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OECD ECONOMIC SURVEYS

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ITALY

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BASIC STATISTIC OF ITALY

THE LAND

Area (1000 sq. km)	301.3	Inhabitants in major cities, 1.1.1990, thousands.	
Agricultural area (1000 sq. km), 1982	236.3	Rome	2 804
		Milan	1 449
		Naples	1 204
		Turin	1 003

THE PEOPLE

Population, 1-1-90, thousands	57 574		Thousands
Number of inhabithants per sq. km	191	Labour force, 1989	23 870
Net natural increase average (1985-89,thousands)	31	Employment, 1989	21 004
Net rate per 1000 inhabitants (1985-89)	0.5	in agriculture	1 946
		in industry	6 753
		in services	12 305

PRODUCTION

Gross domestic product, 1989 (trillion of lire)	1 188	Origin of gross domestic product in 1989 at market prices,per cent of total:	
GDP per head (1989 US $)	17 224	Agriculture	3.5
Gross fixed capital formation		Industry	28.1
Per cent of GDP in 1989	20.2	Construction	5.3
Per head in 1989 (US $)	3 483	Other	63.1

THE PUBLIC SECTOR

Public consumption, in 1989 (percentage of GDP)	17.1	Public debt in 1989 (percentage of GDP)	98.4
Current revenue of general government in 1989 (percentage of GDP)	41.8	General government investment in 1989 (percentage of total investment)	17.5

FOREIGN TRADE

Exports of goods and services as percentage of GDP, 1989	19.2	Imports of goods and services as percentage of GDP, 1989	19.8
Major export categories, as a percentage of total exports, 1989 (SITC)		Main imports categories, as a percentage of total imports, 1989 (SITC)	
Machinery (71 to 77)	26.6	Food stuffs (0)	12.0
Fabric and textile goods (65)	5.8	Machinery (71 to 77)	19.3
Chemical products (5)	8.0	Metals, ores and scrap (67 +68)	6.8
Automobiles and parts (78 + 79)	9.2	Mineral fuels (3)	10.9
Mineral fuels (3)	1.7	Chemical products (5)	11.9

THE CURRENCY

Monetary unit: Lira	Currency units per US $, average of daily figures:	
	Year 1990	1 198
	June 1991	1 328

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 9th July 1991.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 31st July 1991.

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The previous Survey of Italy was issued in April 1990.

Introduction

Real GDP growth fell to 2 per cent in 1990, the lowest rate since 1983. Unemployment edged up temporarily towards the end of the year, and consumer-price inflation, led by higher oil prices, gathered speed. The current-account deficit widened marginally to 1.3 per cent of GDP in 1990, notwithstanding a better trade performance. Economic activity ceased to slacken around the turn of the year. The rebound has been moderate, however, so that real GDP is unlikely to grow by more than 1½ to 2 per cent in 1991 as a whole. In response to an easing of pressures on domestic resources and international prices, inflation may slow, with consumer prices projected to rise at an annual rate between 5 and 6 per cent through the remainder of the year and 1992.

Stabilisation policies have remained committed to lowering inflation and reining in the huge budget deficit. Monetary policy, aimed at keeping the lira within the narrow band of the EMS, has gained in credibility since early 1990. As capital inflows rose in response to the more rigorous exchange rate regime and the removal of remaining capital controls, interest differentials *vis-à-vis* other major EC countries have tended to narrow further. Even so, interest payments on public debt are still rising and with revenues weakening in line with activity, policies of fiscal consolidation have once again encountered difficulties. While the 1990 budget deficit net of interest payments showed a further, albeit small, move towards restraint on a cyclically-adjusted basis, general government borrowing requirements rose in terms of GDP, reversing an earlier gradual decline. In the face of further slippage in early 1991, the Government has taken additional measures of fiscal restraint.

The present Survey starts with a discussion of stabilisation policies (Part I). Against the background of the strengthened exchange-rate regime, the conduct of monetary policy is reviewed and issues of fiscal consolidation and debt management are considered. Part II analyses recent developments and discusses short-term prospects. In Part III, the main medium-term challenges for economic policies are reviewed with particular emphasis on fiscal consolidation and labour-market imbalances. Part IV examines competitive conditions, an important and topical subject one year after the adoption of a comprehensive anti-trust law and less than two years before the advent of a single European market. Conclusions are presented in Part V.

I. Stabilisation policies

With the formation of a single European market approaching its final stage, macroeconomic policies have been primarily directed towards removing financial imbalances and strengthening the internal and external stability of the lira. A process of fiscal consolidation was already initiated in the mid-1980s, relying heavily on revenue-raising measures. However, the high public debt/GDP ratio has kept on rising, underlining the crucial need for pursuing policies conducive to lower interest rates. Given the persistently large inflation differentials *vis-à-vis* most EMS partners, the scope for easing interest rates is largely determined by progress made in curbing inflation. In these circumstances, the authorities have opted for a policy of a stable nominal exchange rate, allowing the real exchange rate to rise, thereby seeking to ensure greater wage and price discipline.

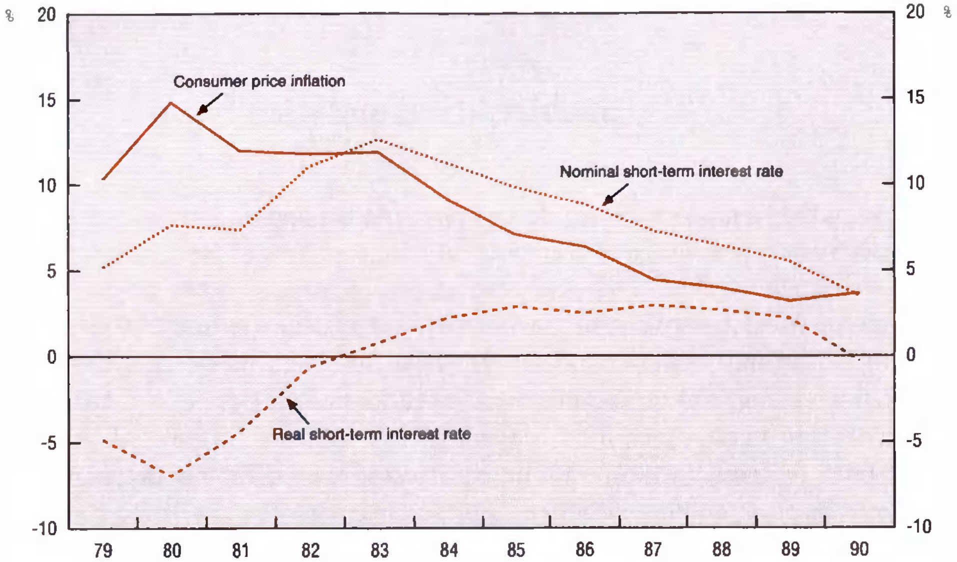
Monetary policy

Interest and exchange-rate developments

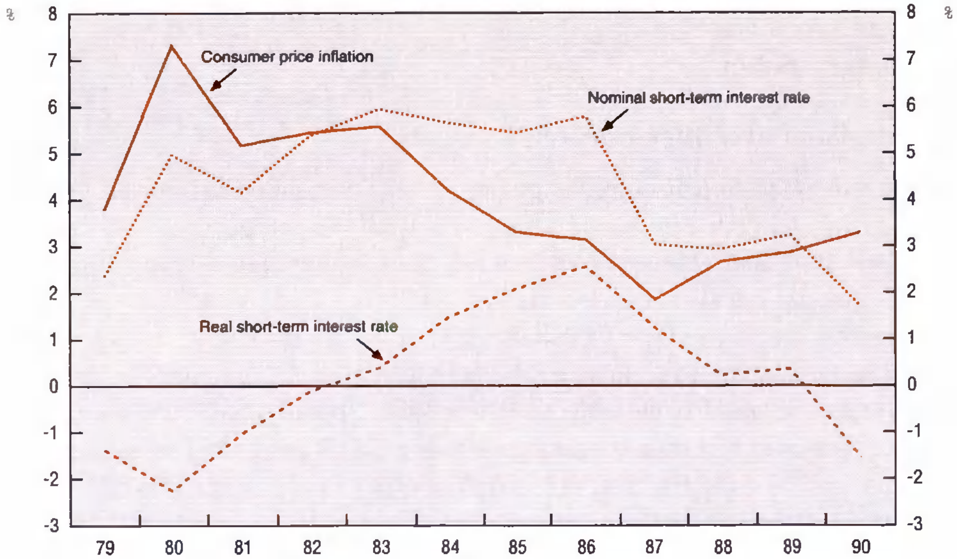
Committed to a firm exchange-rate policy, the authorities put the lira into the narrow 2.25 per cent band of the EMS (from the earlier 6 per cent band) in January 1990 and subsequently removed the last vestiges of capital controls. Both changes greatly increased the sensitivity of domestic markets to foreign influences, thereby reducing the autonomy of monetary policy. With a view to influencing market expectations, the authorities have continued to announce quantitative money supply objectives: for 1991 "permissible" or "warranted" M2 growth is to be limited to a range between 5 to 8 per cent, a more ambitious target than was fixed for 1990. According to official projections, this corresponds to a rise in domestic credit to the non-state sector of 10 per cent. Any significant deviation of actual M2 growth from targeted developments can be expected to trigger off corrective measures subject to maintenance of exchange-rate stability.

Diagram 1. INFLATION AND INTEREST DIFFERENTIALS

Differentials vis-à-vis Germany



Differentials vis-à-vis France



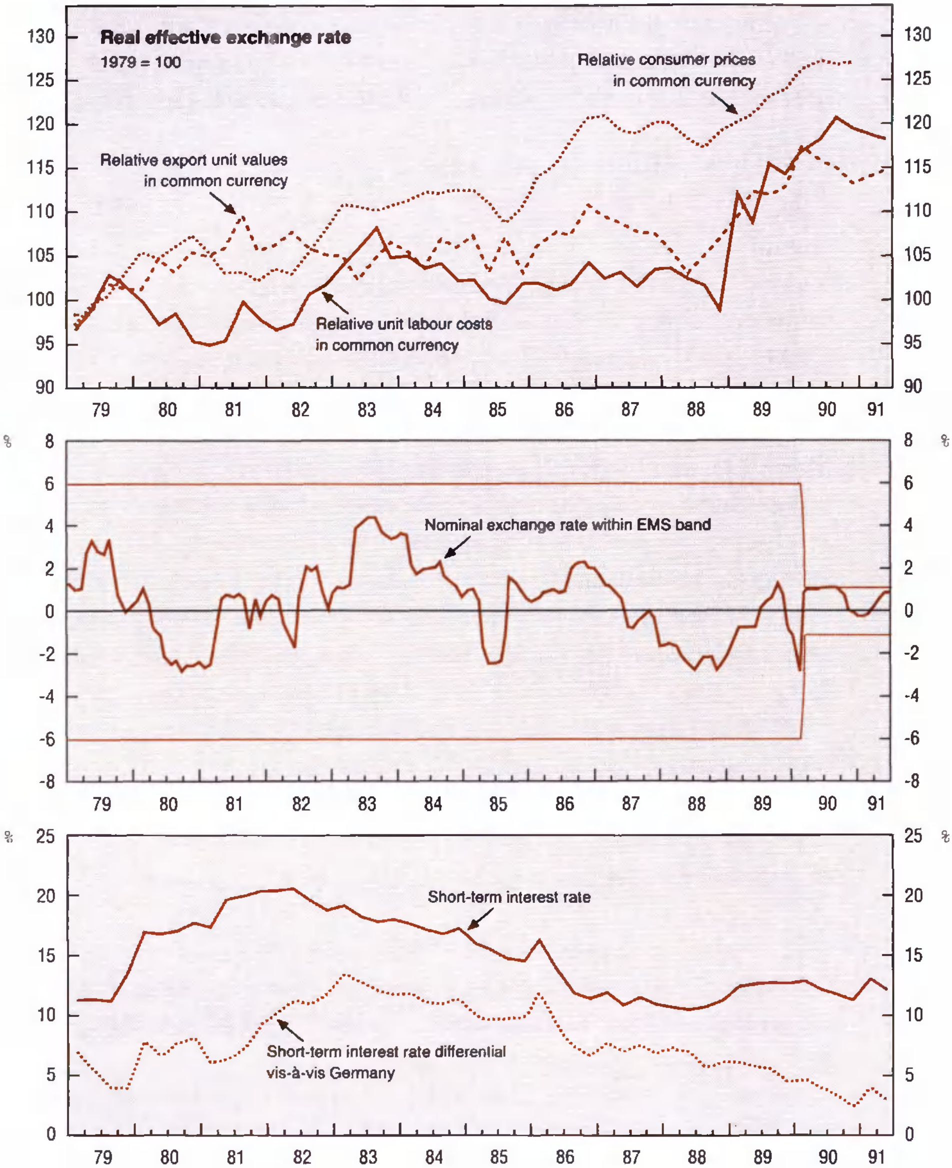
Source: OECD, Analytical Data Bank.

Since the inception of the new exchange rate regime, Italy's exchange rate policy has gained in credibility. This is evident from a decline in interest rate differentials *vis-à-vis* most important trading partners since early 1990. The short-term interest rate differential *vis-à-vis* Germany adjusted for inflation actually vanished and even turned negative *vis-à-vis* France (Diagram 1). The convergence of interest rates has been assisted by moves towards fiscal restraint.

Determined by international and domestic events in 1990 and the first half of 1991 three different phases of monetary policy can be distinguished:

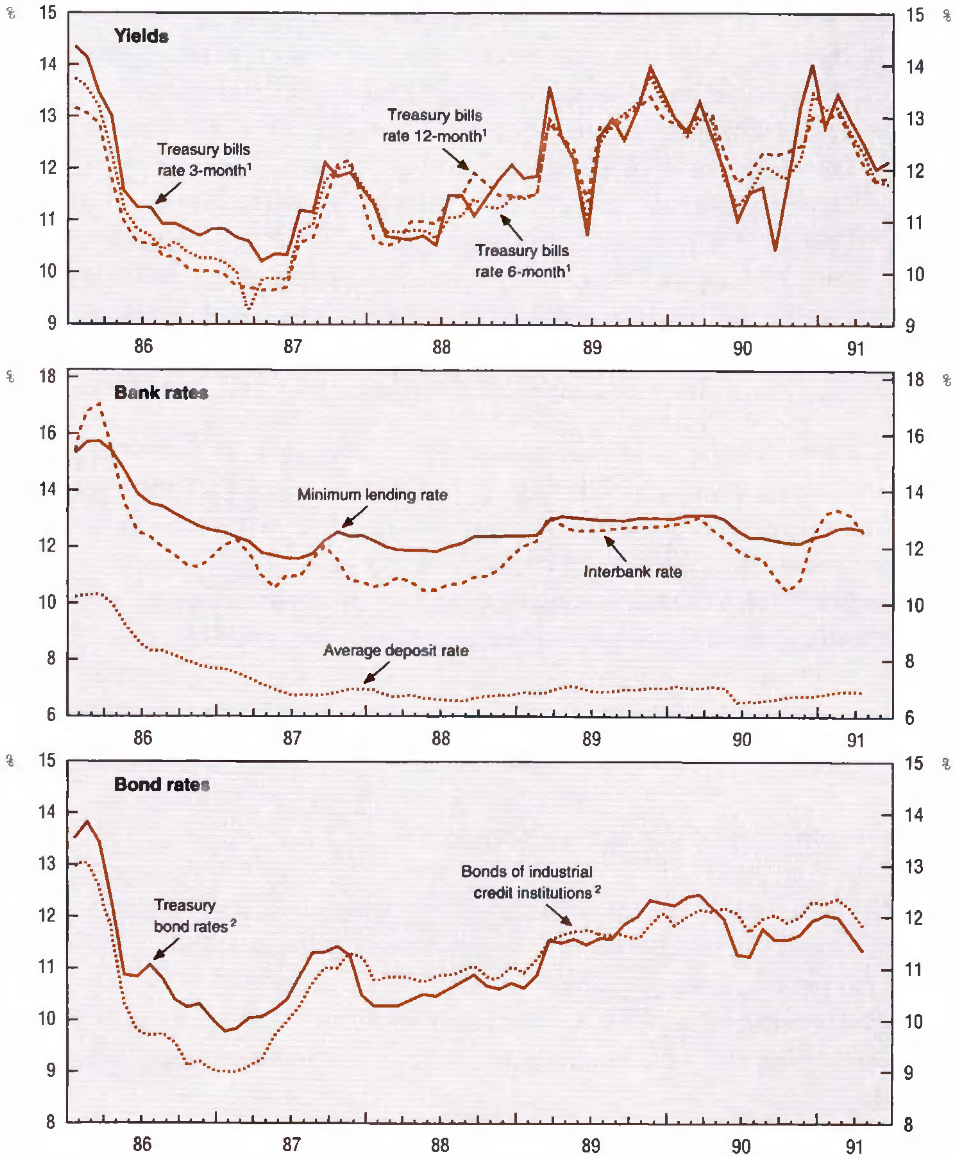
- During the first phase, lasting from January 1990 to September 1990, the new exchange rate regime and high interest rates attracted massive inflows of foreign capital, obliging the authorities to intervene in the foreign exchange markets to contain the upward pressure on the lira. Market interest rates eased with confidence in the anti-inflation stance of the authorities. In response to corrective fiscal action taken in May 1990, the discount rate was cut by a full percentage point in May, and by September 1990 the three-month Treasury bill rate was 2.5 percentage points lower than at the beginning of the year.
- During the subsequent five-month period, ending in February 1991, the fall in interest rates was sharply reversed in the face of a weakening lira, a re-acceleration of inflation and growing business pessimism. Apart from the depressive influence of the Gulf conflict on expectations, confidence in the attainability of official stabilisation and consolidation targets was further shaken by developments in the public finances, pointing to a recurrence of major deficit slippage notwithstanding the corrective May measures. In this setting, there was a large-scale outflow of capital, resulting in a loss of official reserves of L 7.3 trillion ($6.5 billion) in October and November 1990 after gains of L 24 trillion in the first nine months. Together with large open market operations of the Bank of Italy, this led to a widening of the short-term interest rate differential *vis-à-vis* Germany from nearly 2 percentage points in October to 4.2 percentage points in February.
- Since the end of the Gulf war, the third phase, short-term interest rates have resumed their earlier decline (Diagram 2), the lira has regained ground on foreign-exchange markets, with capital inflows totalling more than L 12.0 trillion between March and May 1991. In line with develop-

Diagram 2. **REAL EXCHANGE RATE AND INTEREST RATE DIFFERENTIAL**



Source: OECD, Analytical Data Bank.

Diagram 3. **INTEREST RATES**



1. Before-tax interest rates.
2. After-tax interest rates.

Source: Bank of Italy.

ments abroad, short-term interest rates eased. In April, the government adopted new procedures to make bond purchases by foreigners more attractive by speeding up the reimbursement of the 12½ per cent withholding tax[1]. Following the adoption of corrective fiscal measures in May, the discount rate was lowered by 1 percentage point to 11.5 per cent, supporting the renewed trend towards narrowing interest rate differentials *vis-à-vis* comparatively firm rates in Germany. At the same time, regulations concerning interest rates charged on cash advances granted by the central bank were amended to allow for greater flexibility. The reserve requirements for funds collected abroad and lent domestically was abolished and so was the requirement on domestic repurchase operations. In July 1991, the government proposed to Parliament a bill giving the Central Bank full authority to set the discount rate.

Looking at the whole period since the adoption of the strengthened exchange-rate regime, there has been a generalised decline in interest rates across the whole spectrum of financial assets. Yields on three-month Treasury bills eased more strongly than those for Treasury bonds in 1990 (Diagram 3). At the same time, yields on Treasury bonds dipped below those on bonds of industrial credit institutions, removing a small premium on public medium-term debt which had appeared in 1989 and in earlier years (1985 and 1986). The spread between the minimum bank lending rate and the average deposit rate has remained large (see Part IV).

Money supply and credit developments

Despite weaker real demand and output growth, liquidity (M2) grew at an annual rate of 9½ per cent in 1990, broadly the same pace as during the previous year and once again ½ percentage point above the upper end of the target range (6 to 9 per cent). As in 1989, certificates of deposits (CDs) accounted for nearly one half of M2 growth[2]. The monetary effects of the large capital influx from abroad in the first half of 1990 was partially neutralised by open-market operations. However, monetary overshooting took place in the fourth quarter when rising inflation fuelled transaction demand for money and public borrowing requirements exceeded expectations; the latter prompted the Treasury to draw heavily on its current account facility with the Bank of Italy[3].

Table 1. **Creation of monetary base, 1985-90**

Percentage shares

	1985	1986	1987	1988	1989	1990
External	–71.7	38.5	48.4	84.5	73.0	113.0
Treasury	152.0	139.3	166.2	103.0	41.2	–10.1
Open market operations	–7.7	–19.8	–100.4	–81.8	–10.2	17.5
Refinancing	30.8	–47.1	–5.2	–0.2	5.9	9.2
Other sectors	–3.4	–10.9	–9.0	–5.5	–9.9	–29.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source : Bank of Italy, *Annual Report*, 1990.

As in the previous two years, capital inflows remained the most dynamic element of monetary base creation in 1990, while the role of Treasury operations diminished further (Table 1). The annual ratio of M2 to GDP, which has hardly changed since the early 1980s, remained stable in 1990. In line with weaker economic activity, the expansion of domestic credit to the non-State sector abated in 1990, but at a rate of 15.4 per cent remained above the official projection of 12 per cent. In the first quarter of 1991, reflecting high interest rates and weak private credit demand, monetary growth slackened, and M2 growth stayed well within the new target range of 5 to 8 per cent.

Improving the effectiveness of monetary policy

The authorities have made further progress in improving the efficiency of financial markets and making short-term interest rates more responsive to monetary policy. As part of a structural programme, new regulations on banks' compulsory reserves went into effect in October 1990, facilitating the conduct of restrictive monetary policy. Under the new rules, banks can mobilise parts of their compulsory reserves, provided that the average monthly level (mid-month to mid-month) does not fall below the reserve requirement. The amount of compulsory reserves is calculated from averages of daily data rather than from end-of-month data. The interest paid is calculated on the average amount deposited by applying the rates currently in force: 5.5 per cent for reserves in respect of all bank deposits except for certificates of deposit, for which the rate is 8.5 per cent. Amounts in excess of a bank's average reserve requirement are remunerated at the rate applied to free reserves (0.5 per cent)[4].

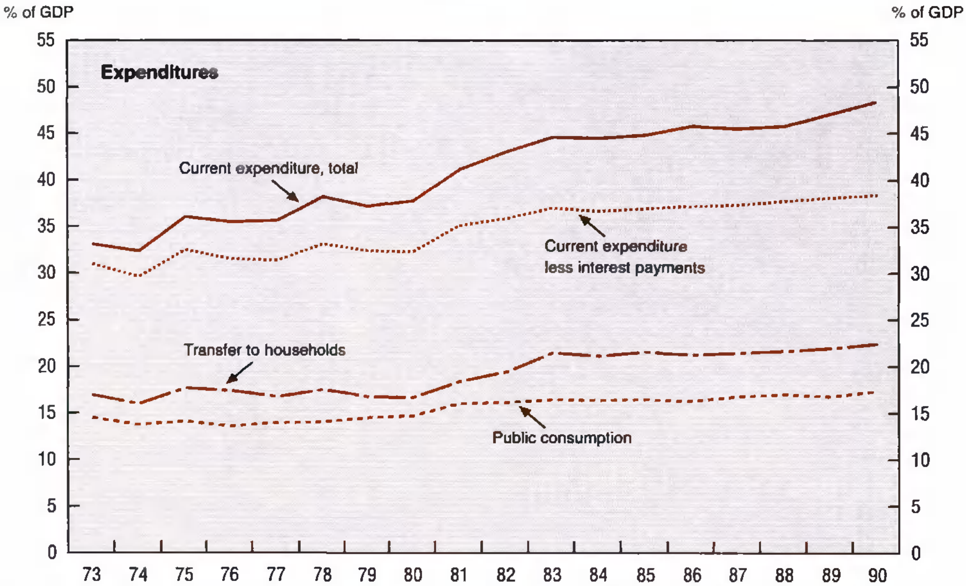
Following the introduction of these rules, the volatility of overnight interest rates has decreased sharply. Lower variability of interest rates has also been associated with a new service provided by the Reuters Monitor since January 1991, giving daily information on the evolution of excess of reserves. As a result, bank cash management has improved with information on free reserves increasingly being channelled through the interbank data transmission network[5]. The new system of compulsory reserves also reduced the role of securities repurchase operations in smoothing erratic fluctuations in individual bank's liquidity position.

