profits."

All of Italy's major trade confederations have sharply criticized the incomes policy in its present form. CGIL, at its late March congress, rebuffed Budget Minister Pieraccini when he defended the program despite the efforts of his fellow Socialists to play down the incomes policy issue in favor of a general statement of support for the plan as a whole. The Communist majority was delighted with the chance to embarrass a top Socialist Party spokesman on a policy issue which obliged him to seem to support management over labor.

The government now is in a dilemma over the degree of control it should exert through



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the plan. The government's ability to enforce various provisions, with respect to both labor and management, appears to have been increasingly diluted through a succession of drafts to the point where the present version has been described simply as a "program." Even so the government is still on the defensive against charges that the plan is "authoritarian" or "imperative."

## Conclusions

In general, businessmen accept the concept of national planning, but their final attitude will not be determined until the definitive plan has been presented to Parliament. Business' earlier apprehension that the government would assume a dominant role in the economy seems to have been overcome.

Labor leaders have long pressed for a national economic plan for some time but their support will be tempered by their opposition to the government's incomes policy. The secretary general of Confindustria (the Italian equivalent of a national association of manufacturers) recently pointed out, however, that as the incomes policy is an integral part of the present draft, it would be difficult for labor to reject the policy without undertaking the "quite impossible" task of submitting an entirely different plan.

The government's ability to modernize its own operation and reform public administration will probably prove essential to the success of the plan. The bureaucracy is poorly equipped, however, by training or experience to undertake national economic planning. It will be further hampered by the lack of reliable statistical tools and knowledgeable technicians. Imprecision in the plan's provisions, however, may be considered a blessing in disguise as it should enable the coalition to adopt a flexible approach to issues as they arise rather than force it to make many politically unpalatable decisions at the outset. On the other hand, imprecision could serve as a rationalization for future government inactivity.

Despite cabinet agreement on the over-all plan, disagreements within and between the coalition parties continue over certain provisions and the specific points at issue will emerge more clearly during the forthcoming parliamentary debates. Their solution will hinge on the ability of cabinet leaders to reach a compromise to meet the minimum demands of powerful factions within the major coalition parties. 25X1

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