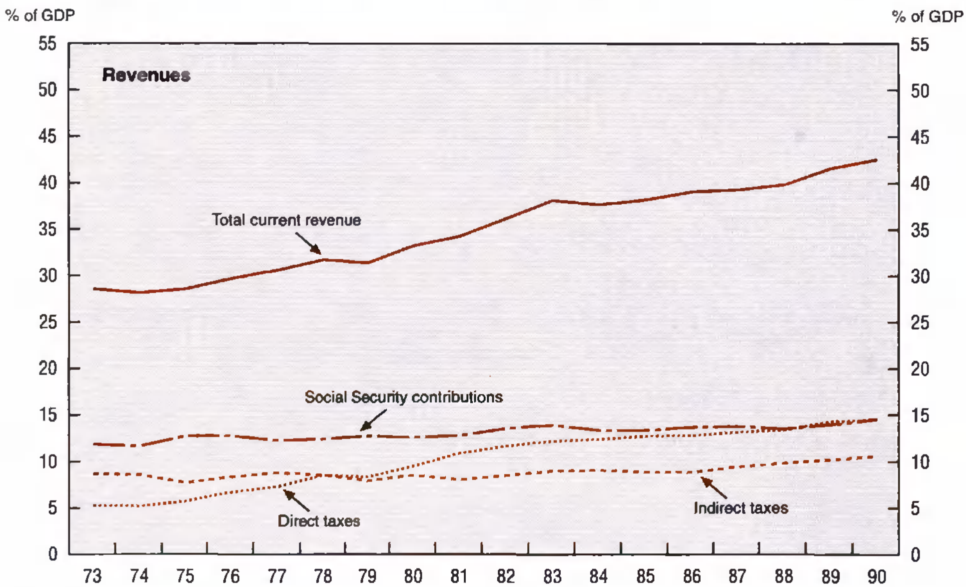
Notwithstanding the modification of the compulsory reserve system, minimum reserve requirements have remained high by international comparison. The main reason for this may be seen in the large size of low-interest bearing financial claims on the Treasury held by the Central Bank (18 per cent of GDP in 1989 as against 8 per cent for the United States and 1 per cent for Germany). Thus, compulsory reserves constitute an important part of the seigneurage tax base, i.e. an implicit tax collected by the Treasury by virtue of its power to finance expenditure via recourse to central bank borrowing. The Treasury pays an interest of only 1 per cent on its current-account liabilities with the Bank of Italy. This implies a subsidy which is recuperated through below-market interest rates paid by the Bank of Italy on compulsory reserves, explaining the large spread between high bank lending and low deposit rates. The real average deposit rate before tax shrank to almost nil in the last quarter of 1990. On top of this, bank and post office deposits are subject to a withholding tax of 30 per cent compared with 12.5 per cent for Treasury Bills and 25 per cent for Certificates of Deposits. Preferential treatment of the Treasury as a dominant borrower is likely to disappear before the second phase of the European Monetary Union.

Fiscal policy

The rapid expansion of public spending and high budget deficits continue to be key features of the Italian economy (Diagram 4). Committed to fiscal consolidation and convergence within the EC, the authorities now aim at cutting borrowing requirements so as to stabilise the public debt/GDP ratio by early 1993, much

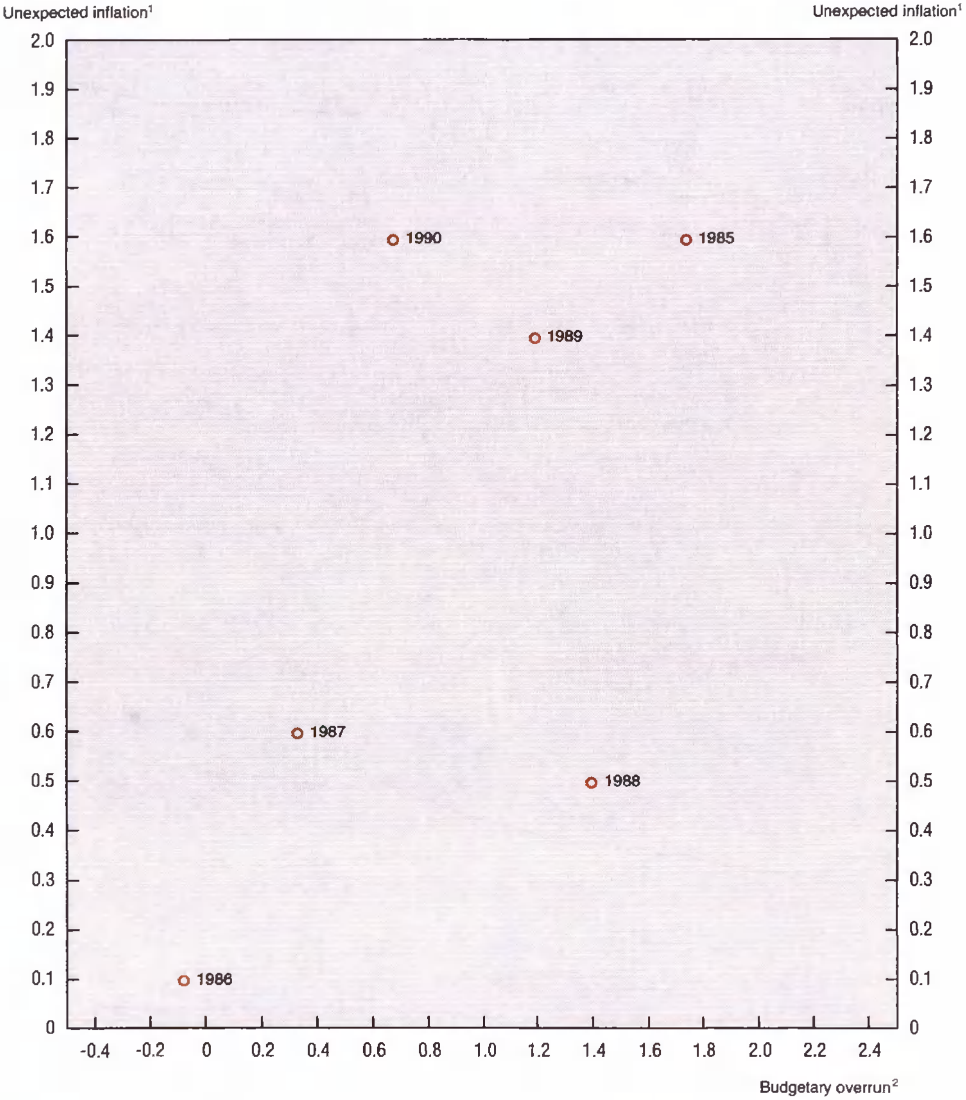
Diagram 4. **GENERAL GOVERNMENT ACCOUNT**





Source: OECD, Analytical Data Bank.

Diagram 5. **UNEXPECTED INFLATION AND BUDGETARY OVERRUN IN THE STATE SECTOR**



1. Difference between actual inflation and official inflation target, as measured by consumer prices.
2. Difference between initial target for state budget deficit and outcome (expressed as a percentage of GDP).
Source: Ministero del Tesoro.

later than envisaged earlier[6]. Strengthening the public finance position is also seen as a means to support the conduct of monetary and exchange-rate policies. Budget consolidation efforts have been pursued since the mid-1980s, though with little success, partly reflecting an under-estimation of inflation and hence of interest-related expenditure (Diagram 5). Indeed, with interest payments accounting for a rapidly rising share in overall public spending, budgetary outcomes have become more sensitive to unexpected inflation. So far, the main emphasis has been on raising extra revenue from direct and indirect taxation. Between 1985 and 1989 the primary deficit of the general government was reduced from 5.2 per cent of GDP to 1.5 per cent. However, since the beginning of 1990 cyclical revenue shortfalls and high interest rates have combined to bring this process to a halt: the primary deficit remained virtually stable in 1990, and general government borrowing requirements relative to GDP moved up from 10.0 per cent in 1989 to 10.6 per cent[7]. Faced with a continued widening of the revenue gap, the government took corrective measures in May 1991.

Budget policy and outturn for 1990

The initial central government 1990 budget proposals[8] made in September 1989 were based upon projections of 3.2 per cent real GDP growth and a rate of inflation of 4.5 per cent, adding up to a rise in gross national income of 7.8 per cent. In the event, national income growth was 8.2 per cent, reflecting higher-than-expected inflation (6.1 per cent) partly offset by lower output growth (2 per cent)[9]. Deficit slippage relative to the original budget estimates stemmed from interest payments which, boosted by inflation and increases in the stock of debt, exceeded original expenditure provisions by as much as L 7.6 trillion or ½ per cent of GDP. In March 1990, however, a variety of factors made it mandatory to revise the deficit on unchanged policies upwards, prominent among them the failure of tax amnesties announced in 1989, the overshooting of limits for public sector wage growth and, as already noted, increased interest payments. In response to this underlying deterioration, the Government in May 1990 announced a package of fiscal restraint aimed at holding the 1990 deficit down to L 136 trillion (10.5 per cent of GDP), close to the level initially targeted (Table 2).

The overshoot of the revised state budget deficit is largely attributable to the marked cyclical downturn. In addition, some of the restrictive measures adopted

Table 2. **Central government borrowing requirement in 1990 – summary of trend and target values**

	Trend		Target	
	Lire trillion	Per cent of GDP	Lire trillon	Per cent of GDP
September 1989				
Relazione previsionale e programmatica	153.0	11.9	133.0	10.4
Corrective measures			20.0	
of which:				
Revenue increases			9.3	
Expenditure cuts and lower interest payments			10.7	
May 1990				
Documento di programazione economico finanziaria	147.4	11.4	135.6	10.5
Corrective measures			11.8	
of which:				
Revenue increases			5.1	
Expenditure cuts and financial operations			6.7	
Outcome 1990	140.4	10.8		
	145.3[1]	11.2		

1. Including settlements made in securities.

Source : Ministry of the Budget and Economic Planning, *Relazione sull' andamento dell' economia nel 1990 e aggiornamento delle previsioni per il 1991.*

in May were watered down by Parliament[10]. The primary deficit amounted to L 15 trillion or 1.2 per cent of GDP, down from 2.2 per cent in 1989 and 3.5 per cent in 1988. This outcome, largely reflecting discretionary increases in revenue, was close to the original budgetary target, but fell short of the more ambitious aim set out in the supplementary May 1990 budget, mainly as a result of higher transfers to the National Pension Fund, INPS. Including expenditure overruns by some public entities, notably local health units, covered by the central government by ''settlements in securities'' rather than cash transfers, the state sector total borrowing requirement in 1990 amounted to L 146 trillion or 11.2 per cent of GDP, broadly unchanged from the previous year[11].

In continuation of past trends (Diagram 4) and driven by public pay settlements, social transfers and interest payments, *general government current and capital expenditure* reached 53.3 per cent of GDP in 1990, up from 51.8 per cent in the previous year (Table 3). The greater part of the rise in outlays on wages and salaries stemmed from the implementation of wage agreements for employees other than school staff for the three years 1988-90 and disbursement of back pay. Social security benefits were boosted by increases in minimum pensions and general adjustments of pensions for inflation. Unemployment-related payments surged reflecting a rise in the ordinary benefit rate from 15 to 20 per cent of previous earnings as from January 1990 onwards. Interest payments, up by nearly 1 per cent of GDP, were boosted by the higher stock of

Table 3. **General government income statement**

	Billions of lire		Per cent changes	
	1989	1990	1989/1988	1990/1989
Expenditure				
Wages and salaries	142 861	164 759	8.1	15.3
Intermediate consumption	56 625	61 780	8.6	9.1
Social services	209 883	235 312	10.7	12.1
Production subsidies	29 276	29 066	10.2	–0.7
Debt interest	106 891	126 375	20.3	18.2
Other	14 645	11 746	41.6	–19.8
Total current expenditure	560 181	629 038	12.1	12.3
As a percentage of GDP	*47.0*	*48.1*		
Investment	41 944	45 737	12.4	9.0
Investment grants and other capital expenditure	16 127	21 968	–2.1	36.2
Total capital expenditure	58 071	67 705	8.0	16.6
Total expenditure	**618 252**	**696 743**	**11.7**	**12.7**
As a percentage of GDP	*51.8*	*53.3*		
Revenue				
Direct taxes	170 739	189 292	17.1	10.9
Indirect taxes	123 821	138 880	13.5	12.2
Social security contributions	167 443	189 467	12.1	13.2
Other	32 218	36 384	14.6	12.9
Total current revenue	494 221	554 023	14.3	12.1
Capital revenue	4 511	3 823	42.1	–15.3
Total revenue	**498 732**	**557 846**	**14.5**	**11.9**
As a percentage of GDP	*41.8*	*42.7*		
Net borrowing	**119 520**	**138 897**	**1.4**	**16.2**
As a percentage of GDP	*10.0*	*10.6*		
Borrowing net of debt interest (primary balance)	12 629	11 897	–56.5	–5.8
As a percentage of GDP	*1.1*	*0.9*		

Source : Ministry of the Budget and Economic Planning, Relazione generale sulla situazione economica del paese, 1990.

public debt and lagged effects from higher interest rates in the second half of 1989[12]. Interest payments reached almost 10 per cent of GDP in 1990, a record figure. Constrained by restrictions on allocations imposed by the Finance Law for 1990 and a special directive issued by the Prime Minister in January 1990, the rise in expenditure on goods and services stayed at around 9 per cent.

General government revenues moved up to 42.7 per cent of GDP from 41.8 per cent in 1989, nearly ½ percentage point less than projected in May 1990. The shortfall was linked to several factors, including cuts in taxes on oil products, the postponement of pay increases in some industrial branches, the incomplete implementation of revenue-augmenting measures and the slowdown in economic activity. Led by higher indirect taxes, tax revenue increased to 25.1 per cent of GDP from 24.7 per cent in 1989, partly reflecting the sales tax on methane and liquefied petroleum gas and the surtax on electricity use[13]. Revenues from direct taxes also expanded strongly, especially those deducted at source on employees, notwithstanding an automatic inflation adjustment of income brackets and tax allowances, the first one of its kind. Large revenue gains were also recorded for the withholding tax on interest income, a consequence of the rising share of public securities subject to the 12.5 per cent tax rate and sharply increased tax receipts from interest earned on convertible bonds.

In contrast, receipts from self-assessed personal income tax contracted, partly reflecting the possibility to deduct from taxable income the municipal tax on businesses and to claim tax credits for the previous year. Revenues from corporate taxes stagnated, as tax payers used their right to determine tax instalments in the light of the estimated total tax liability for the year 1990 as distinct from the tax actually paid in 1989. Receipts from social security contributions, after direct taxes the most important source of general government revenue, rose at some 11 per cent faster than the tax base, due to new regulations for minimum earnings, voluntary contributions and the first instalment under the tax amnesty scheme.

Budget policy for 1991

The central government budget for 1991, drawn up in September 1990, envisaged a cut in the deficit from L 141 trillion in 1990 to L 132 trillion, aiming at a surplus in the primary balance (0.6 per cent of GDP) for the first time in 18 years. Relative to the estimated deficit on unchanged policies of L 180 trillion, the budget plan called for a fiscal adjustment of L 48 trillion or 3.4 per cent of GDP (L 44.5 trillion or 3.1 per cent of GDP net of estimated savings in interest payments) (Table 4). The deficit cut was to be achieved through additional revenues (L 20.9 trillion), spending restraints (L 18 trillion) and privatisation proceeds (L 5.6 trillion)[14]. Underlying the initial 1991 budget proposals were projections of a real GDP growth of 2.7 per cent and a moderation of inflation to 5 per cent. In the light of developments linked to the Gulf conflict, these projections were modified in early 1991, prompting supplementary budget measures (see below).

The main consolidation measures on the revenue side announced in the context of the initial 1991 budget proposals include:

- a voluntary revaluation of tangible and intangible company assets at reduced tax rates and the unlocking of retained profits held in tax-exempt reserves (L 8.4 trillion);

Table 4. **Central government borrowing requirement in 1991 – summary of trend and target values**

	Trend		Target	
	Lire trillion	Per cent of GDP	Lire trillon	Per cent of GDP
September 1990				
Relazione previsionale e programmatica	180.0	12.7	132.0	9.3
Corrective measures			48.0	
of which:				
Revenue increases			26.5	
Expenditure cuts and lower interest payments			21.5	
May 1991				
Documento di programazione economico finanziaria	146.2	10.3	132.0	9.3
Corrective measures			14.2	
of which:				
Revenue increases			7.1	
Expenditure cuts and financial operations			7.1	

Source : Ministry of the Budget and Economic Planning. *Relazione sull'andamento dell'economia nel 1990 e aggiornamento delle previsioni per il 1991.*

- the bringing forward to December 1991 of VAT payments (L 5.8 trillion) previously due the following year; a rise in stamp duties (L 1.5 trillion) and taxation of capital gains (L 0.5 trillion);
- sales of public assets (L 5.6 trillion[15]);
- increased taxation autonomy for local authorities[16] (L 2.5 trillion);
- anti-evasion measures contemplating the revision of reference incomes (''coefficienti presuntivi di reddito'') for the assessment of tax liabilities of businesses and the self-employed (L 2.5 trillion);
- increased contributions to the health and unemployment insurance, and the Wage Supplementation Fund (Cassa Integrazione Guadagni) (L 1.9 trillion);
- increased excise tax on oil products and methane (L 1.2 trillion).

On the expenditure side economies were expected to result from:
- increased user fees for health services, tighter requirements for exemptions (L 5.2 trillion);
- a cap on lending by the Deposits and Loan Fund (''Cassa Depositi e Prestiti'') to local authorities (L 4 trillion);
- direct reimbursement of loans raised by state-controlled enterprises and other measures (L 3.1 trillion)[17];
- reduced capital transfers to regions (L 1 trillion) and a reduction in interest payments (L 3.5 trillion).

In the early months of 1991, with alarming signs yet again of a major deficit slippage, it became clear that the basic assumptions underlying the original budget proposal had been too optimistic. The official forecast of real GDP growth in 1991 was therefore lowered to 2.1 per cent, while the projected inflation rate was raised to 5.8 per cent. In order to hold the State deficit to L 132 trillion, as initially budgeted, the authorities introduced in May 1991 corrective measures worth L 14.2 trillion or 1 per cent of GDP, equally split between expenditure cuts and revenue gains. Spending cuts (a total of L 7 trillion) reflect public pay restraint and lower interest payments assisted by the cut in the discount rate by 1 percentage point. Revenue gains are expected to result from higher taxes on spirits, credit cards and luxury goods such as mobile telephones, high-powered motor-bikes, pleasure boats and four-wheel drive vehicles, higher pension contributions and special payments from tax evaders in return for tax amnesty. To offset part of the rise in inflation caused by higher indirect taxes (0.2 percentage points), the Government reduced taxes on electricity use.

It remains to be seen whether the measures announced in September 1990 and May 1991 will be implemented in full. The measures on corporate taxation (L 8.4 trillion) are based on voluntary compliance, which may have decreased with deteriorating economic prospects. Moreover, privatisation requires prior approval of institutional reforms, casting a shadow over the collection of L 5.6 trillion in 1991. Similarly, approval of structural reform bills aimed at consolidating public finances in the domain of health care, pensions and taxation of local authorities is still pending in Parliament[18]. Finally, the revised official projections for both real GDP growth and inflation remain more optimistic than those of the OECD (see Part II).

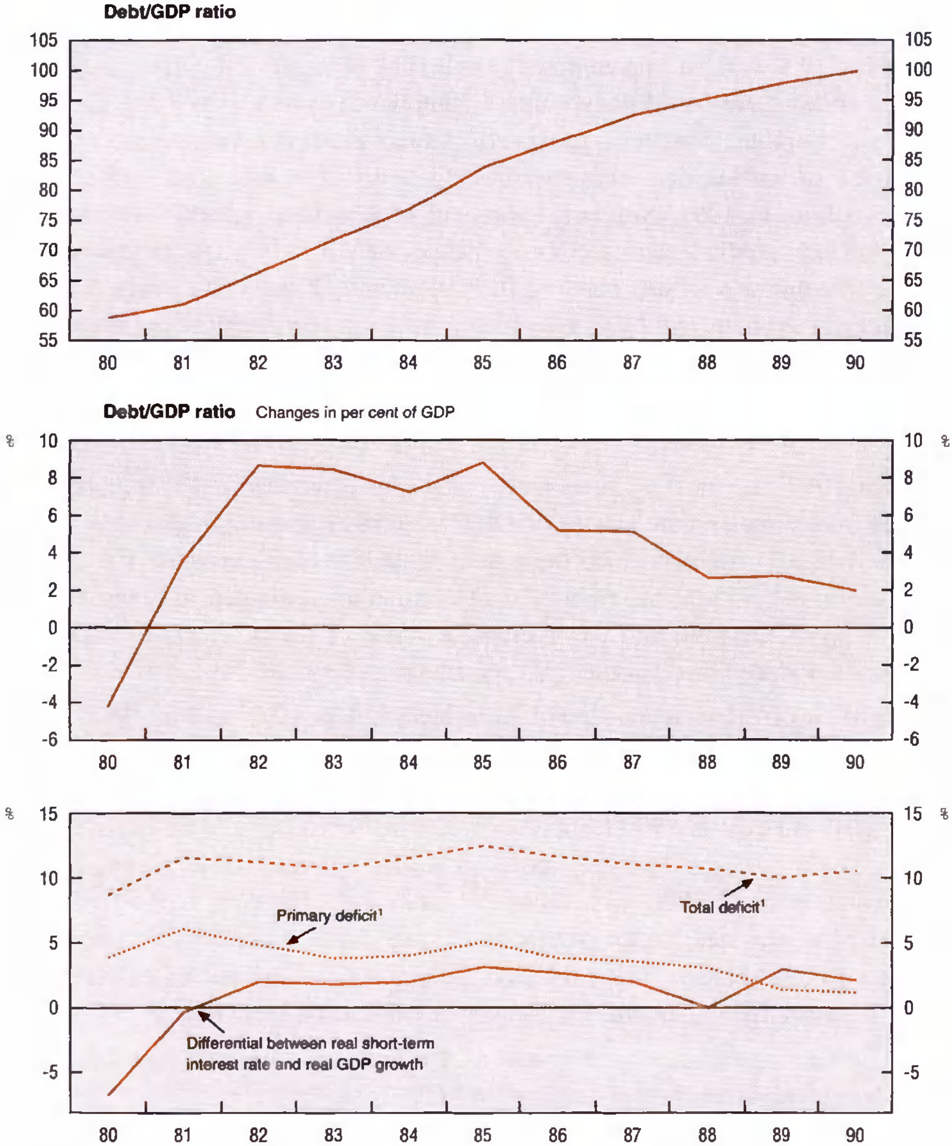
Debt management

In 1990, for the first time since 1924 (the war year 1943 excepted), the public debt surpassed the value of GDP (Diagram 6), leaving in that year Italy as the only OECD country where the public debt/GDP ratio exceeded 100 per cent and was rising. While the pace of debt accumulation slowed, the gap between Italy's debt/GDP ratio and the average of those of the other six OECD major countries widened, approaching 50 percentage points, the largest ever.

Policies of debt management were modified in 1990 and in 1991, with a view to achieving savings in expenditure. With less reliance on short-term borrowing, the share of medium- and long-term securities in state-sector borrowing rose to 48 per cent in 1990 from 44 per cent in 1989 (Table 5). While there was also a rise in foreign borrowing, covering nearly one-tenth of total state borrowing requirements in 1990, up from 6 per cent in 1989, the share of the Post Office in financing the state sector shrank, as current account deposits declined. As a result of these relative shifts, the average maturity of the public debt began to rise, reaching two years and ten months at the end of June 1991.

Further innovations were made, as the Treasury introduced its first fixed-rate bond with a seven-year maturity in May 1990, followed by a ten-year issue in February 1991 and a 20-year ECU 2.5 billion Eurobond. This was part of a policy to offer to the public a wider range of securities at fixed rates. As a result, the share of medium and long-term securities in financial assets acquired by

Diagram 6. **THE PUBLIC DEBT/GDP RATIO AND ITS COMPONENTS**



1. General government budgetary balance as per cent of GDP.
Source: OECD, Analytical Data Bank.

Table 5. **Financing of central government borrowing requirement, 1987-90**

Percentage shares

	1987	1988	1989	1990
Medium and long-term securities	49.1	48.5	44.2	47.7
of which:				
Bank of Italy	1.1	3.4	6.0	..
Treasury bills	24.1	33.4	32.2	27.2
of which:				
Bank of Italy	–4.0	–4.2	–2.2	
Bank of Italy financing other than securities purchase	8.9	2.9	1.4	1.9
of which:				
Treasury overdraft facility	8.1	3.4	1.4	2.0
Post office deposits	11.3	8.8	11.3	8.6
Foreign loans	5.3	3.4	6.4	9.5
Other	1.3	3.0	4.5	4.6
Central government borrowing requirement	100.0	100.0	100.0	100.0
of which:				
Creation of monetary base	8.4	2.2	4.8	0.5
Central government borrowing requirement (in trillions of lire)[1]	114.3	125.6	133.9	145.3

1. Including settlements of past debts.
Source : Bank of Italy, *Economic Bulletin, No. 12,* February 1991, p.116.

households and enterprises[19] in 1990 reached 40 per cent, up from 39.1 per cent in 1989. Moreover, in its issuance policy, the Treasury has become more attentive to the conditions in the secondary market. Treasury Credit Certificates (CCT) began to be issued by auction in 1990, following the introduction of issuance by auction for medium-term government papers (BTPs) in November 1988. Until 1988, the Treasury had offered medium-term government papers (BTPs) with yields lower than those paid on the secondary market.

II. Recent developments and prospects

Flatter demand and output trends

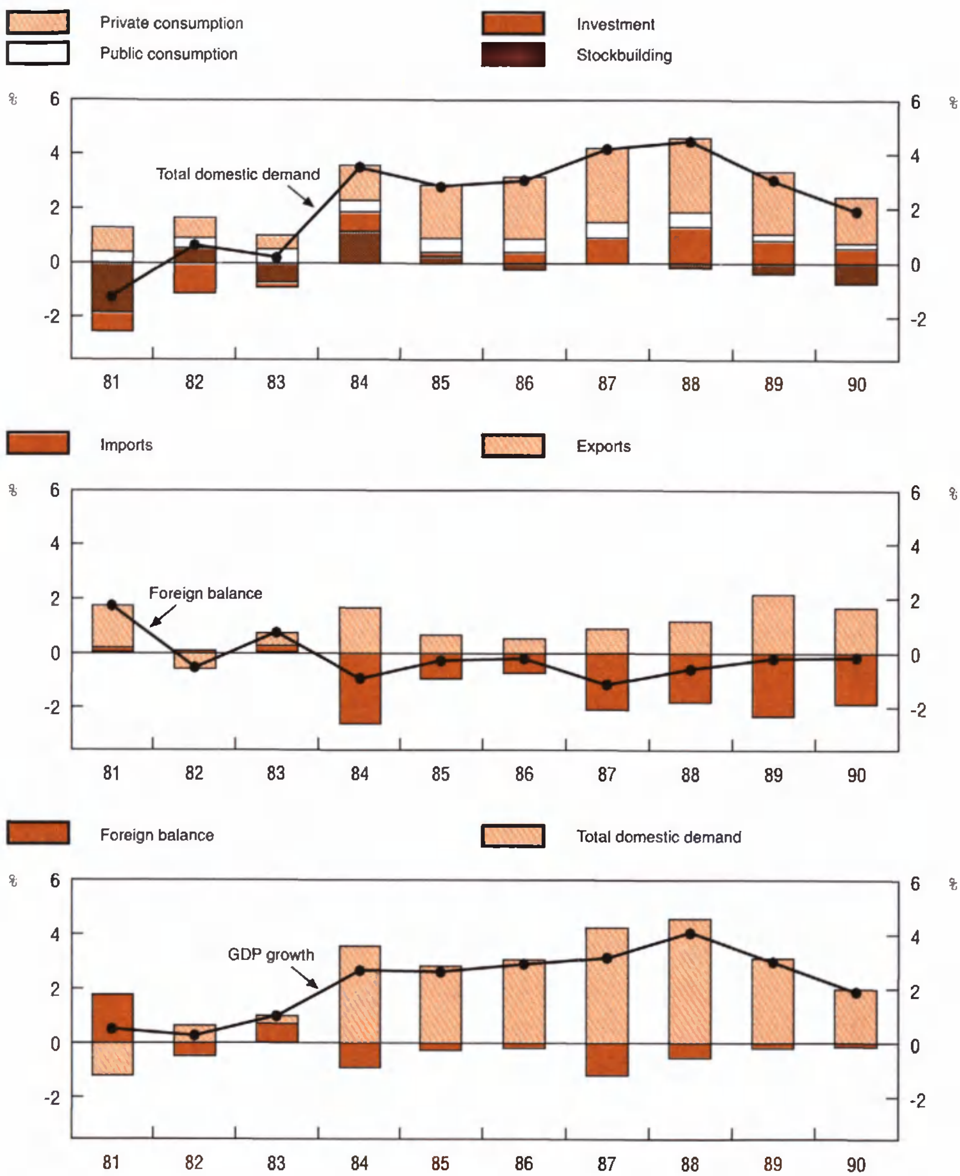
Economic activity continued to slow in 1990 taken as a whole, reflecting, as in 1989, both domestic and foreign influences. Real GDP grew by 2.0 per cent, the lowest rise since 1983 (Diagram 7), as the rise in export volumes decreased further[20] in response to weaker world trade and losses in competitiveness. With domestic demand growth and imports moderating more strongly, the negative contribution of the foreign balance to GDP growth declined. Private consumption tended to level off, as a cycle of consumer durable purchases came to an end[21] (Table 6). At the same time, entrepreneurs curtailed the rise in capital spending, influenced by lower output expectations, decreased profitability and high interest rates.

Special factors have reinforced the cyclical downturn since the summer of 1990, notably the completion of investment projects made in preparation of the World Soccer Cup and the depressive effects of the Gulf crisis, prompting both firms and households to postpone purchases of goods and services. According to a survey, about two-thirds of entrepreneurs revised investment plans downwards in the course of 1990, and car sales plunged in the second half of the year.

The effect of lower demand growth on different sectors of the economy was rather uneven. The level of manufacturing output virtually stagnated in 1990, contrasting with a sharp rise of more than 7 per cent in 1988. The drop in output growth was particularly marked in machinery and transport equipment. Rates of capacity utilisation in industry, which were still rising in 1989, began to fall in Spring 1990 (Diagram 8). Activity in private services held up better: an increase of 3.3 per cent in 1990 as against 4.1 per cent in 1988.

The fall in economic activity appears to have bottomed out in late 1990 as a number of indicators point to some improvement of the business climate in early

Diagram 7. **CONTRIBUTION TO GDP GROWTH**
As a percentage of GDP in the previous year



Source: OECD, *National Accounts.*

Table 6. **Gross fixed capital formation and private consumption**

Percentage changes

	Percentage share	1985	1986	1987	1988	1989	1990
Total gross fixed capital investment	100	0.6	2.2	5.0	6.9	4.6	3.0
of which:							
Residential construction	24	–2.8	–2.1	–2.4	1.3	2.4	1.7
Other construction	24	2.5	6.9	1.1	3.5	5.5	3.3
Machinery and equipment	52	2.0	2.5	11.5	11.6	5.2	3.5
Private consumption	100	3.0	3.7	4.2	4.2	3.6	2.7
of which:							
Services	31	2.5	3.8	4.2	2.9	2.7	2.6
Durable goods	14	8.3	8.9	8.8	12.1	9.0	4.1
Non-durable and semi-durable goods	55	2.3	2.6	3.2	3.2	2.8	2.6

Source : Ministry of the Budget and Economic Planning, *Relazione generale sulla situazione economica del paese*, 1990.

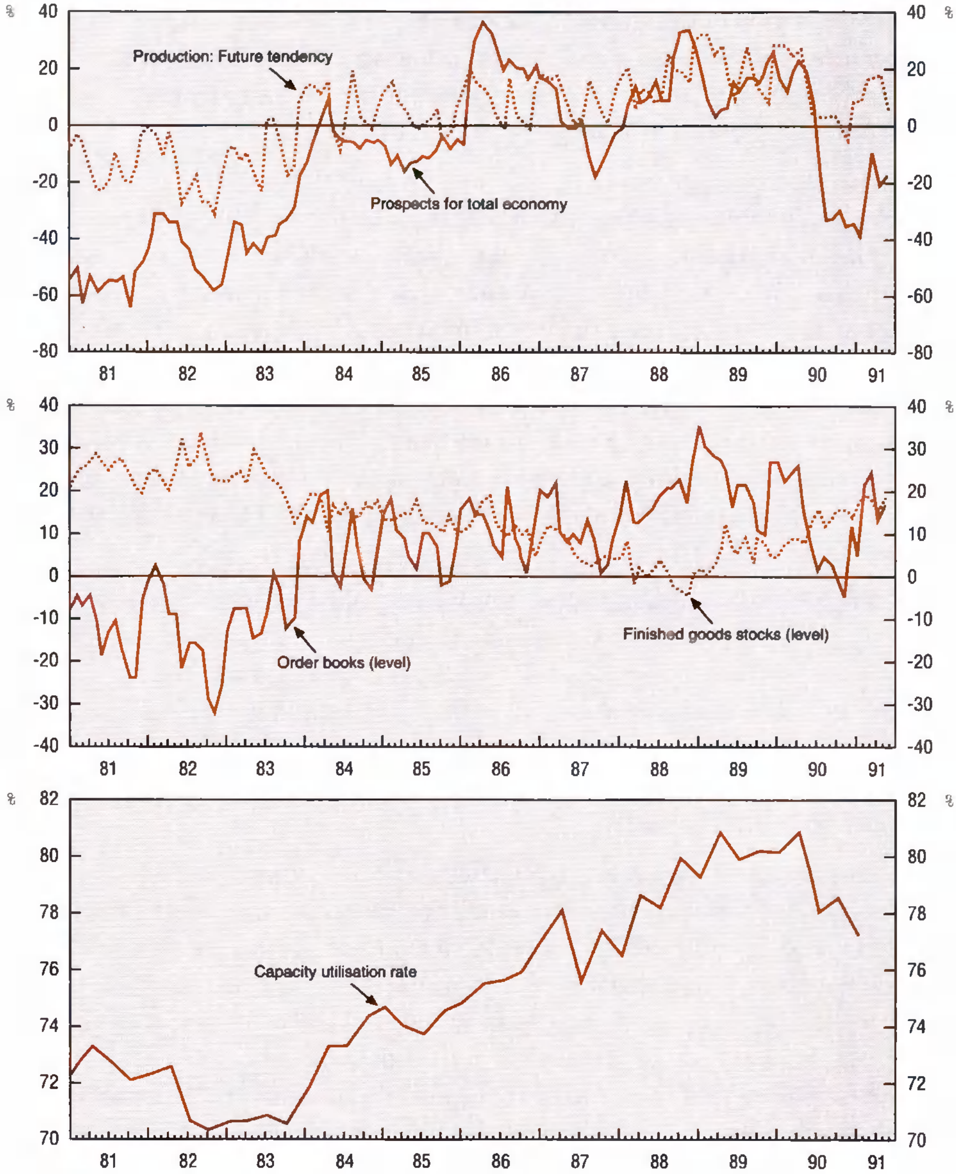
1991. The drop in industrial output, which had reached 4 per cent in the fourth quarter of 1990 (year-on-year) slowed to 2.5 per cent in the first five months of 1991. Orders and output expectations have somewhat strengthened. With consumer sentiment improving again, perhaps influenced by backdated pay increases, domestic purchases of cars have stopped falling, while exports, fuelled by booming import demand in Germany, expanded strongly. Judging by the still hesitant behaviour of both industrial output and imports, a significant rebound of activity has not yet taken place.

Labour market trends

Responding with a lag to vigorous output growth in 1988-89, the number of jobs increased by about 300 000 or 1 per cent in 1990, the largest gain since 1980. In the South, employment rose even faster (2.1 per cent) as the outflow of labour from agriculture diminished. Job creation continued to be concentrated in the private and public service sector. Buoyant building activity linked to the World Soccer Cup pushed up employment in the construction sector (+2.8 per cent) after eight consecutive years of contraction. However, in tune with weaker economic activity, employment increases abated in the course of 1990, especially in industry where the number of jobs has shrunk since the summer, notably in

Diagram 8. **BUSINESS INDICATORS**

Results of business surveys



Source: OECD, *Main Economic Indicators.*

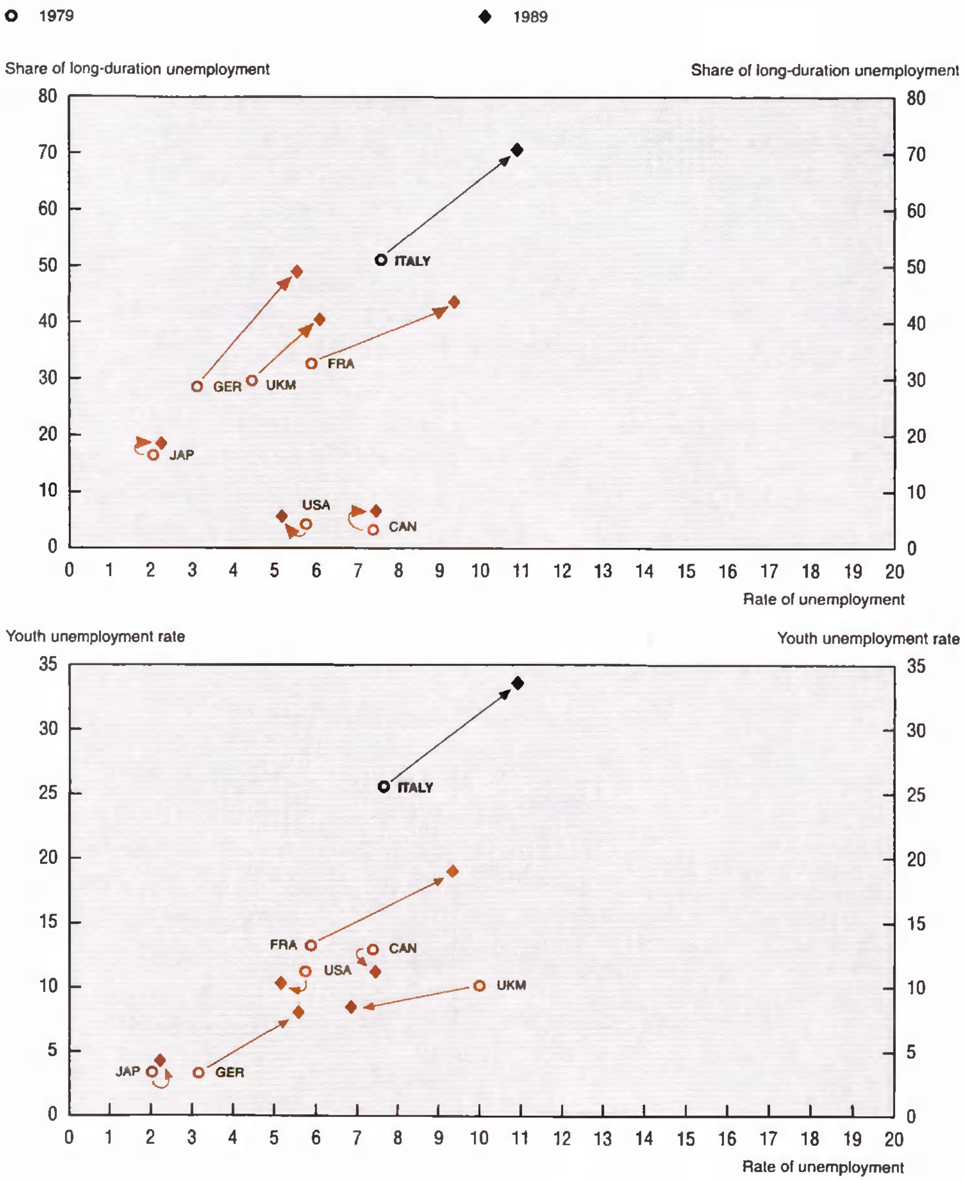
large firms with more than 500 employees. Manufacturing employment kept on shrinking in early 1991, with the decline again concentrated in large companies. Greater recourse began to be made to the Wage Supplementation Fund after a seven-year period of declining disbursements[22]. The number of hours not worked financed by the Wage Supplementation Fund was almost 20 per cent higher in the first four months of 1991 than a year earlier. In contrast, gains in private service jobs gathered speed towards the end of 1990.

The labour supply rose by 0.2 per cent in 1990, after an even smaller increase in the previous year. The virtual stagnation since 1988 contrasts sharply with gains made during the previous three years, when the labour force expanded by roughly 750 000. In this period, increases in female participation rates outweighed decreases in male participation rates, which were particularly pronounced for men over 50 years old. In 1989-90, however, the rise in participation rates for women between 14 and 39 years petered out. As a result, the employment gains led to a reduction of slack in the labour market. The number of unemployed people fell by 240 000 persons in 1990, reducing the rate of unemployment (national definition) by 1 percentage point to 11 per cent, the largest decline since 1974.

Judging from annual data, the improvement of labour-market conditions was widely spread across different regions, which marked a reversal of earlier trends. The number of first job seekers fell by 10 per cent in 1990, reflecting a further decline in youth unemployment. After widening from spring 1990 in line with the deterioration of output trends, labour-market slack narrowed in the first quarter 1991, and the rate of unemployment (national definition) eased to 10.9 per cent in April 1991.

Abstracting from cyclical influences on the demand and the supply of labour, the large labour market disequilibria inherited from the 1970s became even bigger during the 1980s. *Prima facie* evidence for this can be found in the substantial rise of the standardised rate of unemployment between the last two peaks of the business cycle, namely from 7.6 per cent in 1979 to 10 per cent in 1990, the highest rate of joblessness recorded among the seven major OECD countries. The official rate of unemployment even understates the extent of slack as job losers supported by the Wage Supplementation Fund are not counted as unemployed. In addition, Italy like other high unemployment countries has a low participation rate for women, which may also be seen as a form of underutilisa-

Diagram 9. **STRUCTURAL LABOUR MARKET INDICATORS**[1]



1. Share of long-duration unemployment and youth unemployment rate in 1979 and 1989.
Source: OECD, *Employment Outlook, 1990.*

tion of potential labour supply[23]. Other statistical manifestations of a serious structural unemployment problem include increases from already high levels in:

- the youth unemployment rate, which rose from 26 per cent in 1979 to 34 per cent in 1989 (Diagram 9);
- the share of long-duration unemployment in total unemployment, which went up from 50 per cent in 1979 to 70 per cent in 1989 (Diagram 9);
- and a sharp widening of the regional dispersion of unemployment rates (Table 7).

In 1989, the last year for which detailed labour-market data are available, nearly 60 per cent of all persons hit by long-duration unemployment were 15 to 24 years old. Largely concentrated among the young and women, structural unemployment in Italy mirrors a combination of inadequate educational opportunities[24], lack of job experience and related difficulties of building up human capital. The deterioration of labour conditions over the last decade or so was particularly pronounced in the South where unemployment reached almost 20 per cent in 1990, three times as high as in the rest of the country. In 1979, at the time of the previous cyclical peak, this ratio was only 1¾. Underlying the

Table 7. **Regional unemployment rates**

As a percentage of the labour force

	Total Italy				North-Centre				South			
	1982	1986	1989	1990	1982	1986	1989	1990	1982	1986	1989	1990
Unemployment rate												
Total	9.1	11.1	12.0	11.0	7.3	8.5	7.4	6.5	13.0	16.5	21.1	19.7
Males	6.1	7.4	8.1	7.3	4.6	5.3	4.3	3.9	9.0	11.4	15.0	13.6
Females	14.9	17.8	18.7	17.1	12.1	13.9	12.3	10.7	22.0	27.2	33.2	31.8
14 to 24 years												
Total	n.a	34.5	33.6	n.a.	n.a.	27.3	21.5	n.a.	n.a.	48.5	55.4	n.a.
Males	n.a.	28.5	27.8	n.a.	n.a.	21.6	15.8	n.a.	n.a.	40.3	47.4	n.a.
Females	n.a.	41.5	40.4	n.a.	n.a.	33.4	27.6	n.a.	n.a.	60.1	65.8	n.a.
25 to 59 years												
Total	n.a.	6.2	7.7	n.a.	n.a.	4.6	4.7	n.a.	n.a.	9.5	13.8	n.a.
Males	n.a.	3.8	4.8	n.a.	n.a.	2.6	2.5	n.a.	n.a.	6.2	9.2	n.a.
Females	n.a.	10.9	12.9	n.a.	n.a.	8.2	8.4	n.a.	n.a.	17.4	23.7	n.a.

Source : ISTAT, Rilevazione delle forze di lavoro.

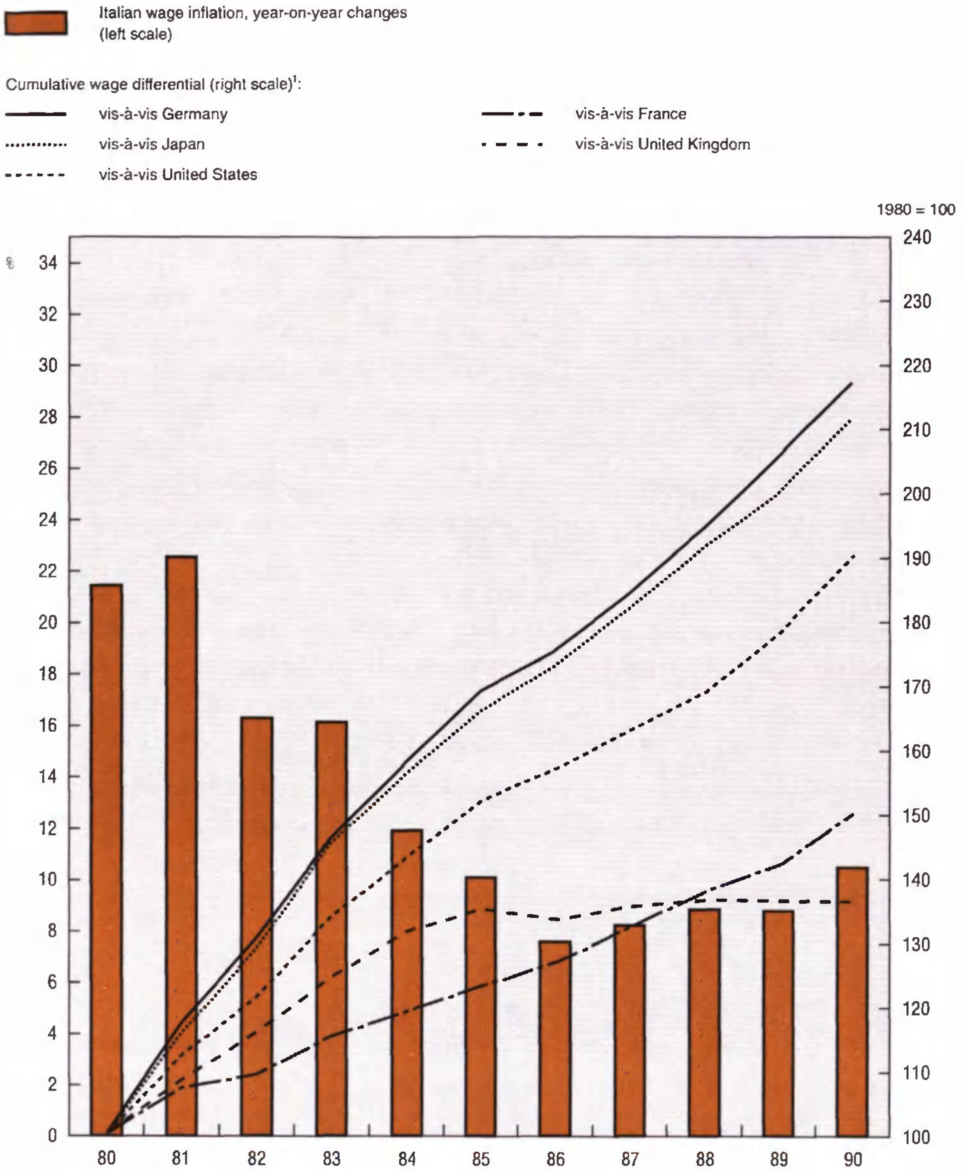
widening of the gap between regional unemployment rates has been a lack in labour mobility[25] (see Part III).

Wage and price trends

Wage inflation, already picking up in 1987, gathered further speed in early 1990, when major wage contracts were renewed. Led by sharp pay gains in the public sector, average wage income surged by 9.6 per cent in 1990 as against 7.3 per cent in 1989. Due to increased social security contributions paid by employers, compensation per employee rose still faster, by 10.4 per cent (Diagram 10). Under a salary accord signed in May 1990, public sector salaries were boosted by 15.7 per cent (9.6 per cent in real terms) or nearly twice as much as in industry (excluding construction) (Table 8). The generous pay rise partly stemmed from back payments under the previous wage agreement. It also represents the continuation of a trend under which, over the ten years to 1990, compensation per employee in the civil service sector outpaced manufacturing pay by 1 percentage point a year. Relative income gains for public employees partly constituted a catch-up for relative losses experienced in the 1970s[26]. Double-digit pay increases were also recorded in the banking and insurance sector in 1990. Judging from recent indicators, the rise in wage inflation (for the total economy) appears to have continued in early 1991.

Wage agreements in the private sector have been more moderate than public pay settlements, with compensation per head in industry advancing by 8½ per cent in 1990. The metal workers' wage contract, a key accord, concluded in December 1990 and running to mid-1994, provides for an average increase in hourly labour costs between 5.5 and 6 per cent per year and for a cut in annual working hours by a total of sixteen hours or about 1 per cent. Under this wage accord, which is applicable to 1.5 million employees, wage negotiations at firm level will be frozen until May 1992. The overall pay rise expected from this settlement seems consistent with lowering inflation to the official target rate of 3.5 per cent by 1994. But in the past, contractual wage increases have often been surpassed because of wage drift and special wage payments. In addition, labour costs were further augmented by increases in employers' social security contributions.

Diagram 10. **INFLATION AND RELATIVE WAGE INCREASES**



1. Compensation per employee (total economy).
Source: OECD, Analytical Data Bank.

Table 8. **Wage and labour-cost indicators**

Percentage changes on previous period

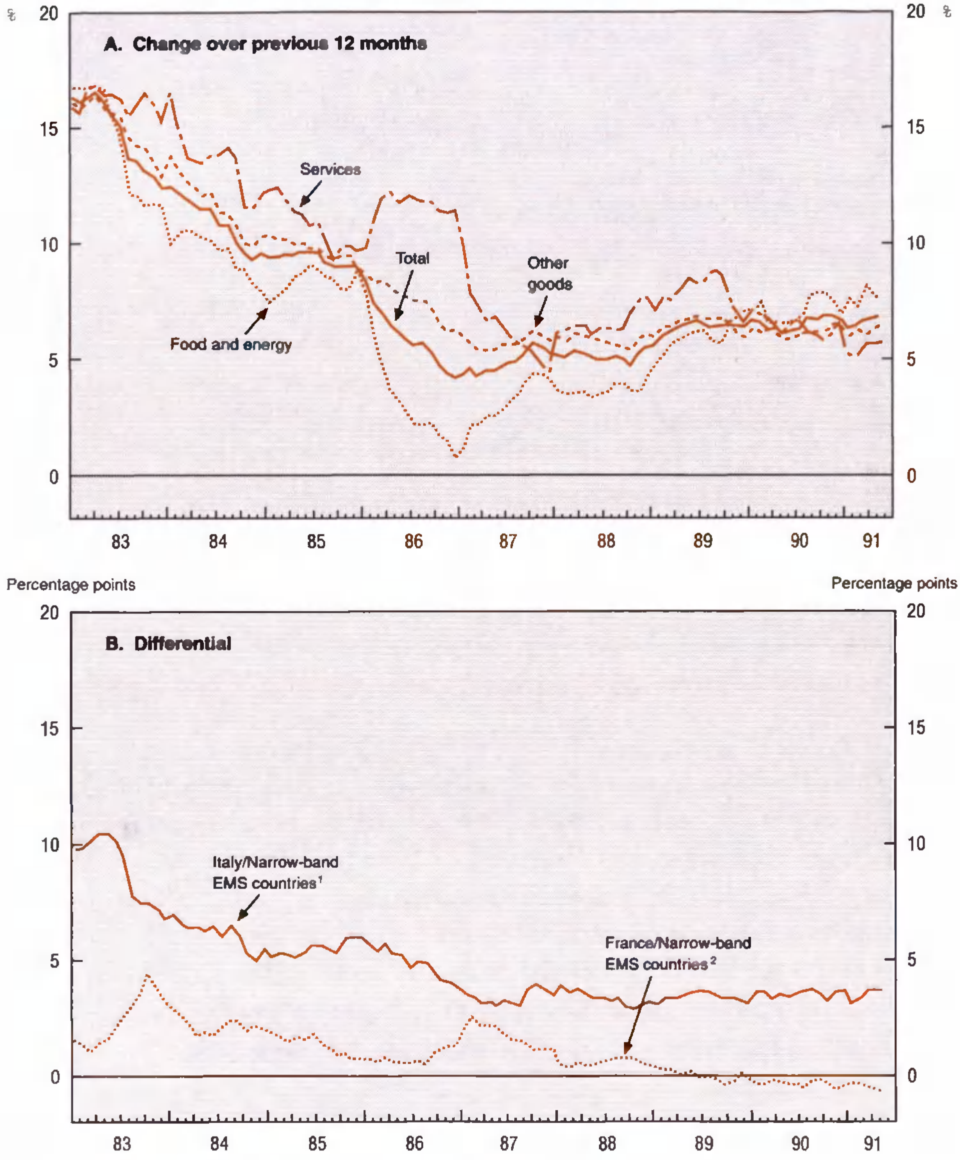
	1987	1988	1989	1990
Total economy				
Per capita compensation	8.2	8.8	8.7	10.4
Contractual hourly wage rate	6.9	7.2	6.8	7.8
Industry				
(excluding construction)				
Per capita compensation	7.6	7.9	9.2	8.4
Contractual hourly wage rate	6.6	6.0	5.6	6.8
Unit labour costs	3.4	2.5	6.3	7.5
Trade services				
Per capita compensation	7.8	7.7	9.1	8.7
Contractual hourly wage rate	6.1	6.2	6.0	6.4
General government				
Per capita compensation	9.4	10.8	7.6	15.4
Contractual hourly wage rate	8.1	10.2	9.0	11.5
Manufacturing industries				
Productivity	5.0	5.9	2.7	0.8
Unit labour costs	2.8	1.6	6.2	7.6
Value added deflator at factor costs	3.4	4.2	5.3	3.0
Profit per unit of output	0.6	2.2	–1.0	–4.6

Source : ISTAT and Ministry of the Budget and Economic Planning, *Relazione generale sulla situazione economica del paese*, 1990.

Driven by both faster wage inflation and a cyclical drop in productivity gains from 3.0 per cent in 1989 to 1.0 per cent in 1990, economy-wide unit labour costs accelerated to 9.3 per cent in 1990 from 5.7 per cent in 1989. In industry, this acceleration was less pronounced (from 6.3 to 7.5 per cent). Output prices in manufacturing, constrained by a rising real exchange rate, increased less than unit labour costs. The related decline in profitability occurred from high levels, however, thanks to industrial restructuring undertaken in the early 1980s.

Measured by the consumer price index, inflation eased to 6.1 per cent in the course of 1990 from 6.6 per cent during 1989 (Diagram 11). Partly because of increases in indirect taxes and public tariffs, consumer price inflation ceased to fall in mid-1990, reaching a floor of 5.6 per cent in June 1990 (year-on-year). Thereafter, it began to climb again, initially led by the temporary surge in oil prices. In June 1991, partly reflecting further increases in indirect taxes and

Diagram 11. **CONSUMER PRICE DEVELOPMENTS**



1. Belgium, Denmark, France, Germany, Ireland and the Netherlands.
2. Belgium, Denmark, Italy, Germany, Ireland and the Netherlands.
Source: OECD, *Main Economic Indicators.*

public tariffs, consumer prices were 6.9 per cent higher than a year earlier. Even so, the inflation differential *vis-à-vis* Germany narrowed to 3.4 percentage points.

Balance of payments

Thanks to a rise in the terms of trade of 3 per cent for goods, the trade account swung by L 3.6 trillion (fob-fob) to a slight surplus in 1990 (Table 9). This improvement took place in the first half of 1990, well before the temporary surge of oil prices during the Gulf crisis. Because of the appreciation of the nominal effective exchange rate (2.8 per cent in the first half of 1990, year-on-year), import prices fell in absolute terms, whereas export prices moved up, though by less than unit labour costs. The competitive position weakened further, leading to renewed losses in export market shares (Diagram 12) and, as well, to a reduction in the export/import coverage ratio in volume terms. Exports benefited, however, from strong import demand in Germany, with nominal exports to this

Table 9. **Current account of the balance of payments**

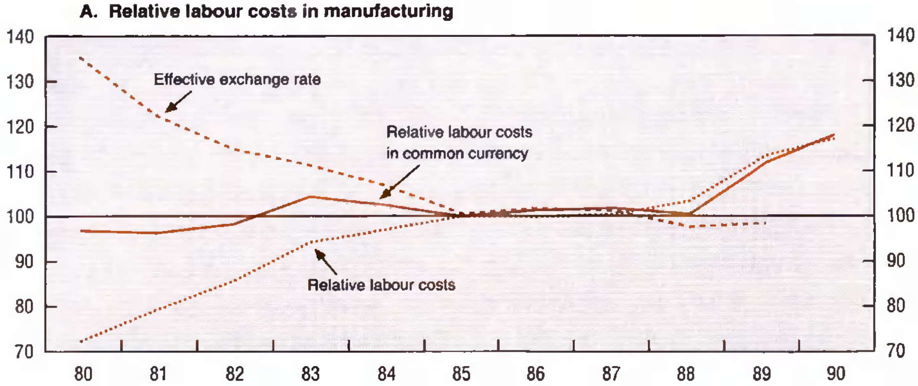
In trillions of lire

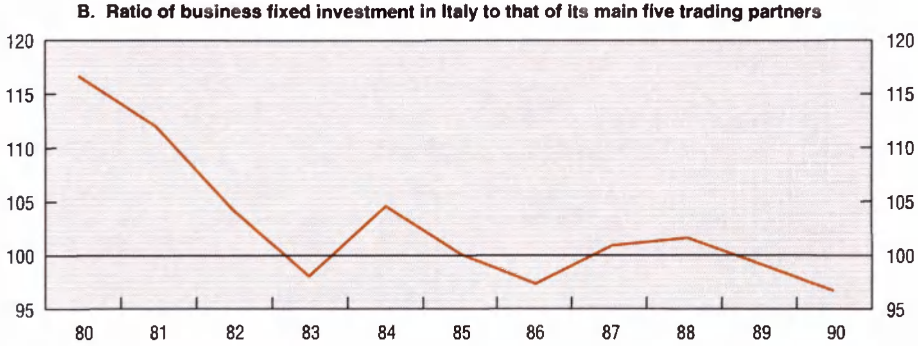
	1985	1986	1987	1988	1989	1990[1]
Exports (fob)	144.5	143.7	150.3	165.8	192.2	202.9
Imports (fob)	156.4	137.4	150.7	167.3	195.1	202.4
Trade balance	–11.9	6.3	–0.4	–1.5	–3.0	0.6
Investment income, credits	9.7	8.1	8.3	9.7	14.5	19.5
Investment income, debits	17.3	17.4	16.9	18.9	25.9	35.5
Investment income, net	–7.6	–9.3	–8.6	–9.3	–11.4	–16.0
Foreign travel, credits	16.0	14.7	15.8	16.1	16.4	23.7
Foreign travel, debits	3.6	4.3	5.9	7.8	9.3	16.6
Foreign travel, net	12.4	10.4	9.9	8.3	7.2	7.1
Other services, credits	26.1	24.9	27.7	29.7	35.8	49.7
Other services, debits	27.8	26.3	28.8	32.9	40.2	55.8
Other services, net	–1.7	–1.4	–1.1	–3.3	–4.4	–6.1
Private transfers, net	2.5	2.2	1.7	1.9	1.8	1.0
Official transfers, net	–0.5	–4.6	–2.9	–3.7	–4.8	–3.9
Current balance	–6.8	3.6	–1.4	–7.5	–14.6	–17.3

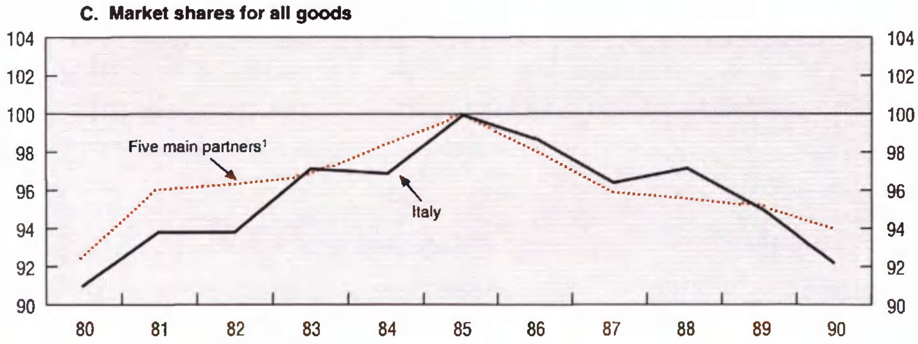
1. Provisional data. Break in series in 1990 for foreign travel and other services due to the liberalisation of capital controls.
Source : Bank of Italy.

Diagram 12. **TRENDS IN COMPETITIVENESS**

1985 = 100







1. Germany, France, United Kingdom, Netherlands and Switzerland; weighted by the composition of Italy's foreign trade.

Source: OECD, *Economic Outlook,* No. 49, July 1991.

market surging by 17 per cent in 1990 compared with a rise of less than 5 per cent to the rest of the EC. The bilateral trade deficit with Germany shrank by as much as L 3 trillion in 1990.

Despite the improved trade balance, the current-account deficit widened slightly to L 17.3 trillion in 1990 or 1.3 per cent of GDP. The invisible balance worsened significantly under the impact of higher interest payments on foreign debt. The trend decline in net receipts from tourism evident since the mid-1980s was arrested, reflecting the effects of the World Soccer Cup and a gain in the competitive position of the Italian tourist industry (Diagram 13), especially *vis-à-vis* other Mediterranean countries (Greece, Spain and Yugoslavia). Even so, the surplus on tourism amounted to only 0.5 per cent of GDP, 1 percentage point lower than in 1985. This declining trend is partly attributable to a change in the behaviour of Italian residents, travelling abroad in greater numbers[27], assisted by the effects of the progressive liberalisation of exchange controls.

Attracted by high interest rates and reflecting the removal of the last vestiges of capital controls, net capital inflows increased in 1990, far exceeding the current-account deficit. Official reserves increased by L 15 trillion to L 103 trillion or 7.9 per cent of GDP (Table 10). The cumulative influx of capital concealed wide fluctuations during 1990, with capital inflows soaring in the first half followed by a net outflow of L 2 trillion in the second half. In the fourth quarter of 1990, the lira's weakness forced the authorities to intervene on foreign-exchange markets, thereby tightening monetary conditions.

The rise in capital flows in 1990 was much larger on a gross basis than on a net basis, especially for direct and portfolio investments, continuing a trend rise that had commenced in the mid-1980s[28] following the liberalisation of capital movements. Thus, the sum of gross capital inflows and outflows, expressed as a percentage of exports and imports of goods, jumped from 60 per cent in 1984 to 200 per cent in 1990. In the case of direct and portfolio investment, capital inflows of foreign origin broadly matched capital outflows of Italian origin. In contrast, loans extended by Italians to foreigners remained small in comparison with credits granted by non-residents, mirroring interest-rate differentials and reduced exchange-rate risk. About 40 per cent of foreign loans were taken up by branches of Italian banks located abroad. Net inflows of bank capital totalled L 22.1 trillion in 1990 or 1½ per cent of GDP.

Diagram 13. **INTERNATIONAL COMPETITIVENESS OF ITALIAN TOURIST SERVICES**[1]

1980 = 100

1. Ratio of consumer prices in Italy to an average of consumer prices abroad converted into lire and weighted according to each country's relative importance for the two sides of Italy's tourism account. For Italian travel abroad, the weighting structure reflects Italian preference for various foreign destinations. For inward tourism, a double weighting system is used. The first step is to consider the nationality composition of foreigners' stays in all types of accommodation in Italy. Next the importance of Italy's main competitors for each nationality is taken into account. This structure of weights expresses the ability of each country to compete with the Italian tourist industry. The competitor countries are Austria, Belgium, the United Kingdom, France, Germany, the Netherlands, the United States, Spain, Greece and Yugoslavia.

Source: Bank of Italy.

Table 10. **Net capital movements**

Trillions of lire

	1985	1986	1987	1988	1989	1990[1]
Current balance	–6.8	3.6	–1.4	–7.5	–14.6	–17.3
Total capital movements[2]	–6.8	–0.1	8.2	18.4	30.0	32.5
of which:						
Bank capital flows	–5.3	6.5	5.6	10.2	15.0	23.0
Non-bank capital flows	–1.5	–6.6	2.6	8.2	15.0	9.5
dont :						
Foreign investment in Italy	4.2	1.7	0.5	16.5	20.1	30.6
Italian investment abroad	–4.9	–7.3	–7.8	–14.3	–15.3	–32.2
Foreign loans	7.1	5.0	12.3	11.2	19.9	36.2
Italian loans	–2.3	–2.2	–1.4	–2.3	–1.7	–4.8
Trade credits, other items and errors and omissions	–5.5	–3.9	–1.1	–2.9	–8.0	–20.3
Change in official reserves[3]	13.7	–3.5	–6.8	–10.9	–15.4	–15.2
Memorandum item:						
Level of official reserves in percentage of GDP	8.0	6.8	7.6	7.6	7.8	7.9

1. Provisional.
2. Sign (+): capital inflows.
3. Net of valuation adjustment; sign (–): increase in reserves.

Source : Bank of Italy, *Annual Report, 1990.*

In the first half of 1991, the trade deficit remained unchanged from levels recorded a year earlier. Despite higher exports to Germany, net imports in volume terms increased, offsetting an improvement of the terms of trade. Due to a rise in net outlays on invisibles, the current-account deficit widened by L 6 trillion in the first five months of 1991. With the resumption of capital inflows, amounting to L 23.2 trillion, the lira strengthened, and the official reserves of the Bank of Italy in May 1991 were L 8.2 trillion higher than in December 1990.

Short-term projections

At the time of writing, the Italian economy is still characterised by a hesitant recovery from the cyclical trough in the fourth quarter of 1990. On the assumption that non-accommodating fiscal and monetary policies will be firmly pursued and recessionary tendencies in some important foreign markets reversed, business and consumer confidence should strengthen and the pace of demand growth quicken during 1991 and into 1992.

The projections presented below are those published in the *Economic Outlook No. 49* in early July 1991. They are based upon the following technical and policy assumptions and assessment of international developments:

- the effective nominal exchange rate of the lira remains unchanged relative to the level prevailing on 10 May 1991; this implies a small real appreciation in terms of projected unit labour costs in manufacturing (3/4 per cent at an annual rate) as from the second half of 1991;
- the fob price per barrel of oil, estimated at $19 in the first half of 1991 and $18 in the second half of this year, remains constant in real terms thereafter. Non-oil commodity prices are projected to drop by 5 per cent in dollar terms in 1991 followed by a rebound to an increase of 3.7 per cent in 1992;
- world trade growth is estimated at 3.1 per cent in 1991 and 5.8 per cent in 1992, with market growth for Italian manufactures estimated at 5.4 and 6.2 per cent, respectively;
- the 1991 budget supported by new measures of fiscal stringency to offset slippages implies a move towards fiscal restraint; the cyclically-adjusted primary balance of general government is projected to strengthen by 1 1/4 per cent of GDP compared with less than 1/2 per cent in 1990;
- monetary policy is geared to keeping the lira within the narrow EMS band. The nominal interest rate differential *vis-à-vis* Germany declines in line with a reduced inflation differential. The projections imply M2 growth during 1991 within the new target range of 5 to 8 per cent.

On these assumptions and given current indicators, real GDP may not grow by more than 1 1/2 to 2 per cent in 1991, the slowest pace since 1983 (Table 11), but recovering thereafter to 2 1/2 to 3 per cent in 1992. Restoration of business confidence should stimulate most components of domestic demand. Private consumption may also benefit from lagged pay increases at the end of 1990, notably in the public sector. Business fixed investment can be expected to recover, given comfortable profit levels, falling interest rates and the drive towards higher efficiency linked to the widening European market. Profitability is projected to

Table 11. **Short-term projections**

Percentage changes from previous period, s.a.a.r

	1989	1990	1991	1992	1990 I	1990 II	1991 I	1991 II	1992 I	1992 II
Demand and output										
Private consumption	3.6	2.7	2.0	3.3	3.9	0.9	2.0	3.0	3.3	3.3
Public consumption	0.9	1.0	1.0	1.0	1.0	1.5	0.8	0.8	1.0	1.0
Gross fixed investment	4.5	3.0	0.7	3.2	6.6	–1.9	1.3	2.3	3.1	4.2
Machinery and equipment	5.1	3.5	1.5	4.4	7.3	0.0	1.5	3.0	4.4	5.9
Construction	3.8	2.5	–0.2	1.6	5.6	–4.2	1.0	1.3	1.5	2.0
Final domestic demand	3.4	2.5	1.6	2.9	4.1	0.4	1.7	2.5	2.9	3.2
Stockbuilding[1]	–0.3	–0.5	0.1	0.0	–0.7	–0.8	0.5	0.2	0.0	0.0
Total domestic demand	3.1	2.0	1.7	2.9	3.4	–0.4	2.2	2.7	2.9	3.2
Exports of goods and services	9.9	7.5	4.6	5.5	9.1	3.7	4.9	5.0	5.7	5.7
Imports of goods and services	9.0	6.7	4.1	5.8	14.3	–1.6	6.3	5.5	5.9	5.9
Foreign balance[1]	–0.2	–0.1	–0.1	–0.3	–1.8	1.4	–0.6	–0.4	–0.3	–0.3
GDP at market prices	3.0	2.0	1.7	2.7	1.7	1.0	1.6	2.4	2.7	3.0
Industrial production	3.1	0.0	1.0	3.0	–3.0	–0.8	1.0	2.6	3.1	3.3
Prices										
GDP price deflator	6.0	7.5	7.0	5.9	9.1	6.3	8.0	5.6	6.0	6.0
Consumer prices	6.3	6.2	6.4	5.5	6.5	6.3	7.2	5.0	5.6	5.6
Unemployment rate	12.1	11.0	11.3	11.2	11.1	11.0	11.3	11.3	11.2	11.1

	Trillions of lire 1989	1990	1991	1992
Balance of payments				
Trade balance	–3.0	0.6	1.6	2.7
Current balance	–14.6	–17.3	–16.0	–15.7
(As a percentage of GDP)	(–1.2)	(–1.3)	(–1.1)	(–1.0)
General Government financial balance	–119.5	–138.9	–140.3	–142.2
(As a percentage of GDP)	(–10.0)	(–10.6)	(–9.9)	(–9.3)

1. As a percentage of GDP in the previous period.
Source : OECD, *Economic Outlook*, No. 49, July 1991, Paris.

rise in tune with moderate wage developments in the exposed sector and higher productivity gains. According to an investment survey (November 1990), real capital spending in industry, largely based upon investment by small companies, may expand by 2.4 per cent in 1991 compared with 0.4 per cent in 1990. After a strong rise since the mid-1980s, the share of capacity-widening investment in total fixed investment may decline. On the other hand, the speed of the projected recovery may be constrained by continued high real interest rates, which could hold back construction investment. After decelerating in the course of 1990, export volume growth is projected to recover, as market growth picks up and competitiveness improves in some markets as a result of dollar appreciation. However, the contribution of the foreign balance to economic growth may turn slightly more negative in 1992, as import growth steepens in response to stronger domestic demand.

The rate of unemployment, after drifting upward in 1991, could ease to 11 per cent by the end of the projection period. Year-on-year rates of inflation are projected to decline in 1992, reflecting lower oil and commodity prices, more moderate wage developments and a cyclical rebound of productivity. The recent metal workers' three-year wage contract provides for an average pay rise of 5½ to 6 per cent per year, with diminishing rates through the projection period. Private wage increases are likely to be constrained by greater labour market slack, especially in large companies where employment has been falling sharply. Beyond that, private employers may offer stronger resistance to pay claims, given the new exchange rate regime. After a surge in 1990, public sector wages are assumed to decelerate strongly, rising by roughly the same amount as in the private sector. On this basis, consumer price inflation may drop below 5½ per cent in the second half of 1991 before tending to edge up again. This would imply a reduction in the inflation differential *vis-à-vis* Germany.

Fiscal consolidation should be resumed in 1991, thanks to corrective action taken in May 1991. Even so, public debt, exceeding nominal GDP in 1990, seems set to continue to rise relative to GDP. The current-account deficit is projected to decrease somewhat from 1.3 per cent of GDP in 1990 to about 1.0 per cent of GDP in 1992. This reflects expected higher net receipts from tourism as well as an improvement of the terms of trade, more than offsetting a worsening of the invisible balance, linked to higher interest payments on increased foreign debt.

Major uncertainties concern the state budget outcome. There is a risk that, as in the past, budgetary consolidation will proceed less speedily than projected, as proceeds from privatisation and tax returns from voluntary revaluation of company assets may turn out to be lower than expected. Given the high public debt/

GDP ratio, this could adversely affect financial-market expectations, reducing the scope for further reductions in the interest rate differential *vis-à-vis* Germany. In addition, there is a risk of "slippages" on the wage-price front with negative consequences for inflation outcomes, feeding on expectations, confidence and the general business climate. Such developments would be incompatible with the authorities' objective to steer the economy firmly on a disinflation path. They would also detract from efforts to strengthen the economy in preparation for keener competition in Europe with the advent of the single European market. Aware of these risks, the Government has been monitoring current developments closely, and stands prepared to take new action, if necessary, to check the rise in labour costs and avoid renewed deficit slippage.

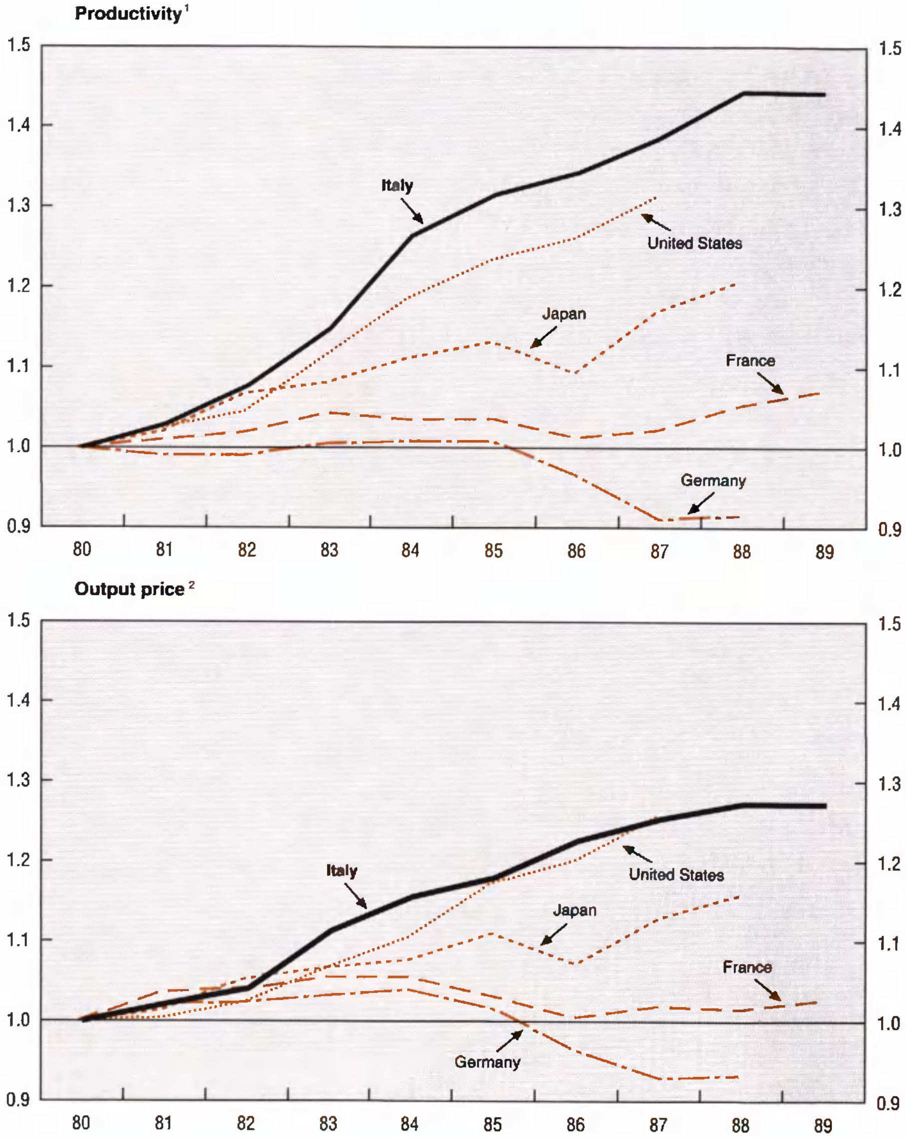
III. Medium-term challenges

Although significant progress has been made over the past decade towards reducing some of the huge structural imbalances in the economy, Italy has entered the 1990s with one of the highest EC rates of inflation and unemployment, and levels of public debt and budget deficits. These imbalances are mutually reinforcing each other, with, in particular, high structural unemployment and core inflation boosting the budget deficit – the former via revenue shortfalls and unemployment-related transfers and the latter via high interest payments. Likewise, measures to reduce the so-called natural rate of unemployment would serve to reduce the inflation-proneness of the economy, permitting the economy to be run at higher levels of output with positive results for public finance. Given these interactions, the Government is pursuing a multi-pronged approach towards improving the overall economic performance of the economy, as is evident in the strengthened exchange-rate regime, the latest medium-term public finance programme and the new action proposed in the domain of incomes policy. In order to participate and benefit fully from the second stage of the EC integration process, starting in January 1994, it will be of primary importance to ensure that the economy stays firmly on a path of disinflation. The trajectory of output compatible with non-inflationary growth will in turn be importantly determined by measures to enhance flexibility in the labour market and gains in productivity. The quicker the success on the inflation front, the greater the release of expansionary effects through improved business confidence, and the smaller the short-run output and employment losses resulting from fiscal restraint and non-accommodating monetary policy.

Particular importance attaches to a substantial reduction in the core inflation. Underlying inflation, as measured by the rise in consumer prices excluding food and energy, eased to 5.6 per cent in 1987, picking up thereafter to reach 6.1 per cent in 1990, more than twice as high as in Germany and France. The

Diagram 14. **SECTORAL PRODUCTIVITY AND OUTPUT PRICE**

1980 = 1



1. Productivity in industry / productivity in the service sector.
2. Output price in the service sector / output price in industry.

Source: OECD, *National Accounts*.

failure of core inflation to converge more strongly to EC levels was largely associated with relatively high increases in unit labour costs, notably in the sheltered sector. As will be shown in Part IV, productivity trends in public utilities were depressed during the 1980s, adding to inflation via increased public tariffs. Moreover, due to a lack of market impulses, productivity of marketable services in Italy hardly grew at all between 1978 and 1988, the last year for which internationally comparable data are available (Diagram 14). Among major OECD countries such a weak productivity performance has been observed only in the United States. This has led service prices to race ahead of prices for manufactured goods. A rise in the relative output price of services has of course been a feature common to most countries, But what sets Italy apart has been the magnitude of this relative price rise, which has put a floor under core inflation.

At the aggregate level, the persistent comparatively sharp rises in unit labour costs reflected the failure of nominal wage growth to decline more strongly in the face of sustained double-digit unemployment. *Wage rigidity* is manifest in the combination of small regional wage differentials and large gaps between regional unemployment rates. Thus, in 1987, hourly wages in the South (including Sicily

Table 12. **Correlation coefficients between earnings and unemployment by region**[1]

	Italy	Australia	Canada	France	Germany	Japan	Sweden	United Kingdom	United States
Correlation between the levels in 1987[2]	**0.44**[3]	–0.41	–0.46	–0.53[3]	0.52	0.06	–0.31	–0.72[3]	–0.26
Average of the correlation between one-year changes in earnings and unemployment rates	**–0.09**	–0.18	–0.14	0.06	–0.18		0.04	–0.16	–0.30
Average of the correlation between five-year changes in earnings and unemployment rates	**–0.09**	–0.23	–0.06	–0.03	–0.50	–0.18	–0.14	–0.32	–0.23
Memorandum item: Number of regions	**12**	7	12	11	11	10	5	11	51

1. All correlation coefficients are weighted by 1980 labour force.
2. 1985 for Japan; 1984 for Italy.
3. Significant at the 10 per cent level.
Source : OECD *Employment Outlook*, July 1990, Table 3.6, p.91.

and Sardinia) were only 2.1 per cent lower than in the rest of the country[29], contrasting with a gap between labour productivity levels in the South and in the North of as much as 30 per cent. The level of recorded real wages and unemployment rates are positively correlated with each other across regions, pointing to a lack of wage flexibility, a feature shared by Germany and, to a much lesser extent, by Japan (Table 12, first line). Finally, wage rigidity is borne out both by the low elasticity of nominal wage increases with respect to the rate of unemployment in aggregate wage equations and by cross-sectional[30] (regional) data (Table 12, second and third lines).

Reducing labour market rigidities

Wage rigidity and the rise of non-cyclical unemployment in Italy cannot be seen in isolation from a number of institutional aspects, prominent among them centralised wage bargaining, restrictive employment rules and fairly generous transfer payments to large segments of companies and households. By amounts which are hard to quantify, each of these three factors has reduced regional labour mobility. Wage rigidity is rooted in the practice of centralised wage bargaining, making sectoral wage accords applicable to all regions. Moreover, since unemployment is concentrated in the South, a region with only few large firms, Southern unemployment hardly bears on wage negotiations[31]. Entry wages in low-productivity regions, i.e. the South, have been too high to allow all job seekers to find a job in the "visible" economy. Wages and salaries are also rigid in the *civil service sector* (including postal and railway employees), where the impact of "seniority" on overall pay is about twice as strong as in industry. Moreover, overtime pay, accounting for between 3 and 7 per cent of civil service compensation, represents a sort of lump-sum additional emolument, which is paid irrespectively of work efforts undertaken beyond normal hours[32]. In 1987, the level of hourly pay in the sheltered sector including banks and public transport has, on average, been 35 per cent higher than in the exposed sector[33].

Another source of labour market rigidities have been *recruitment and lay-off restrictions* (Table 13). Temporary work, authorised for seasonal or occasional employment or job absence, is subject to tight regulations[34]. Job placements are carried out by the State. Private employment agencies are legally forbidden. Until June 1991, depending upon the planned increase in employment, firms were

Table 13. **Selected indicators of employment rigidity**

	Lay-off restrictions (percentage of firms judging that there would be a positive employment impact from shorter redundancies and simpler legal procedures (1985)	Percentage of firms expecting a positive employment impact from measures facilitating periods of notice for temporary contracts (1985)	Average
Italy	**88**	**63**	**76**
Greece	76	50	63
Belgium	74	63	69
Germany	63	74	69
France	48	53	51
Netherlands	47	32	40
Ireland	35	47	41
United Kingdom	28	27	28

Sources : Commission of the European Communities, ''Results of a Survey of labour market Flexibility'', European Economy, No. 27, July 1986, Brussels; and Michael Emerson, ''Regulation or Deregulation of the Labour Market'', European Economic Review, Vol.32, April 1988.

required to apply to the ''State Placement Office'' to receive the names of job applicants. Candidates were then to be picked according to the position on the ''job waiting list'' (''richiesta numerica''), determined by family size, household income and length of unemployment spell. The use of non-economic criteria influencing job allocation had added to labour-market mismatches. For this reason, hiring rules were eased somewhat in 1983-84 (Law 863/84), allowing employers to make their own choice for half of new recruitments. In practice, a higher proportion of persons (an estimated 70 per cent[35]) were freely hired. With a view to increasing flexibility further, the job allocation scheme was abolished in June 1991.

Finally, *generous tax expenditure and transfer payments* to a large number of firms and households have negatively affected market-clearing mechanisms and adjustment. Employers have learnt to live with the consequences of rigid employment rules and nation-wide wage-fixing, thanks to company featherbedding including subsidies and preferential social security contributions[36]. Furthermore, the need to seek employment has been reduced by easy access to disability pensions. The bulk of these aids have been concentrated in the South, stifling efforts of restructuring and innovation (Part IV) and damping labour mobility. High costs of living in the North, jobs offered by the underground economy, traditionally strong family ties[37] and problems pertaining to the housing market have also impeded the flow of labour in search of gainful employment in other regions.

The strengthened exchange rate regime and the associated need for greater pay discipline have made it more urgent to ease labour-market rigidities. Discussions about a comprehensive reform of wage formation have started in June 1991. At present, overall pay rises are conditioned by unco-ordinated developments on three levels (national, sectoral and individual firm), with the attendant risk of leap frogging[38]. One of the proposals concerns a change in wage indexation moving from an *ex post* to an *ex ante* adjustment[39]. Other proposals relate to a harmonisation of wage negotiations at different levels in the private and public sectors and a stronger weight of individual enterprise productivity in the determination of overall emoluments[40]. Also, with a view to curbing public spending, the Government has started negotiations with the trade unions on three major subjects: the renewal of wage contracts in different branches of the public sector; the definition of common criteria determining pay across different parts of the administration; and, most importantly, an institutional reform which would align employment conditions in the civil service sector on those prevailing in the private sector[41]. The overall aim is to subject public pay to greater market pressure. If adopted, all these changes would amount to a significant easing of labour market rigidities.

Stepping up the pace of fiscal consolidation

As interest payments weigh heavily in overall public spending, a decline in Italian inflation resulting in lower nominal interest rates is greatly beneficial to reining in the huge budget deficit. Among high public-debt countries, Italy has displayed, with Greece, the lowest pace of budgetary consolidation since 1985, notwithstanding a favourable conjunctural situation. The high level of non-cyclical unemployment (estimated at 10 per cent in 1989/90) has depressed tax revenues, while keeping social transfers high. In addition, civil service employment has expanded strongly since 1985, and part of the fiscal adjustment efforts have relied on measures of a once-and-for-all kind. The 1991 budget is no exception to this pattern, as is evidenced by the advancement of VAT payments and the corporate taxation measures.

The need for more lasting measures has been recognised in the latest medium-term public finance programme announced in May 1991 ("Documento di Programmazione Economico-Financiaria, 1992-1994"). Under this plan, the State budget deficit would drop to L 97 trillion in 1994 (5.5 per cent of GDP) from L 141 trillion in 1990 (10.8 per cent of GDP). Underlying the expected improvement are further gains in revenues relative to GDP, largely resulting from reduced tax evasion, revaluation of company assets, increased taxation autonomy for local authorities, privatisation[42], and tax harmonisation within the European market. This would be accompanied by expenditure restraint of broadly similar intensity, the outcome of public labour market reform (pay restraint combined with reduced overmanning) and cuts in subsidies and transfers for disability, health, pension and transportation. In addition, the authorities contemplate changing pension provisions so as to avoid renewed pressure on expenditure over the medium and longer run. Public investment will not be spared from spending restraint, notwithstanding the importance which the Government attaches to the strengthening of the infrastructure and the efficiency of public services[43] (see Part IV).

The difficulties in moving along the lines suggested in the new medium-term finance programme and in stepping up the pace of fiscal consolidation should not be underrated. According to official calculations, the primary surplus needed to stabilise the public debt/GNP ratio would be some 2.8 per cent of GDP. A higher surplus would lead to a fall in the relative debt burden, an outcome which might be realised with greater ease if the measures deemed necessary to correct undesirable trend developments were spelled out in detail well in advance. Needless to say, failure to attain the fiscal target for 1991 would compound the difficulties of reaching the aim of the new medium-term public finance programme.

After a substantial rise in tax pressure, contrasting with an easing in major EC partner countries, the current revenue/GDP ratio was close to the EC average in 1990, leaving little room for manœuvre. Moreover, small net revenue gains are expected from tax harmonisation within the EC. This underscores the importance of speeding up the process of privatisation and of reducing barriers, both institutional and psychological, which stand in the way of mobilising the huge privatisation potential estimated at 14 to 17 per cent of GDP[44]. Candidates for privatisation need to be transformed into private law companies, as outlined by the Amato Law for public credit institutions (see Part IV). Since this change requires the passage of a law of reform, the sequence of privatisation depends upon lengthy and uncertain procedures in Parliament. Moreover, in a country long accustomed to a wide sphere of public influence, there is little support for full transformation of prestigious, though financially weak, public companies into private entities. Partial privatisation would not only limit extra budgetary receipts, but would also weaken incentives to enhance efficiency normally associated with full privatisation[45].

Irrespective of increased proceeds from privatisation, there is an urgent need to rein in current spending. Driven by interest payments, current government spending has kept on climbing relative to GDP. Government transfers to households, after surging by 3 percentage points of GDP between 1980 and 1985, remained high thereafter, even though labour market slack decreased. As noted above, high structural unemployment has been contributing to the structural budget deficit, not only by depressing receipts and keeping unemployment benefits on a high level (including payments by the Wage Supplementation Fund), but also by inflating subsidies and disbursements under early retirement and disability schemes[46]. Finally, there is scope for budget economies by bringing pay and employment conditions in the civil service sector more in line with those in the private sector[47].

Most public finance analysts would consider a reform of benefit provisions as a *conditio sine qua non* for re-establishing long-run financial equilibrium. At current benefit rates, which are rather generous by international comparison, pension payments are set to grow quickly. Pension provisions were improved in 1988 and 1989, including a change in the indexation mechanism in 1988[48]. Hence, contribution rates would need to be raised significantly to ensure the solvency of the present pension system. Recognising this need, the government will submit to Parliament a pension reform bill, providing for a rise in the retirement age and a lengthening of the reference period for calculating pension levels. Other avenues being considered to contain the rise in pension payments include tightening the access to disability pensions[49] and softening the link between wages and pensions.

Under current provisions, contributors to the Italian pension system are entitled to four types of benefits: old age (pensione di vechiaia); seniority (anzianità); disability (invalidità) and survivors' pensions (superstiti). The retirement age for dependent employees is lower than in any other EC country – in most cases by at least five years. The accrual rates at which benefits are accumulated (2 per cent of assessed income per year of contribution with a maximum of 80 per cent) are also quite high. Moreover, the base for calculating pensions of dependent workers (the average income over the last five years at work) is favourable compared to the average lifetime income. Other features of relative "generosity" include early retirement benefits, available without a minimum age requirement for ordinary seniority pensions, and quite liberally granted to workers and civil servants not meeting seniority requirement. Employees with at least 35 years of service are entitled to a seniority pension before reaching the minimum age required for old-age pensions (60 years for men and 55 years for women). Finally, disability benefits, while not unduly high for those truly affected, have in the past been disbursed with laxity, involving significant abuses[50].

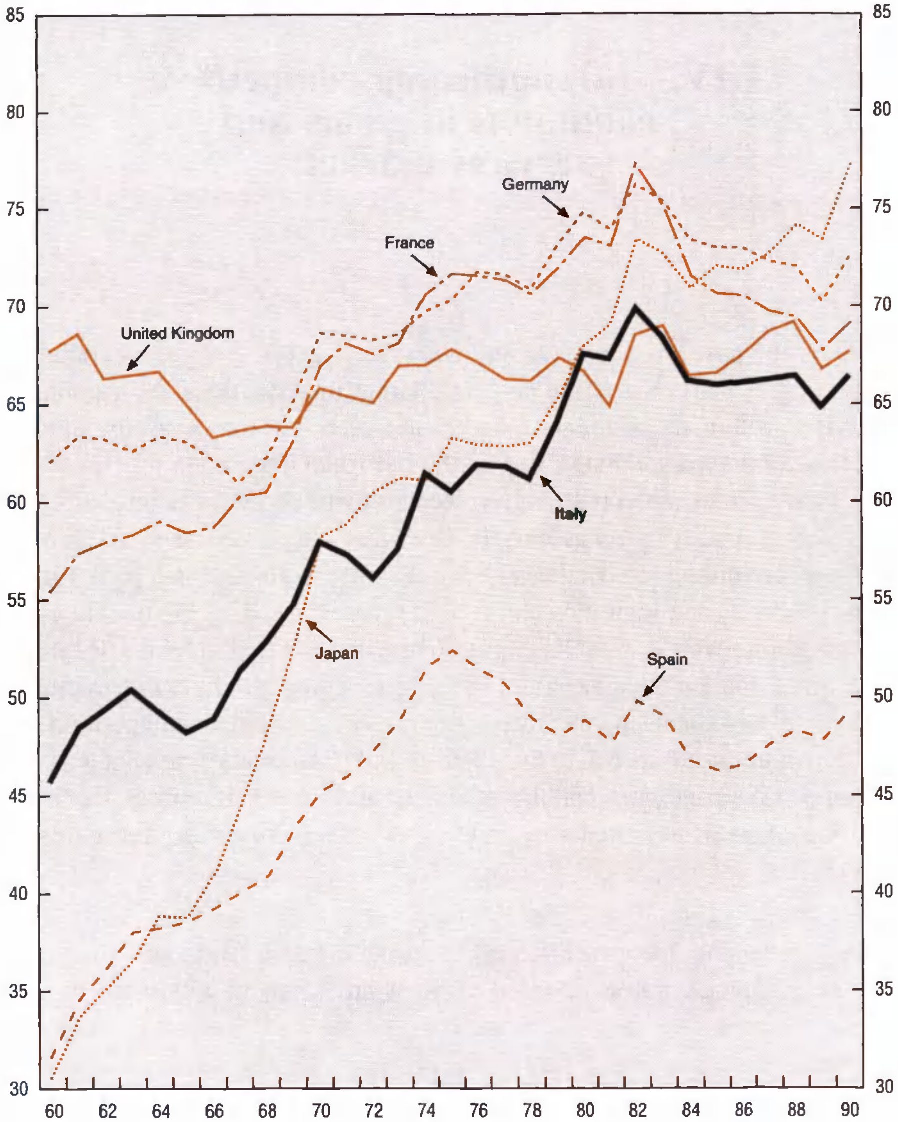
IV. Strengthening competitive conditions in goods and services markets

Over the past few years, the authorities have given growing attention to the functioning of markets and the costs of market imperfections. New competitive challenges within the Common Market are seen to emerge as the single EC market is completed and Stage Two of the European integration process begins in 1994. While European countries have been drawn increasingly into competition in regulatory quality[51], it was only in 1990 that Italy established a legal framework for promoting competition. Special laws were also adopted for state-controlled banks and securities markets. Largely inspired by EC directives, these laws go a long way in establishing a comprehensive and coherent legal framework for a market characterised by a fragmented production structure and exposed to large-scale public intervention. Since a formal competition policy has been introduced so belatedly, there is little information available concerning competitive conditions and the behaviour of market participants, e.g. horizontal price agreements, predatory pricing or other forms of anti-competitive practices.

Strengthening the exchange-rate regime in 1990 and removing the last vestiges of capital controls have led to a new environment within which markets operate. Evidence for this can be seen in the deepening cleavage between the sheltered and the exposed sectors of the economy. Easing barriers to competition in the sheltered sector has therefore become more important. The resultant rise in productivity could stimulate a catching-up process of Italy's per capita income with high-income countries, which stalled in the 1980s (Diagram 15).

Diagram 15. **INCOME PER CAPITA RELATIVE TO THE UNITED STATES**

United States = 100[1]



1. GDP per head, at current prices and current PPPs (US dollars).

Source: OECD, *National Accounts.*

Fragmented production structure and large state-controlled sector

Predominance of small firms

In Italy as elsewhere, many forces have shaped the competitive setting in which markets operate. For historical reasons, there has been a traditional fragmentation of the country into autonomous power centres. The existence of regional markets has been favoured by the geographical shape and surface of the country, making it expensive to connect local markets. During the 1980s, public investment, in particular in infrastructure, was stepped up relative to GDP from comparatively high levels, contrasting with developments observed in the United States, Japan, Germany and the United Kingdom. Even so, partly due to persistent, though localised, deficiencies in infrastructure, some parts of in Italy, especially the South, continue to be less subjected to internal and external competitive pressures than others. Taken together, these features have contributed to the preponderance of small- and medium-sized firms.

With a high proportion of craftsmen enterprises[52], the production structure of Italy is much more small-scaled than in other major countries apart from Japan (Table 14 and Diagram 16). Low concentration is also borne out by the fact that in 1989 there were only nine Italian companies to rank among the world's 500 largest (measured by turnover and listed by *Fortune*) compared with 55 for the United Kingdom, 38 for Germany and 23 for France. On the other hand, some of the few large firms hold a powerful position in terms of horizontal and vertical concentration[53]. For example, IRI (Istituto per la Ricostruzioni Industriale), the state-controlled holding company, and FIAT, a private firm, each had a turnover equal to 4 to 5 per cent of GDP in 1989. FIAT controls 60 per cent of the Italian car market, represents 25 per cent of stock exchange capitalisation and is also actively engaged in the media market.

The preponderance of small firms derives from several factors, including the exemption from job protection legislation until May 1990 for companies with fewer than fifteen employees, special fiscal assistance[54], and greater opportunities for tax evasion. Alongside the incentives to establish and operate small mostly family-owned enterprises existed a number of impediments to the creation of large companies. These included lack of venture capital, underdeveloped securities markets and industrial featherbedding. In addition, controls on capital outflows, abolished in May 1990, held back foreign inward investment, thereby

Table 14. **Distribution of employment in manufacturing by firm size: an international comparison**

Percentage share

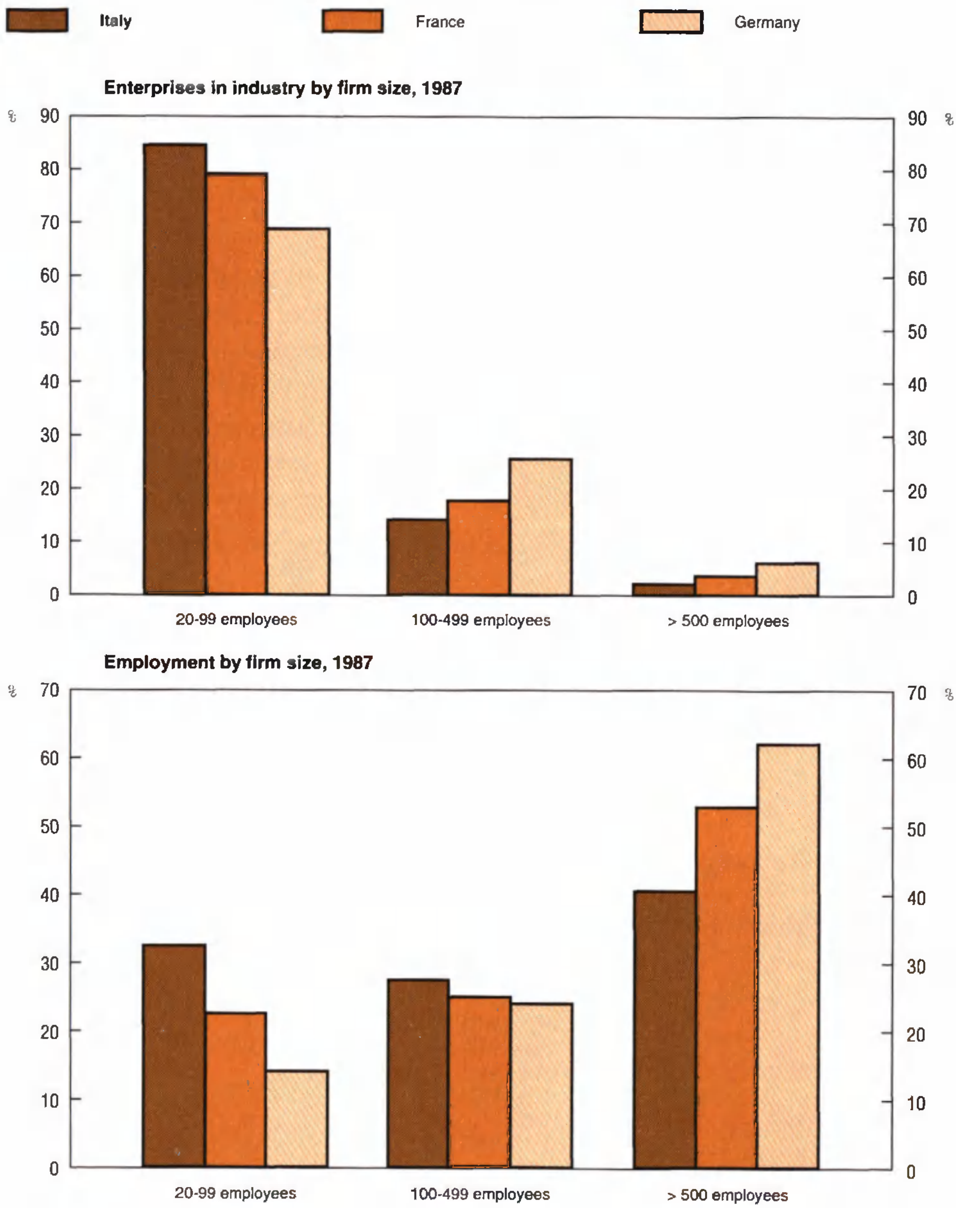
		Size (number of employees)		
		1-99	100-499	Over 500
Italy	1961	56.8	23.2	21.6
	1971	53.2	23.2	23.6
	1981	59.2	21.2	19.6
United States	1963	26.2	73.8	
	1972	24.8	75.2	
	1977	25.3	74.7	
Japan	1960	53.7	21.1	25.2
	1972	58.3	21.5	20.2
	1981	66.5	18.3	15.2
Germany	1961	20.4	29.6	50.0
	1971	18.7	28.6	52.7
	1977	19.2	29.9	50.9
	1981	18.6	29.1	52.3
France	1962	62.9		37.1
	1972	60.2		39.8
	1982	68.1		31.9
United Kingdom	1963	20.2	30.7	49.1
	1972	18.2	26.1	55.7
	1982	19.1	34.4	46.5

Source : Ministry of Industry, *Rapporto della Commissione per le problematiche delle piccole e medie imprese*, mimeo, Rome, June 1988. manufacturing sector except for Japan and France (total industry).

further weakening the drive towards mergers and acquisitions. As a consequence, no new major companies were created in the 1980s despite intensive industrial restructuring[55]. Thus, the distribution of employment in manufacturing has remained tilted towards small enterprises, concentrated in the traditional consumer goods industries (clothing, textiles, leather, household appliances, footwear) and engineering industries.

Has the dominance of small firms enhanced the shock-absorbing power of the economy as a whole or has it impeded structural adjustment? In the 1970s, helped by technological innovation, small and medium-sized firms adapted well to the demand for increasingly differentiated products. Given the sophisticated demand of Italian consumers in the domain of clothes, shoes and accessories,

Diagram 16. **INDICATORS OF CONCENTRATION**



Source: Eurostat.

small firms have often acted as pace-setters in terms of style, design and quality[56]. The apparent resilience of these firms also owes much to the concentration of output of a given good, e.g. textile, furniture and footwear, in a specific geographical area. Such homogeneous production structures, called "industrial districts", yield positive externalities, through co-operation, specialisation and flexibility, reducing transaction costs[57]. As a result, output, investment and productivity of small firms expanded much faster than in large companies (Annex Table A1). All in all, the rising trend of output shares[58] of small companies combined with high birth- and death rates (Table 15) suggest that barriers to entry and exit have been on average lower than typically elsewhere. In the 1980s, however, the relative performance of small firms deteriorated, as large companies undertook major programmes of modernisation, involving wide-scale innovation and labour shedding. Productivity gains of large firms began to surpass those of small firms, and despite special assistance, small and medium-sized enterprises found it difficult to respond to the rising internationalisation of markets, implying higher risks for investment in distribution networks, in marketing and in R&D[59].

Industrial restructuring in the early 1980s led to a return to profitability. In addition, there was a tripling of mergers and acquisitions between 1983/84 and 1987/88, with the greater part taking place in the chemical, food, mechanical and electronics industries and the banking sector. Simultaneously, purchases of foreign companies by Italian firms, mostly in the EC, surged, but compared to other countries the total stock of outward direct investment abroad has remained small.

Table 15. **Entry and exit rates in manufacturing: an international comparison**

Annual average percentage changes in the population of firms

		Entry rate	Exit rate
Italy [1]	(1984-1989)	9.8	7.8
United States	(1978-1984)	11.1	10.0
Germany	(1980-1987)	10.0	9.6
France	(1980-1982)	5.0	4.7
United Kingdom	(1979-1983)	11.9	9.7
Canada	(1980-1983)	7.0	4.7
Denmark	(1976-1977)	5.9	6.1

1. Excluding "Enti della Pubblica Amministrazione".

Source: Armington, C., "Entry and exit of firms: An international comparison", 1986, miméo, Brookings Institution; Institut für Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit and data submitted by INPS.

In 1988, it amounted to 4 per cent of GDP as against 36 per cent for the Netherlands, 23 per cent for the United Kingdom and 7 per cent for France and Germany.

Increased mergers and acquisitions are likely to have led to economies of scale and to a broadening of the diffusion of new technologies. Despite the low level of spending on R&D, there is little evidence suggesting that Italian companies have been slow in product and process innovations (Table 16). Competition seems to have been particularly fierce on the price side, in spite of up-market movements. Indirect evidence for this can be found in a high elasticity of output prices with respect to demand pressures[60]. According to empirical studies, output prices in Italy are more responsive to cyclical changes than in all the other major OECD countries.

Table 16. **Main R&D indicators in 1987**

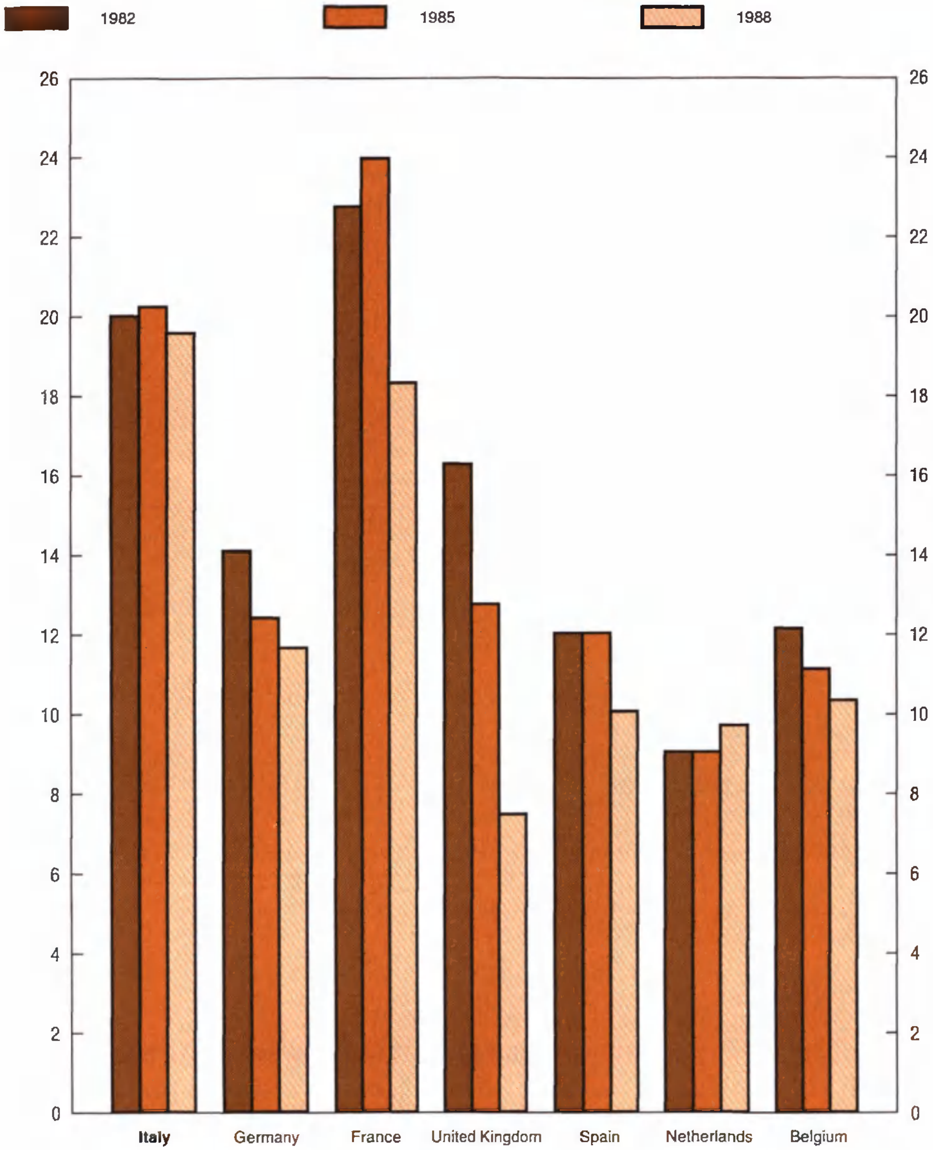
	Italy	United States	Japan	Germany	France	United Kingdom
Per capita R&D expenditure ($)	165	515	530	495	368	293
R&D expenditure/GDP (per cent)	1.3	2.8	2.7	2.7	2.3	2.5
Researchers per 10 000 inhabitants, 1985	11	32	39	24	19	17
R&D expenditure per researcher, ($ '000), 1985	109	147	78	139	147	149
Public share in total R&D expenditure (per cent)	51.4	51.5	19.4	35.8	53.1	30.9

Source : OECD, Data base of the OECD Scientific, Technological and Industrial Indicators Division, STI, January 1991.

Dominant public sector

Alongside the atomistic structure of private firms are numerous state-controlled firms which, taken together, have traditionally exerted a pervasive influence over large segments of the economy. In 1988, these firms, employing 1.5 million people, accounted for 15 per cent of non-agricultural employment, for 20 per cent of value added and almost 25 per cent of fixed investment (Diagram 17). The output of state-controlled firms is twice as capital-intensive as that

Diagram 17. **RELATIVE SIZE OF PUBLIC ENTERPRISES**[1]



1. The relative size is measured by the average share of value added, capital formation and employment of public enterprises in the respective aggregate values.

Source: Public Enterprise European Center.

of private companies. As noted above, some of the state-controlled firms, e.g. IRI, are huge in size. Initiatives of privatisation, which have so far been timid and erratic (see below), have been strengthened recently. This leaves the Italian economy as the one with the strongest state involvement in the major EC countries by the end of the 1980s. Due to the strong weight of energy-intensive production in the public sector, state-controlled firms were particularly hard hit by the two oil price hikes in 1974 and 1980. In addition, having been run at times on the basis of non-market criteria, these firms needed a much longer time span to restore financial health (Table 17).

While state-controlled firms operate in all sectors of the economy, their presence is particularly strong in the service sector. Here, the state controls two thirds of the banking system, three fourths of transportation and communication (via Alitalia; railways, Ferrovie dello Stato; television, RAI; maritime transport, FINMARE; and telecommunications, SIP and l'ASST) and nearly the whole of the activities covering electricity, natural gas and water (via Ente Nazionale Idrocarburi (ENI); Ente Nazionale per Energia e Elettrica (ENEL)[61] and local enterprises owned by municipalities) (Annex Table A3). In industry, state-controlled firms control large segments of basic industries, transport equipment and chemicals, and small ones in the electronic and food industries. A large portion of public industrial firms with private capital participation is grouped under the umbrella of three main holding corporations: IRI (363 000 employees); ENI (Ente Nazionale Idrocarburi, 83 000 persons) and EFIM (Ente Participazioni e Finanziamento Industria Manifatturiera, 37 000 persons). Vertical integration is a key feature of these holdings.

Summing up, the market structure is highly dualistic, marked by a great number of participants (with a preponderance of small and medium-sized firms) and a few huge, private and public enterprises. The large number of competitors combined with wide foreign trade exposure of some regions is likely to have limited collusive behaviour between market agents. On the other hand, small firms have found it difficult to participate fully in the associated widening of markets in the 1980s. As regards market-dominating firms, two points merit attention: some of these enterprises, whether private or public have benefited from impediments to competition, including subsidies and non-tarrif barriers. This makes it difficult to view their size as the sole result of economic efficiency. In addition, as will be shown below, the size and structure of state-controlled

Table 17. **Profit and loss accounts of a sample of Italian companies**

Per cent of value-added

	State-controlled companies		
	Adjusted profit or loss [1]	Operating margin [2]	Labour cost
1974	–8.1	13.0	68.8
1975	–20.2	6.5	73.1
1976	–17.1	10.9	10.9
1977	–20.5	12.4	66.2
1978	–17.7	11.9	67.3
1979	–15.8	10.8	66.8
1980	–21.5	9.9	68.2
1981	–26.1	11.5	66.4
1982	–22.0	13.1	63.8
1983	–16.8	13.8	62.9
1984	–9.5	16.4	58.6
1985	–3.7	17.7	57.1
1986	–4.2	11.4	60.2
1987	–3.3	12.9	58.6
1988	3.0	18.9	55.3
	Private sector companies		
	Adjusted profit or loss [1]	Operating margin [2]	Labour cost
1974	4.4	15.1	71.9
1975	–6.5	8.9	78.4
1976	1.2	16.0	71.9
1977	–0.5	16.7	71.3
1978	0.9	14.2	72.7
1979	4.0	16.0	71.6
1980	3.6	19.1	69.1
1981	0.6	19.7	68.0
1982	–2.2	17.4	68.6
1983	2.1	17.6	67.6
1984	7.9	21.5	63.8
1985	13.0	22.2	63.6
1986	16.5	22.7	62.7
1987	17.1	21.7	63.5
1988	15.4	23.9	62.2

1. Profit or loss adjusted for reserve movements, accelerated depreciation and financial charges capitalised.
2. Operating margin net of ordinary depreciation.
Source : Sample of 1 214 Italian companies based on Mediobanca figures.

firms also reflects, in several instances, non-economic forces rather than market impulses.

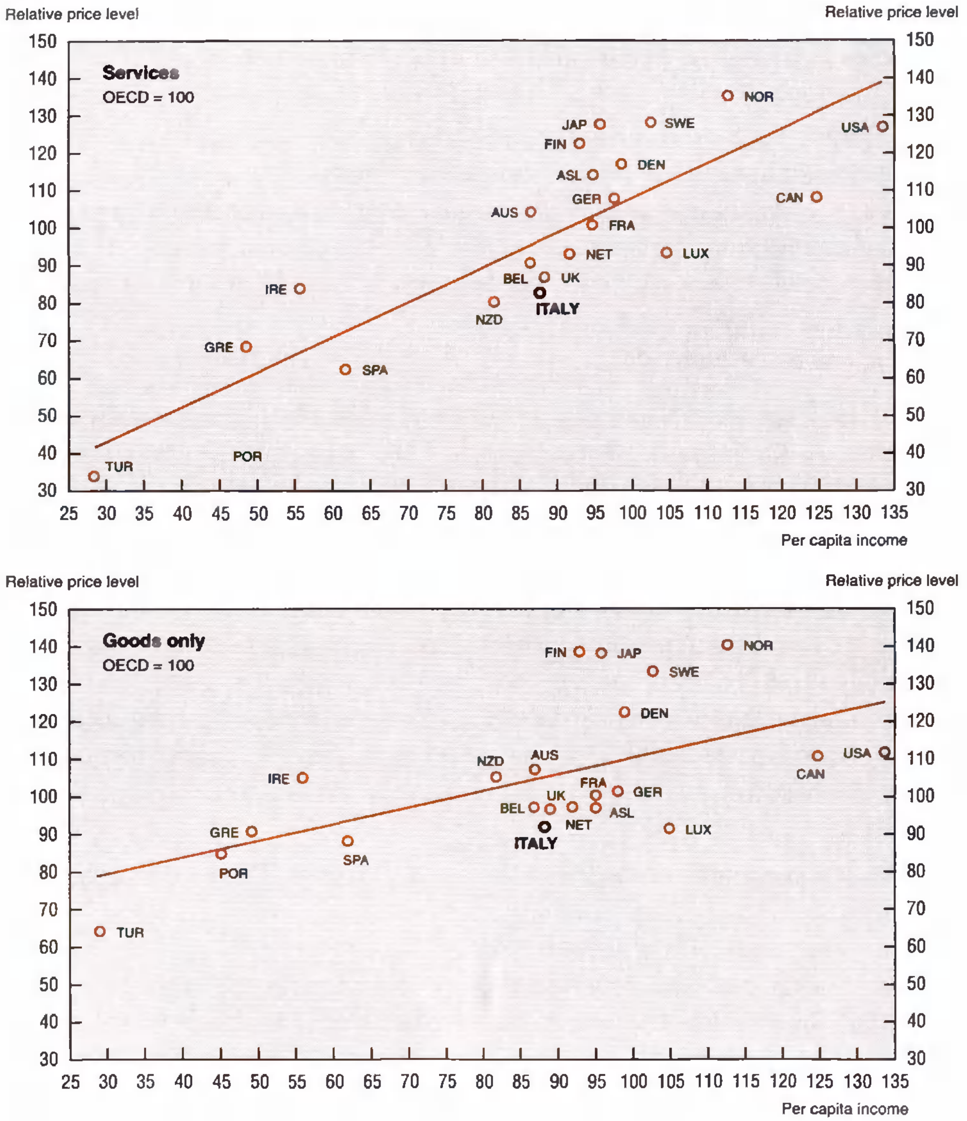
Policies bearing on prices and the allocation of resources

Despite the lack of a comprehensive set of rules and regulations, the competitive environment, in which firms arise, operate and disappear, has been shaped by a variety of factors. These include extensive price controls, barriers to foreign competition, high subsidies, restrictive policies of public procurement and the use of state-controlled firms as an instrument of industrial policy.

Extensive price controls

As regards the level of prices, calculations based upon purchasing power parities portray a favourable picture for Italy (Diagram 18). Compared with countries with similar per capita incomes, absolute prices for goods and services were low in 1985, the latest year for which such data are available. But it is difficult to determine to what extent this price advantage can be traced to a fiercer competitive environment. Keeping prices artificially low via subsidies, which are high by international standards, and extended price control and surveillance also contributed to making Italy a comparatively low-price country. The latter influence has waned over time, as the weight of publicly-controlled prices has decreased, while public tariffs have been raised to better reflect cost developments (Table 18).

State influence over prices is strong, with about 20 per cent of goods and services in the standard consumer basket being affected. Taking into account the effects of price controls on intermediate products and services, this ratio rises to about 24 per cent[62]. There are two types of controls: price fixing at national and/or local level and price surveillance. Working under the directives of the Comitato Interministeriale per la Programmazione Economica (CIPE) special committees are responsible for price interventions, the Comitato Interministeriale dei Prezzi (CIP) at national level and the Comitati Provinciali dei Prezzi (CPP) at local level. CIPE determines both the range of goods and services subject to government intervention and the type of price interference. The rate of permissible price increases depends upon an overall target rate of inflation. Since 1984, Diagram 18. **RELATIVE CONSUMER PRICE LEVEL BASED ON PURCHASING POWER PARITIES IN 1985**



Note: Per capita income is based on purchasing power parity. The relative price level is measured by the weighted average of individual goods and services, using the Italian structure of output.

Source: OECD, *National Accounts.*

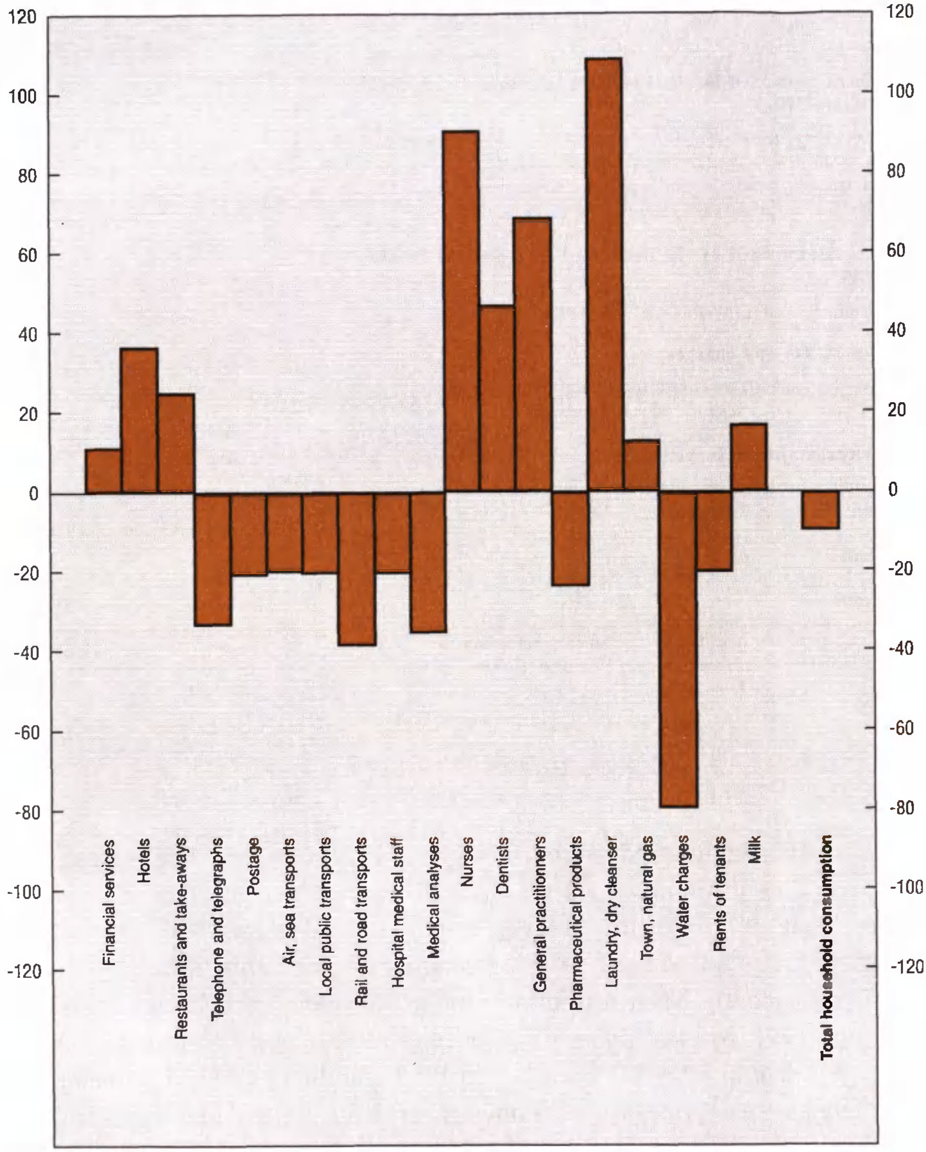
Table 18. **Goods and services subject to price control or price surveillance**

	National consumer price index for the whole country	
	Weight in per cent	
	1985	1990
A. Prices controlled by the Comitato Interministeriali dei Prezzi (CIP)	13.3	11.0
Electricity; telephone; motor insurance; television licence; rail transport; gas distribution; domestic flights; inland navigation; motorway tolls; postal charges; specific pharmaceutical products; petrol; tobacco; matches.		
B. Prices controlled by the Comitati Provinciali dei Prezzi (CPP)	3.9	3.1
Drinking water; bread; milk; camping charges.		
C. Public fees and charges	1.6	1.2
Urban transport; transport concessions; taxis; funeral transportation; museum admission charges.		
D. Prices subject to surveillance	5.4	3.1
Liquid petroleum gas; bottled gas; beef meat; pasta; heating fuel; kerosene; diesel.		
E. Rent	4.0	2.5
Total	**28.2**	**19.8**

Source : Information submitted by the National Authorities.

increases in administered prices have generally been kept below the rate of inflation. This institutional set up has little equivalence in other EC countries. Apart from public utility prices, essential food items, oil products and pharmaceuticals are subject to price controls or price surveillance (Table 18). Until very recently, such restrictions applied to prices of hotel accommodation until July 1991. Not surprisingly, the price of most of these consumer goods was lower than that in other EC countries in 1985. On the other hand, as can be seen from Diagram 19, prices for a number of services, in particular labour-intensive ones, e.g. restaurants, hotels, laundry, dry cleaning and most medical services, were high by international comparison.

Diagram 19. **RELATIVE PRICE LEVELS IN 1985 BETWEEN ITALY AND THE EC AVERAGE**



Source: OECD, *National Accounts.*

Barriers to foreign competition

A feature widely shared by other OECD countries has been the reduction in tariffs (Table 19), accompanied by a greater recourse to non-tariff trade barriers

Table 19. **Receipts from customs and import duties as a percentage of the value of imports, 1965-1988**

	1965	1975	1980	1985	1988	Per cent change 1965-1988
Italy	**5.96**	**0.33**	**0.59**	**0.97**	**1.25**	**–79.03**
Canada	7.97	5.48	4.64	3.80	3.45	–56.71
France	6.10	1.40	1.11	0.92	1.02	–83.28
Germany	4.65	2.36	1.81	1.29	1.53	–67.10
Japan	7.52	2.96	2.46	2.42	3.54	–52.93
Spain	7.95	4.92	3.81	4.24	5.51	–30.69
United Kingdom	5.96	2.24	2.17	1.66	1.70	–71.48
United States	6.75	4.42	3.08	3.53	3.70	–45.19

Source : OECD, Revenue statistics of OECD Member countries, 1965-1988; Foreign Statistics, Series A, 1990.

(NTB). In 1986, the last year for which detailed information is available, NTBs in Italy covered a wider range of goods than in other OECD countries (Table 20), hitting a larger proportion of non-oil imports from non-EC countries than was the case for other EC countries. Multilateral agreements cover a few products only, notably food, basic metals and textiles, but have a relatively large weight in the Italian production structure. Other restrictions have taken the form of discretionary licensing, voluntary export restraint (VER) or variable import levies. NTBs appear to be particularly binding for paper products, plastic material and footwear[63] (Annex Table A4). With imports being constrained, a few companies control relatively large market shares in the cement and rubber products[64]. VERs are mainly affecting imports of cars, motor cycles and electronic products from Japan. The authorities are bound by the 1992 EC-programme to end all VER agreements negotiated by Italy by 1 January 1993, except possibly[65] for cars. NTBs affecting imports from Eastern Europe and the USSR have already been eased, with further progress in sight.

Table 20. **Frequency ratio and coverage ratio of non-tariff measures in 1986: an international comparison**[1]

Importers	Frequency Ratio[2]	Trade coverage ratio[3] Group of exporting countries			
		World	Developed	Developing	Socialist
Italy	**18.3**	**18.2**	**17.3**	**21.3**	**14.1**
EEC[4]	11.5	15.8	14.4	23.2	8.5
of which:					
France	14.1	18.6	18.0	17.4	28.1
Germany	12.5	15.4	11.5	28.6	9.2
United Kingdom	8.1	12.8	12.9	24.7	1.1
Japan	12.5	24.3	29.4	17.4	13.1
United States	6.5	17.3	16.6	19.1	12.1

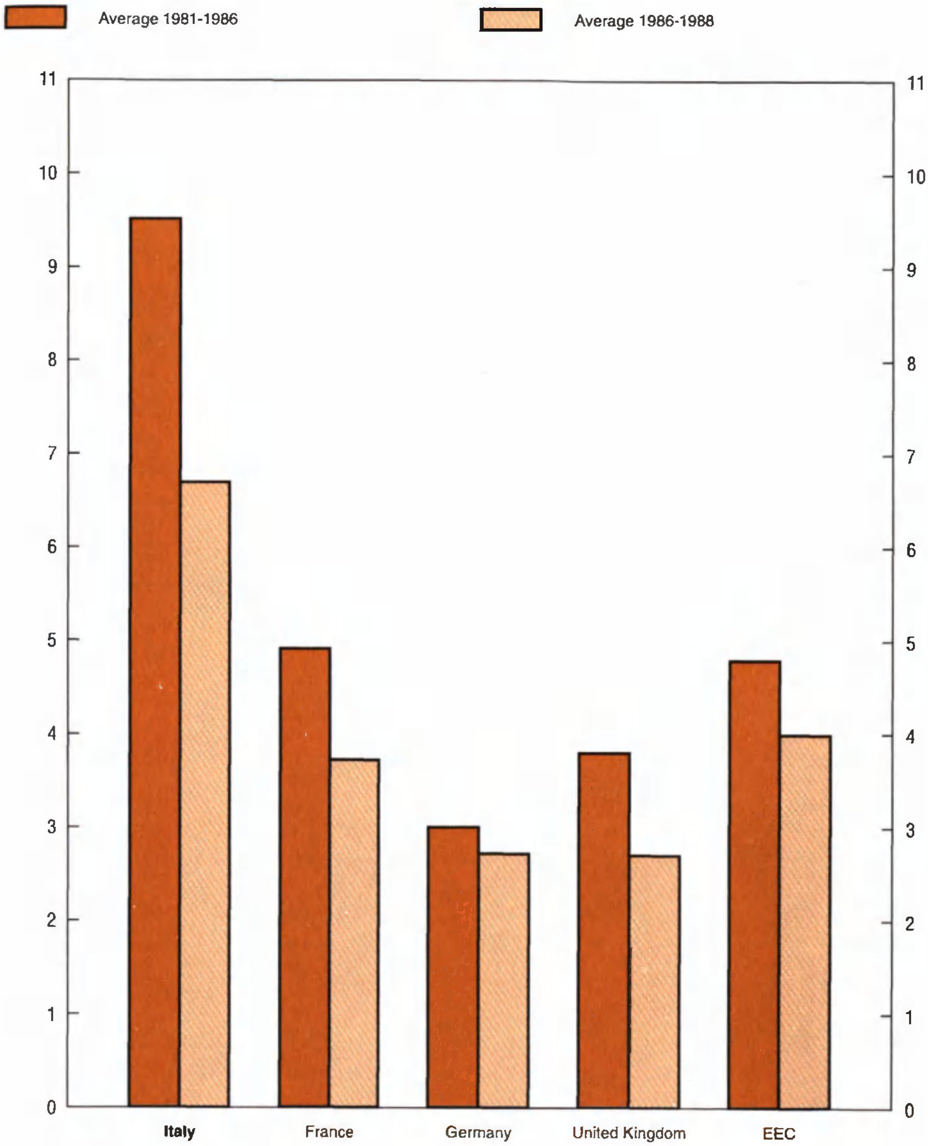
1. Petroleum products have been excluded from the calculations. In the case of EEC countries, the EEC intra-trade has been excluded.
2. Number of products subject to non-tariff measures.
3. The value share of imports subject to non-tariff measures.
4. Without Portugal and Spain.

Source : S. Laird and A. Yeats (1989), *Quantitative methods for trade barriers analysis*, Cambridge, Harvard University Press.

High subsidisation

To ease difficulties of industrial adjustment encountered after the oil price shocks in the 1970s, the authorities made heavy use of subsidies. In the period 1986-88, total aid given to manufacturing was according to some estimates, on average and relative to gross value-added, 1.8 times as high as in France, and 2½ times as high as in Germany and the United Kingdom (Diagram 20). Regional subsidies account for only part of the relatively high level of financial support. Subsidies, primarily grants, are concentrated on specific industries such as basic metals and transportation, on small- and medium-sized enterprises and on the Mezzogiorno (Table 21). In the second half of the 1980s, substantial cuts in capital transfers were made, partly reflecting an improved financial position of state-controlled firms. Moreover, there were fewer interventions by GEPI (Societa di Gestioni e Participazione Industriali), a public company acting as a "lifeboat" for small ailing firms. In the 1980s, large companies received a rising share of overall aid (Table 22).

Diagram 20. **GOVERNMENT AID TO MANUFACTURING**
As a percentage of gross value added
in manufacturing



Source: Eurostat.

Table 21. **Government aid according to sector and function**

Average 1986-88

	Italy	France	Germany	United Kingdom	EEC 12
	Million ECU				
Agriculture Fisheries	3 199	2 171	2 347	747	10 043
Industry/services	12 436	12 627	17 043	4 631	59 978
Horizontal objectives	3 051	2 629	2 623	1 222	12 581
Innovation, R&D	486	496	1 300	350	3 330
Environment	0	27	103	16	177
S.M.E.	885	289	614	301	2 838
Trade/exports	645	1 428	132	320	3 239
Economisation of energy	56	43	215	14	453
General investment	278	346	51	207	1 508
Other objectives	701	0	208	14	1 036
Particular sectors	9 385	9 998	14 420	3 409	47 397
Steel	357	16	60	20	1 365
Shipbuilding	224	476	166	452	1 563
Transport	7 790	4 952	6 579	1 085	25 328
Coal	0	2 444	7 295	1 123	12 967
Other sectors	1 014	2 110	320	729	6 174
Regional aids	4 916	434	4 473	1 146	12 030
Total	20 640	15 267	23 883	6 556	82 308
	Per cent				
Agriculture	15.5	14.2	9.8	11.4	12.2
Fisheries	0.4	0.2	0.1	0.5	0.3
Industry/services	60.3	82.7	71.4	70.6	72.9
Horizontal objectives	14.8	17.2	11.0	18.6	15.3
Innovation, R&D	2.4	3.2	5.4	5.3	4.0
Environment	0.0	0.2	0.4	0.2	0.2
S.M.E.	4.3	1.9	2.6	4.6	3.4
Trade/exports	3.1	9.4	0.6	4.9	3.9
Economisation of energy	0.3	0.3	0.9	0.2	0.6
General investment	1.3	2.3	0.2	3.2	1.8
Other objectives	3.4	0.0	0.9	0.2	1.3
Particular sectors	45.5	65.5	60.4	52.0	57.6
Steel	1.7	0.1	0.3	0.3	1.7
Shipbuilding	1.1	3.1	0.7	6.9	1.9
Transport	37.7	32.4	27.5	16.5	30.8
Coal	0.0	16.0	30.5	17.1	15.8
Other sectors	4.9	13.8	1.3	11.1	7.5
Regional aids	23.8	2.8	18.7	17.5	14.6
Total	100	100	100	100	100

Source : Commission of European Communities, "Second Survey on State Aids in the European Community in the manufacturing and certain other sectors", mimeo, July 1990.

Table 22. **Distribution of industrial incentives by firm size**

1971-1987

Period		1971-1979			1980-1987		
Intervention areas	Firms	Government contribution	Amount of financed projects	Number of interventions	Government contribution	Amount of financed projects	Number of interventions
Centre-North	small	22.0	26.9	49.1	18.7	27.3	46.1
	large	7.5	9.1	4.3	27.4	32.7	6.0
	..	9.2	9.1	2.6	3.5	4.3	12.4
	total	38.6	45.0	55.9	49.6	64.4	64.6
South	small	36.4	29.0	41.3	29.2	18.7	27.2
	large	23.6	24.4	1.8	19.4	15.1	1.5
	..	1.3	1.5	0.9	1.8	1.8	6.7
	total	61.3	54.9	44.0	50.4	35.6	35.4
Italy	small	58.4	55.9	90.4	47.9	46.1	73.3
	large	33.1	33.5	6.1	46.8	47.8	7.6
	..	10.5	10.6	3.4	5.3	6.2	19.1
	Total	100.0	100.0	100.0	100.0	100.0	100.0

Source : La Noce M., *Linee di intervento della politiche di incentivazione industriale dal 1970 al 1987*, in Battaglia, A. and Velcamonici, R., *Nella competizione globale. Una politica industriale verso il 2000*, Bari, Lanteza, 1989.

With few exceptions, industrial subsidies have not been part of an overall, forward-looking strategy. There has been a scattering of aids over a wide range of selective objectives, contrasting with a more focused approach adopted elsewhere. The dispersion of aid, which owes much to notorious difficulties of implementing laws and decrees[66], has often involved a wasteful use of resources. At the beginning of the 1980s, some streamlining of subsidies took place, manifest in the systematic support given to R&D spending. This move was prompted by several considerations. First, new technologies tend to be diffused more slowly among small than among larger firms, leading to a comparative disadvantage, notably when technological change accelerates. Second, the social rate of return on R&D activity often exceeds the private rate of return. Third, failure to raise R&D spending is viewed as developing into a barrier to entry on world markets. In the light of these considerations, two important bills were adopted, one creating a Fund for Technological Innovation (Law 46/82), the other facilitating purchases of new technologies by small- and medium-sized firms (Law 399/87)[67]. However, the latter law, by allowing bank credit to be extended at privileged interest rates, has deepened the segmentation of credit markets. Moreover, it discriminates against imports of machine tools via quality requirements which are not applicable to domestically-produced equipment[68]. New measures designed to stimulate the development and diffusion of new technologies among enterprises with fewer than 200 employees are under active consideration. These include easier access to credit facilities at market interest rates through risk-spreading and incentives for a restructuring of firms giving technical assistance to small enterprises and, as well, for a modernisation of small firms located in economically-depressed regions.

Restrictive policies of public procurement

Public procurement policies often restrict market entry and favour anti-competitive behaviour. In the case of Italy, the discrimination against foreign suppliers seems particularly severe (Table 23)[69]. Several institutional characteris-

Table 23. **Public sector import penetration from EC and non-EC sources in the mid-1980s**

Per cent

	Italy	Belgium	France	Germany	United Kingdom
Total public purchases (as a percentage of GDP)	13.1	17.5	14.1	11.8	21.8
of which:					
Government	8.4	6.5	8.6	7.5	11.9
Public enterprises	4.7	10.9	5.5	4.4	10.0
Estimated total contract procurement[1] (as a percentage of GDP)	6-8½	8-11½	6½-9½	5½-8	10-14
Apparent public sector import penetration[2]	1	21	16	12	4
Public purchases from foreign suppliers[3]	0.3	2.6	1.6	3.8	0.4
Memorandum item:					
Ratio of imports to total demand	18	41	19	23	22

1. Estimated data equal to 45-65 pour cent of total public purchasing (PP). A substantial portion of total purchases are excluded: *i)* non-competitive or non-tradeable services or products such as gas and electricity, rents of buildings, post and telecom and administrative expenses (about 15-25 pour cent of total PP); *(ii)* small purchases or other purchases not subject to formal contract procedures (20-30 pour cent of PP).
2. Purchases reported to be of foreign origin as a percentage of total purchases.
3. Value of contracts with foreign supplier as a percentage of total values of contracts.

Source: Commission of the European Communities, The "cost of non-Europe" in public sector procurement, 1988, Research on the cost of non-Europe, Public findings, Volume 5, Part A.

tics account for this bias. First, the weight and the vertical integration of state-holding companies, which are subject to less stringent financial constraints than private firms, serve to favour domestic suppliers[70]. Second, government purchases are required to use inputs of at least 30 per cent from companies located in the South (Law 64/86). While only partially observed, this requirement constitutes nonethelesss a protectionist device[71], as documented in a decision taken by the EC Court of Justice in March 1990. Under the Court decision, Italy was ordered to reduce this barrier to competition progressively. Third, decision-making in the domain of public purchases is highly decentralised, which clearly favours local suppliers[72]. Finally, legal criteria for public procurement and EC directives have often been ignored[73].

State-owned firms as instruments of industrial policy

As noted above, state-controlled companies in Italy are powerful entities in terms of investment, output and employment. This implies that large segments of the economy are not subject to competitive pressures, exercised, for example, via the threat of bankruptcy and take-over bids. Furthermore, state-controlled firms have been used since the 1950s as instruments of industrial policy. As it turned out, this policy often lacked coherence and foresight, especially in the 1970s, when investment plans of state-controlled firms became subject to the influence of the ''hidden political shareholder''[74]. Business activities were exposed to a plethora of random public interventions, including extensive bailing out and feather-bedding of large ailing private companies, an exercise often aimed at protecting jobs and safeguarding peace in labour relations[75]. In this way, large companies were able to escape from market pressures, weakening the entrepreneurial spirit, especially in the 1970s. Small- and medium-sized enterprises received bailout assistance from GEPI, a corporation set up in 1971 by IMI, the state-owned investment bank, and the three state-owned industrial firms. Despite political leverage, GEPI in its 20-year history has been able to restore the financial health of 205 companies, with subsequent resale to the private sector[76].

Sector-specific interventions, largely taking the form of soft loans and cash grants, became the norm. As a result, the public sector expanded, giving rise to a private- and public sector dualism institutionalised by the creation of two separate ministries, one for Industry and another for State Participations. The outcomes were often financial losses and competing requests for financial aids from the State by both public and private firms, a process which extended well into the 1980s. In this process, state-controlled banks extended credit to state-controlled companies to cover losses, with the State stepping in as a guarantor of last resort[77]. In addition, the requirement of cost effectiveness and the use of benchmark accounting data for assessing the financial performance of public companies were in fact nearly abandoned, lowering both cost effectiveness and accounting transparency in the 1970s (lack of internal control). However, there are also interventions which may have had a positive impact on structural adjustment. The Fund for Technological Innovation (1982), for example, by promoting innovation programmes in many firms, is usually credited with having contributed to the restoration of industrial vigour.

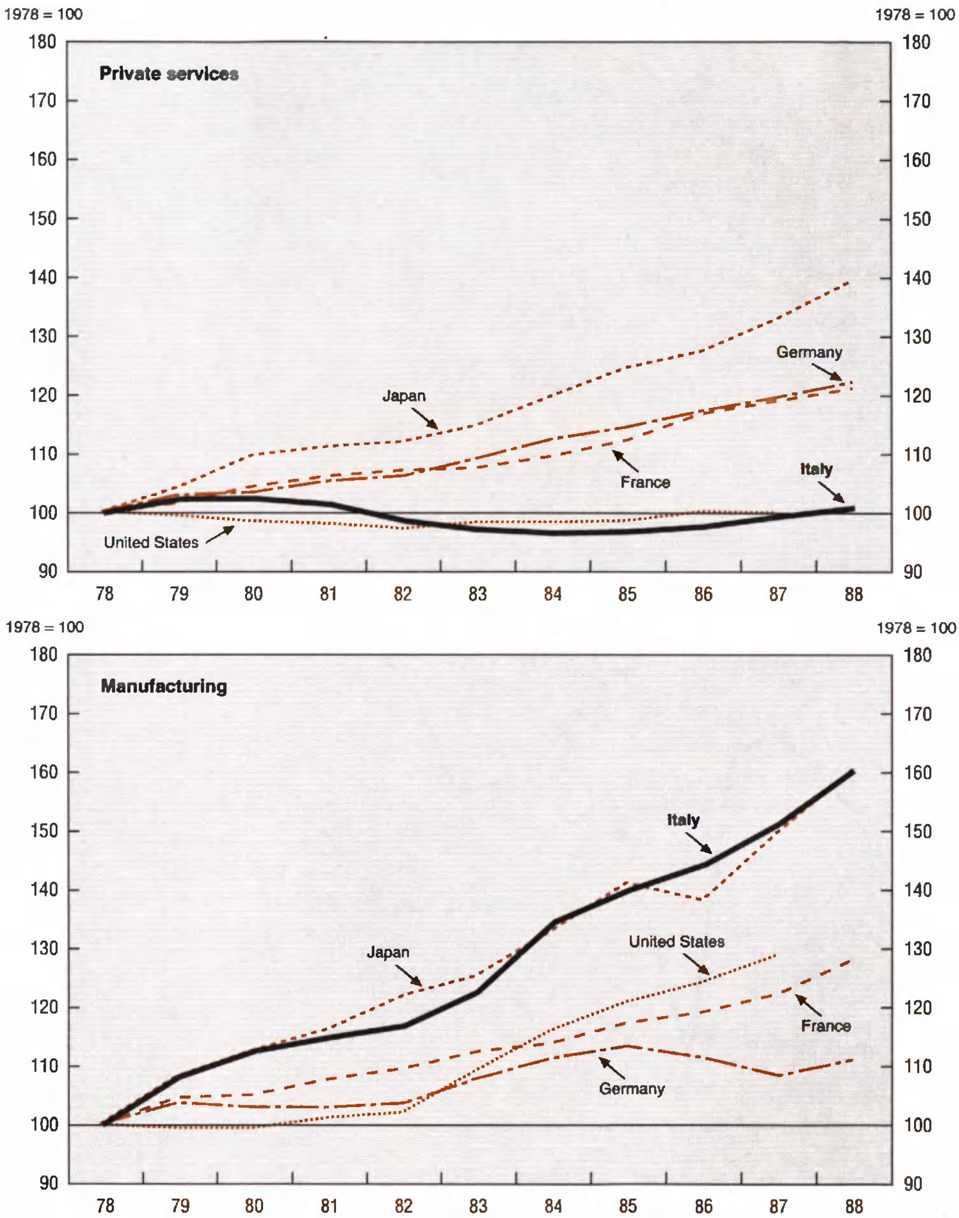
Sector-specific conditions

As in other European countries, services are subject to a tightly woven web of rules and regulations. These are generally felt to be more binding and to impinge more pervasively on competitive conditions than those applied in goods markets. As moreover, in Italy, the divergence between productivity trends in manufacturing and private services has been particularly marked (Diagram 21) without being mirrored in a correspondingly greater spread of pay increases, service prices rose steeply throughout the 1980s (Diagram 22). In addition, after allowing for skill differences, the level of wages for both private and public services has continued to exceed that in the exposed sector, suggesting that both employers and employees share the economic rent caused by a lack of competitive pressure. Since the input of services per unit of output of tradeables has been increasing and seems set to drift upward over the medium- to longer run, price and quality of services increasingly affect competitiveness. Thus, barriers to competition in the service sector have come under rising scrutiny, especially those in the public sector.

Public services

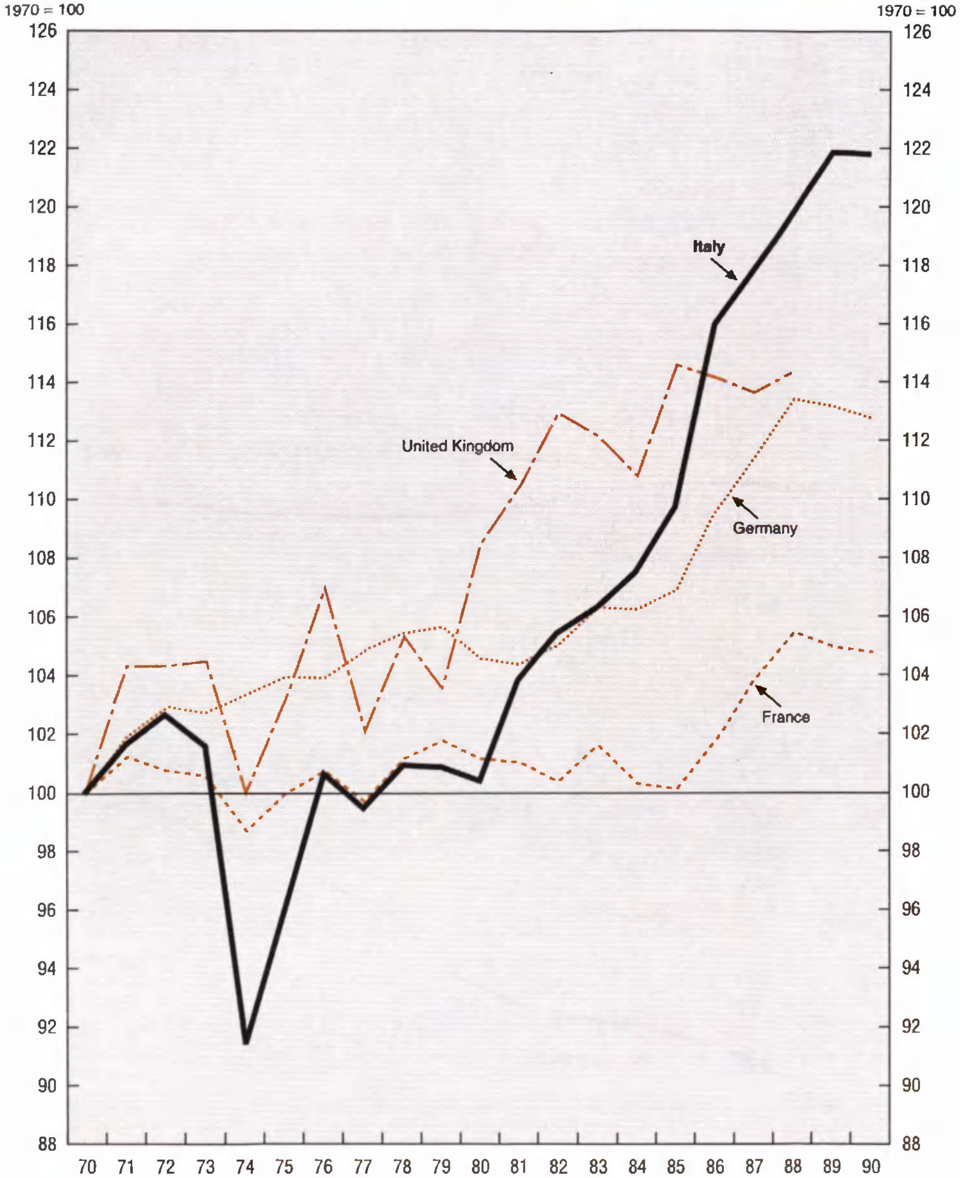
In line with practice in other market economies, the Italian authorities have used direct interventions to control natural monopolies and other public companies. Firms supplying essential services are state-owned, and in terms of their dependence upon the government, four main categories can be distinguished:

Diagram 21. **SECTORAL LABOUR PRODUCTIVITY**



Source: OECD, *National Accounts.*

Diagram 22. **REAL SERVICE PRICES**[1]



1. Index of service prices excluding rent divided by index of consumer prices.
Source: OECD, *Main Economic Indicators.*

- *Aziende autonome dello Stato* (e.g. postal services) with little management autonomy as their budgets are voted by Parliament;
- *Enti pubblici* (e.g. ENEL), enjoying budgetary autonomy, but being subject to control by a ministry;
- *Local public companies,* engaged in a variety of activities such as the provision of water, pharmaceutical products and milk, and regulated by local authorities, enjoy some measure of management autonomy;
- *Aziende a partecipazione statale,* i.e. firms being held under the umbrella of State-holding corporations and exercising monopoly powers over a range of specific services, e.g. Telecommunication (SIP), air transportation (Alitalia) etc. These companies enjoy management autonomy, but are subject to guidelines of the government and control through Parliament[78]. Long-term investment projects require approval by Parliament.

In Italy the supply of many public services suffers from high input costs and low output quality. Efficiency gaps with the EC average are largest for air transport and railways, followed by postal services and telecommunications[79]. Financial losses are huge for *railways,* which absorb the bulk of public sector aid[80] (Table 24). Both railway productivity and the quality of services are low, as evidenced by long train delays and the large number of employees per kilometer of railway network (Table 25). *Alitalia,* the monopolist in domestic air transpor-

Table 24. **Government aid[1] to public service enterprises**

Billion lira

Enterprises	1985	1988	1989	1990[2]
Electricity (ENEL)	1 795	240	530	572
Telecommunications (SIP)	40	109	136	163
Post	2 730	2 301	2 759	2 828
Urban transport	4 818	6 243	5 023	4 731
Rail transport	12 610	14 299	15 959	14 373
Total	21 993	23 192	24 407	22 667
In per cent of GDP	2.7	2.2	2.0	1.7

1. Including current and capital transfers.
2. Estimate.
Source : Ministry of the Budget and Economic Planing, *Relazione previsionale e programmatica,* 1991.

Table 25. **Selected indicators of public service efficiency**

	Italy	Germany	France	United Kingdom
A. Rail transport				
Employees per km. of lines (1988)	13.4	9.2	6.2	9.1
Passenger km. per employee (x '000) (1988)	202	162	296	229
Tons of merchandise carried km. per employee (x '000) (1988)	96	240	252	n.a.
	Less than 5	6-15	16-30	More than 30
Train delays [1] (in minutes)				
1981	34	26	14	26
1988	56	25	13	8

	Italy	Belgium	France	Germany	Spain	United Kingdom
B. Telephone services						
Waiting period for telephone connection (in months) (1987)	3.9	3.0	0.6	n.a.	3.7	3.0
Percentage of breakdowns repaired within 24 hours (1987)	91.4	50.9	86.1	n.a.	76.2	80.2
Number of users per 100 inhabitants (1988)	34.9	36.2	46.3	46.3	28.1	42.1
Number of users per employee (1986)	160.6	119.5	141.8	124.7	134.3	97.9
Average cost of telephone services (1988)[2]						
Firms (Italy = 100)	100	57.6	71.2	81.8	83.0	61.6
Households (Italy = 100)	100	51.9	54.9	152.2	109.4	38.7

	1970	1980	1988
C. Air transport			
Ratio between traffic unit-km carried and number of employees (1970=100)			
Italy	100	124.6	171.6
Atlas group[3]	100	190.1	279.1
D. Postal services			
Postal traffic per employee (1970=100)			
Italy	100	92.7	97.3
France	100	88.3	100.5
Germany	100	102.5	107.5
United Kingdom	100	94.3	103.0

1. Long-distance passenger trains.
2. For a standard basket of telephone services.
3. Includes Alitalia, Air France, Sabene, Iberia, Lufthansa.

Source : P. Rubino, *"Efficienza et controlli tariffario nelle imprese di pubblica utilita; un confronto in Europa"*, 1990, mimeo, Banca d'Italia and G. Cananzi and L. Prosperetti, *"Produttivita e qualita nei principali servizi pubblici vendibili nel 1988"*, 1989-IV, Nomisma.

tation, is facing serious problems of overmanning[81]. Large financial losses also arise in the domain of *local public transportation,* traditional *postal services,* and urban telephone and financial services[82]. In *telecommunications,* the infrastructure, measured by the number of telephones per inhabitant, is underdeveloped, and tariffs for international calls are comparatively high[83] (Table 25).

As noted above, public service companies have recurrently been used for purposes of short-term macroeconomic stabilisation of both prices and employment. Increases in public tariffs have often been limited in order to contain inflation. In addition, the level of tariffs has frequently been kept below long-run marginal costs, notably for railways, household electricity and local telephone calls, with compensatory unduly high tariffs charged to enterprises (cross-subsidisation). As regards employment, jobs continued to be created in public service enterprises as part of policies to ease the unemployment problem[84]. In postal services, job creation and labour allocation continue to be governed by rigid and antiquated criteria. Finally, management in public services has traditionally put up little resistance to excessive wage claims, as is evident in a level of salaries exceeding that in manufacturing. This applies to postal services, telecommunications and ENEL[85].

In the second half of the 1980s, attempts were made to give greater management autonomy to some of public enterprises. Results so far have been rather modest. For railways, even after the 1985 reform, the Minister of Transport has continued to fix the greater part of fares. The difference between actual prices and hypothetical cost-determined prices is automatically covered by subsidies, leaving no incentives to raise efficiency. A lack of incentives also exists for local public companies, which are either required to balance their accounts irrespective of the level of costs, or are permitted to incur financial losses subject to some constraint (e.g. local transportation)[86]. Finally, under legislative proposals currently under consideration, Alitalia may obtain greater freedom in price setting. But such a move can hardly lead to higher efficiency gains, as long as Alitalia's monopoly position remains unchallenged.

According to empirical studies, welfare losses stemming from the lack of efficiency of public services are quite considerable[87]. Faced with keener competition from abroad, the authorities have eventually taken or prepared corrective action:

- Some postal services have been opened up via auction-bidding to private enterprises, i.e. express letters (spring 1990) and telegrams (March 1991). Telegram costs have been cut by more than one half, and the delivery time to one sixth.
- Leaning on French and British models, the Government has entered into contractual relationships with public service firms ("planning contracts"). In the case of electricity, ENEL is required to keep increases in tariffs in line with the rise in consumer prices diminished by expected or postulated gains in company-productivity of 1.5 per cent per year (RPI-X). For railways, the contract limits the growth of railway debt, while committing management for the first time to meet fixed objectives via an improvement of both productivity and quality of service.
- In analogy with the railway reform of 1985, the Government may place ASST, an Aziende autonome dello Stato responsible for inter-urban telecommunications, under the control of the state-owned holding corporation IRI, thereby giving it greater management autonomy.
- Cross-subsidisation in electricity generation and telecommunications has been reduced[88].
- Thanks to reorganisation, public services have recorded stronger productivity gains in the second half of the 1980s, allowing State subsidies to be cut by 1 per cent of GDP between 1985 and 1990. The workforce has been reduced by ENEL and similar action is planned by the national railways.

Financial services

The second half of the eighties has been marked by a gradual and steady reduction in impediments to competition that had negatively affected productivity, price developments and the quality of services in the banking sector. Since mid-1983, the removal of the ceiling on bank loans as a permanent instrument of monetary policy has served to foster competition in the loan market, narrowing the differential between lending and Treasury bill rates (Table 26). In the payment system, substantial elements of inefficiency were manifest in long clearing periods for cheques and payment orders in general, in the small number of automatic cash counters and in technological backwardness[89]. In 1988, the central bank took action to increase the use of electronic means in interbank

Table 26. **Lending and deposit rates**

Approximate quotations observed on the Reuters circuit: 24 January 1990

	3-month interbank deposits	3-month Euro-deposits	3-month certificates of deposit	3-month prime customer depositfs	3-month Treasury bills
Italy	12.87	12.37	11.50	10.50	12.60
United States	8.25	8.25	8.25	7.50	7.65
Japan	–	7.03	6.57	6.75	–
Germany	8.20	8.19	–	7.75	–
France	11.06	11.06	10.73	10.50	10.25
United Kingdom	15.12	15.12	15.06	14.50	14.68
Spain	15.35	14.80	–	11.50	13.75
Switzerland	–	9.87	–	8.75	–

Source : Banca Commerciale Italiana, *The Italian Economy*, No. 41, March 1990, p. 11.

transactions, with a view to rationalising the clearing and settlement process and speeding up the exchange of out-of-town cheques via cheque truncation[90]. These initiatives resulted in substantial improvement of the payments system[91].

While Italy is among the world's ten largest industrial powers, none of its banks ranks among the top 30 in terms of asset size. In principle, Italian banks perform only short-term operations (up to eighteen months)[92], while special credit institutions conduct medium- and longer-term business. Geographical restrictions, a serious obstacle to competition, have been relaxed over the past few years and phased out in May 1990[93]. This has led the number of authorised branches to increase sharply in 1990. At present, authorisation to open up new branches can be denied only on the grounds of insufficient financial strength of the applying bank. As noted above, the public sector has a dominant influence in the banking sector, controlling as much as two-thirds of its business via three retail banks, six public law credit institutions and 80 savings banks. State ownership is either directly exercised or indirectly through IRI or through the public-foundation status of public-law and savings banks. Of a total of about 450 banks allowed to operate nation-wide, about one-fourth are private co-operative banks (Banche popolari cooperative), a banking group displaying sharply rising concentration ratios over the past few years. Due to controls on capital outflows and public ownership, foreign direct investment in banking has been relatively small until recently[94]. However, following a modification of statutory rules in 1987, banks can now enter into agreements with primary foreign institutions.

Until recently, tax laws and the foundation status of public banks have made mergers between banks unattractive[95]. This, together with the former geographical restrictions, kept the size of banks relatively small, a feature which is likely to change with the adoption of the Amato Law (see below). Severe restrictions on ownership linkages between banks and non-financial companies remain in force[96] to protect depositors and to narrow the scope for conflict of interest (Table 27). Banks are prohibited from holding shares in non-financial enterprises, but purchases of stakes in insurance companies are now permitted. Likewise, private non-financial enterprises are not allowed to invest capital in majority stakes in financial institutions. The same prohibition applies to insurance companies controlled by non-financial enterprises.

Table 27. **Regulations of ownership linkages in financial services**

	Interbank		Bank		Non-bank financial or commercial owns banks	Bank insurance	
	Mergers	Participations	owns other financial company	owns non-financial company		Bank owns insurance	Insurance owns banks
Italy	A	AL	AL	PR	PRL	PRL	N[1]
United States	A	AL	PR(N)	PR	PRL	PR[2]	PR
Japan	A	AL	AL	AL	N	AL	AL
Germany	A	PRL[3]	PRL	PRL[3]	N	PRL[3]	PRL
France	A	AL	A(N)	PRL	AL	N	PRL
United Kingdom	A	PL	N	N	PL	N	N
Canada	A	PRL	PRL(N)	PRL[4]	PRL	PRL	PR(PRL)
Spain	A	AL[5]	N(P)	N	AL	N	N

1. Currently under revision.
2. Banks or bank holding companies can own insurance companies offering only life insurance or another particular line of insurance.
3. Loans to a single borrower, including the bank's participations in the borrowers' enterprises, may not exceed 50 pour cent of liable capital.
4. Schedule I banks may hold up to 100 pour cent participations in the foreign commercial enterprises.
5. Interbank participations have a higher weighting in the solvency ratio for the holding bank.

Key: A – Approval required.
AL – Approval required in cases over limits.
N – No restrictions in principle.
P – Prior notice required.
PL – Prior notice required in cases over limits.
PR – Prohibited in principle.
PRL – Prohibited in cases over limits.
NB. – PL(AL) means "generally PL in some cases AL".

Source : OECD.

Shares and equities markets, though expanding, have remained narrow in the presence of incomplete legislation and the *de jure* and *de facto* control of the banking sector by the government. Capitalisation has been highly concentrated among a small number of "groups" listed at the stock exchange. There has been a lack of protection of small stock-market investors, notably in matters of fiduciary responsibility and accountability of corporate directors. Poor enforcement of investors' rights failed to constrain the actions of controlling shareholders. Assets tended to be transferred at arbitrary prices among firms. Controlling-blocks of shares have been traded outside the Stock Exchange, with no obligation to offer equal remuneration to all shareholders. This discrimination against minority investors has been evident in sharp discounts on non-voting shares relative to ordinary shares, as well as on small amounts of ordinary shares compared to controlling blocks. The result has been a depressed demand for security investment. In January 1991, new legislation was adopted, establishing a complete legal framework for securities markets (see below).

Private non-financial services

In *retail trade,* small independent retailers dominate the market. Competition is hindered by a number of factors one of which is the existing system of price control. Moreover, there are administrative restrictions which hinder access of new shops, especially large ones. Restrictions are often embodied in a mandatory local "retail master plan", drawn up by municipalities. Using projections of turnover in retail trade, these plans allocate shop space for each shop type subject to area-specific ceilings. This amounts to "needs-testing" which has been found inefficient in other countries. Special licences, issued by regional councils, are needed for the opening of big shops and supermarkets[97]. These restrictions undercut the establishment of supermarkets, probably keeping the shop size below optimal levels and favouring small local chains to the detriment of large regional or national chains. In the second half of the 1980s, restrictions set forth in local retail plans appear to have been eased, as is manifest in a rising number of large shops for food and other products. Yet among the major European countries, Italy continues to have the highest number of small shops and the lowest one of big outlets[98]. Restrictions on shop opening hours in retail trade were eased in 1987, but the scope for greater flexibility appears to have been used only by large supermarkets. Elsewhere, shop opening-hours within a given region have remained uniform. Prices for hotel accommodation were, until very recently, fixed by local committees (Comitati Provinciali dei Prezzi, Table 18), and, despite low capacity use for hotel rooms, they have remained high, especially in large cities, compared with other countries.

Competition in other segments of service trades is also hampered by various means and in various ways: the existence of a monopoly for unloading *ships* and related high cost premia for container shipment; restrictions placed upon the number of *pharmacies*[99] and notaries; minimum fees for *lawyers* set by a professional association[100]; and numerous impediments to *private transport* (price and supply agreements among cab owners, licences for taxis and private bus services etc.) and price controls for car insurance fees, which were eased in March 1991.

Recent moves to ease impediments

Given the weight of state-controlled firms and their use as instruments of industrial policy, less need was felt in Italy to establish a legal framework for limiting restrictive business practices[101]. Indeed, Italy was the only major country until 1990 without an anti-trust legislation. Numerous abortive initiatives were taken in the 1950s[102], leaving a situation with no coherent framework for mergers, acquisitions, bankruptcies, reallocation of property rights and corporate structure. Furthermore, legislation concerning securities markets has been highly incomplete, and legal rules have often been left vague or remained unenforced[103].

However, in 1990 and early 1991 three relevant pieces of legislation were passed, establishing a co-ordinated framework:

- the anti-trust law on the "protection of competition and the market" (Law 287 of October 1990);
- the "Amato Law" (July 1990), concerning the transformation of public-sector banks into joint stock corporations;
- and the law concerning stock market transactions ("Regulation of securities-investment business and provisions on the organisation of the securities markets", i.e. "disciplina dell'attività di intermediazione mobiliare e disposizioni sull'organizzazione dei mercati mobiliari", law 1 of January 1991).

The new *anti-trust law* applies to horizontal and vertical agreements, to abuses of a dominant position[104] and to mergers, which do not fall within the scope of Articles 85 and 86 of the Treaty of Rome, EC Regulations or Community Acts having an equivalent regulatory effect. The law covers all firms, including public undertakings in legal monopoly situations, in case they abuse their dominant position[105]. In the case of insurance companies, merger control is exercised by a newly-created anti-trust commission, but in consultation with a special body responsible for the supervision of the insurance sector (ISVAP). Responsibility for avoiding restrictive practices in the banking system is entrusted to the bank of Italy, while special authorities perform this task for television broadcasting and publishing. However, decisions have to be taken in consultation with the anti-trust commission. Established by the law, the Commission (''Autorità Garante della Concorrenza e del Mercato'')[106] is a collegial independent body responsible for enforcing the new anti-trust law, with associated powers of investigation and decision-making. The Commission has the right to impose substantial fines. In addition, it may initiate investigations into the competitive practices of any sector in the economy[107]. Such investigations may be started at the request of the Government or at its own initiative. In addition to acting as an anti-trust authority in the banking system, the Bank of Italy is also given powers to maintain the traditional separation between industry and banks.

Based upon the prohibition principle, the new anti-trust law bans abuses of dominant positions and restrictive practices, such as dictating prices or unfair conditions; preventing or restricting production, access to markets, outlets and technological progress to the detriment of consumers; and discriminating between commercial partners. In conformity with EC regulations, the Commission has the power of authorising for a limited period– cartels or categories of cartels normally prohibited, with a view to improving supply conditions[108]. Merger control has been introduced in the competition law. A prior notification of mergers is required. This prior notification is compulsory for all types of operations (acquisitions, takeovers and joint ventures) which reach the thresholds defined in the law[109]. These notification thresholds are relatively low, as compared to the ones provided in competition laws of other Member countries. Moreover, the law obliges the Commission to react swiftly[110]. The merger control system seems, at least in its principles, to be potentially more stringent than in the average of other countries. Its effectiveness will largely depend on the manner in which it will be enforced by competition authorities. Special provisions apply to mergers involving foreign undertakings if the principle of reciprocity is not respected.

Although the last but one OECD country to adopt a competition law[111], Italy has managed to introduce in one go a full set of rules, covering cartels, abuses of dominant position and mergers. EC rules and experience of other countries have served as a guide in this respect[112]. However, like the EEC Treaty (Article 96) the law fails to give a clear definition of what constitutes an ''abuse of a dominant position''. Moreover, the possibility offered to the Government to establish a special merger treatment for foreign enterprises may be a source of potential discrimination[113]. This provision may deter foreign enterprises from entering into the Italian market. Moreover, for cartels the law enumerates circumstances in which the Commission is allowed to exempt practices which would otherwise be prohibited. Some of these circumstances are comparable to those cited by Article 85.3 of the Treaty of Rome, while others were added, like ' competitiveness at the international levels'[114].

The *Amato law* (July 1990) allows public sector banks to change their legal forms from trusts, foundations and associations into joint stock corporations (SpA). The State and other public institutions, owning public banks, can now sell up to 49 per cent of the banks' equity to private investors (partial privatisation). In addition, the law encourages banks to diversify (gruppo polifunzionale), by creating non-bank financial intermediaries engaged in capital market operations, which banks proper are forbidden to undertake. Furthermore, the law sets aside large sums until 1994 for the recapitalisation of the three public law banks in the South. Finally, the law accords tax exemption until August 1992 for gains on asset values arising at the time of the transformation of public sector banks into joint stock corporations. This asset revaluation is likely to assist public-sector banks in setting up new branches following the lifting of restrictions in March 1990. The changes sanctioned by the Amato Law are bound to stimulate alliances and partnerships, not least with foreign banks[115], thereby easing the fragmentation and undercapitalisation of the banking system. In addition, political interference into bank management may wane, as partial privatisation improves information flows about bank operations. On the other hand, placing severe restrictions on private majority holdings may continue to affect negatively efficiency and quality of financial services.

The *stock-market law* establishes a complete legal framework covering the organisation and functioning of the securities markets[116]. Under the law, a new type of legal entity has been created, the securities investment firm (Società di Intermediazione Mobiliare or SIMs). Only SIMs have the right to trade in organised security markets. By extending to banks the same possibilities as to SIMs to provide investment services, the new regulation should enhance transparency, correctness of operations and stability in the market. Previously, there was a myriad of market agents, subject to different rules[117]. Moreover, motivated by the desire to protect small investors and to expand securities markets, the law requires all trading of listed shares to be conducted on the regulated market. Ending the widespread practice of off-market transactions, this prohibition has no precedent in other OECD countries[118]. In addition, the law empowers CONSOB to create new markets, of a national or local nature, for securities not listed on the stock exchange, and to establish links with supervisory bodies abroad, with a view to regulating cross-border operations.

The authorities recognise *privatisation* as a useful means of raising economic efficiency, developing capital markets and reducing public debt. But, while the scope for doing so is large, little has been achieved so far[119]. The actual magnitude of privatisation has been small, partly reflecting the Government's frequent insistence upon keeping majority control[120]. Over the past five years, *full* privatisation was esseentially limited to Alfa Romeo (sold by IRI in 1986); Lanerossi textiles (sold by ENI in 1987); Sopal food processing (sold by EFIM in 1990); and the sale of the diesel engine subsidiary by IRI, and SIR fine chemicals (sold by Comitato SIR in 1987) and a few small banks. *Partial* privatisation has taken two forms, one being the sale of minority holdings, the other being a further decrease in public ownership of companies which have already had a private component. Over the four-year period ending 1994, the Government intends to collect privatisation proceeds worth L 36 trillion or 2½ per cent of GNP, which corresponds to 17 to 20 per cent of the total estimated market value of public enterprises ranging from L 176 trillion to L 214 trillion or 14 to 17 per cent of GDP. A special committee headed by C. Scognamiglio has recommended that future privatisations be concentrated on five enterprises with an estimated total market value of L 75 to 100 trillion[121]. So far, no umbrella legislation has been enacted, setting out general criteria, which guide the sale of public assets[122].

V. Conclusions

The deceleration of economic growth, under way since 1989, became more marked in 1990, as the Gulf crisis unfolded. With real GDP growing by 2 per cent, capacity slack emerged, and unemployment, after easing until spring, showed a temporary rise. At some 11 per cent in early 1991, the jobless rate was more than twice as high as on average in the other six major OECD countries. Another disquieting feature has been inflation, which reaccelerated from mid-1990 onward in response to both increased oil prices and higher indirect taxes. In June 1991, consumer prices were about 7 per cent higher than a year earlier, double the rate of inflation of Germany and France. Together with a small appreciation of the effective nominal exchange rate, this implied a further worsening of international competitiveness. However, thanks to improved terms of trade, the current-account deficit widened only marginally in 1990 and was more than covered by large capital inflows.

Economic developments to the end of 1992 will be influenced by restrictive fiscal and monetary policies. However, with improved business confidence after the ending of the Gulf War and with export markets expanding, real GDP growth could well pick up by a full percentage point to between 2½ and 3 per cent in 1992, permitting a small fall in unemployment. Lower oil and commodity prices combined with a cyclical rebound of productivity should ease consumer price inflation to some 5 per cent in the second half of 1991, after which it may edge upwards again. The current-account deficit may shrink to 1 per cent of GDP in 1992, helped by higher net receipts from tourism as well as further gains in the terms of trade.

With the lira joining the narrow band of the EMS in January 1990 – an event succeeded by the removal of the last vestiges of capital controls in May 1990 – domestic markets have become more sensitive to foreign influences. In this setting, exchange-rate expectations changed, keeping the lira technically strong through most of 1990 and the first half of 1991, despite further losses in competitiveness. As a result, interest rates eased relative to those in Germany, pointing to enhanced credibility of macroeconomic policies. Supported by measures of fiscal restraint, subsequent cuts in the discount rate in May 1990 and 1991 and a reduction in minimum reserve requirements in May 1991, the easing of monetary conditions has facilitated the task of constraining the rise in public spending. While the adoption of the new exchange-rate regime has reduced the autonomy of monetary policy, the authorities have changed the system of compulsory reserves, making short-term interest rates more responsive to initiatives of monetary policy, and the central bank has been given greater discretionary power to set interest rates as a lender of last resort.

Reflecting revenue shortfalls and higher-than-expected interest rates, progress in reducing the central government budget deficit slowed in 1990. At the same time, partly due to a settlement of past unrecorded debt, general government borrowing requirements climbed to 10½ per cent of GDP from 10 per cent in 1989. However, with revenues expanding faster than spending net of interest payments, the primary deficit fell, if only marginally, to 1.5 per cent of GDP, about 4 percentage points below its 1985 level. Progress in strengthening public finance has been held back by soaring public pay costs. The public debt/GDP ratio has therefore continued to rise rather swiftly, exceeding in 1990 the value of nominal GDP for the first time since 1924, the war year 1943 excepted.

Mainly with a view to stabilising the cost of debt service, which amounts to nearly 10 per cent of GDP, the Government has made greater recourse to medium- and long-term finance. Borrowing abroad has also been stepped up to take advantage of lower interest rates. As a result, the average maturity of the public debt has risen, reaching two years and ten months at the end of June 1991. However, the scope for reducing interest payments through changes in debt management is limited compared to gains which could be made by a further strengthening of the primary balance. Market interest rates tend to react to changes in the overall budgetary position. Indeed, developments in 1990 and 1991 have shown a significant easing of monetary conditions in response to restrictive fiscal measures.

The State budget for 1991, supported by restrictive fiscal action in May, aims at a primary surplus for the first time in about 20 years. This means a discretionary move towards restraint equal to 1.3 per cent of GDP, outweighing the effects of automatic stabilisers. As in the past, however, the deficit-reducing steps may prove less efficient than planned and some of the measures will not result in lasting improvements. However, counting on a reform of the public labour market, cuts in subsidies and transfers (disability, health, pension and transportation), a widening of the tax base and accelerated privatisation, the latest medium-term public finance programme (May 1991) is for a reduction in the State deficit to less than 6 per cent of GDP by 1994. Under this ambitious programme, the public debt/GDP ratio would be stabilised by early 1993, an aim which, according to official calculations, requires a primary surplus of as much as 2¾ per cent of GDP.

Making lasting progress in budgetary consolidation will not be an easy task. While there is certainly room to strengthen the tax base via combating tax evasion, the overall tax burden has risen rapidly in the 1980s, coming close to the average EC level. Given the limited room for relief on the revenue side, the brunt of the adjustment burden after 1991 will have to be carried by public expenditure, notably the public wage bill, subsidies and social transfers. Compared with most other countries, subsidies are high and provisions of the pension system favourable, in particular those concerning retirement age, income reference period and access to disability pensions. In addition, public wages have for many years been rising more rapidly than in the private domain and, even though public employment is not high overall by international standards, the scope for a better use of the public work force and slimming it seems large in certain areas.

The authorities, after the incorporation of the lira into the narrow band of the EMS, recognise the greater need to align advances of unit labour costs and prices in the exposed sector on that in major EC-countries, where inflation is about half the rate in Italy. However, the recent behaviour of the government as an employer does not appear to be compatible with this requirement. Indeed, nominal wage growth in the public sector jumped to 15.7 per cent in 1990. This increase, nearly twice as large as in industry, reflects the bunching in 1990 of payments for the renewals of three-year wage contracts and is only in part justifiable by efficiency or catching-up considerations. By contrast, the new exchange-rate regime prompted employers in the exposed sector to put up greater resistance against excessive pay claims. The configuration of stricter pay discipline in the private sector and the lack of corresponding rigour in the public sector is a matter of concern for a country faced with high inflation and a huge budget deficit. The new commitment to stable exchange rates makes it all the more urgent to return swiftly to a path of disinflation.

The importance of bringing public pay developments under better control has been emphasised by the Government, as evident in recent pronouncements to achieve zero growth in real public pay during the 1992-1994 period and to subject public pay systematically to greater market pressure via institutional reforms. If enacted, such reforms would align employment conditions in the civil service sector (including railways and postal services) on those prevailing in the private sector. Moreover, at the time of writing, the social partners have been holding discussions about further modifying the national wage indexation scheme ("scala mobile"), about reducing non-wage labour costs, about reforming the public labour market and making wages more responsive to the ability to pay of individual firms. Action in the latter direction may take the form of modifying the practice of centralised wage bargaining. With a view to reducing rigidities in the labour market, the authorities have recently decided to abandon the job allocation scheme ("richiesta numerica"), which constrains the employers' freedom to hire. Moves towards greater labour market flexibility are clearly called for to bring down the excessively high level of structural unemployment which, measured by the rate of unemployment at the peak of the last cycle, represents as much as one-tenth of the labour force. Largely concentrated among young people and women living in the South, this kind of labour market disequilibrium involves social hardship, blocking access to work experience, eroding human capital and putting a heavy burden on the public budget.

Action designed to strengthen the price mechanism in goods and financial markets will also serve to improve employment and efficiency. A number of important measures have been taken in this area. With a view to establishing a comprehensive framework, new legislation was adopted concerning the protection of competition and the market (October 1990); the transformation of public-sector banks into joint stock corporations (July 1990); and the organisation and functioning of securities markets (January 1991). Largely inspired by EC guidelines and practices, these laws, taken together, represent a milestone towards establishing a framework for competitive behaviour. In addition, the authorities have taken a number of steps, or plan to do so, to inject market incentives by way of regulatory reform in public services, e.g. telecommunications, postal services and railways.

These changes were long overdue, as new challenges, including rapid technological change and swift deregulation and regulatory reform abroad, have increasingly called for a strengthening of the production structure and a reduction of the oversized public sector. The new laws provide strong stimuli to mergers and acquisitions, thus helping to overcome segmentation and undercapitalisation in several markets, especially in the banking sector. Moreover, political interference into state-controlled firms may decrease, as partial privatisation results in better information about business transactions. With the creation of venture capital being favoured, possible constraints on the expansion of small and medium-sized firms will be eased. Innovation efforts by small enterprises would also be strengthened by new measures embodied in pending legislation. Care will, however, have to be taken that financial assistance does not go beyond limits imposed by considerations of externalities and overall efficiency.

Though representing an important and welcome step, the new laws do not go far enough in liberalising markets in some areas. A case in point is the severe limitations imposed upon the sales of majority shares of publicly-owned banks. In general, partial as distinct from full privatisation means that the proceeds and efficiency gains associated with full privatisation will not be realised. Moreover, the possibility offered to the Government to establish a special merger treatment for enterprises located in countries which do not apply reciprocity rules may be a source of potential discrimination. In the domain of deregulation, the need for action is especially strong for public transportation and postal services, where the level of economic efficiency is particularly low. Opening some postal services up to private initiative, as recently decided, is to be welcome, but can be considered only as a first step and needs to be backed up by measures to eliminate overmanning. In the provision of other public services, notably electricity and TELECOM services, the main problem to be addressed is sub-optimal pricing, calling for further reductions of cross-subsidisation.

Other remaining market distortions are linked to the high level of subsidies and non-tariff barriers, to restrictive policies of public procurement, to widespread, albeit diminishing, price controls and to a few remnants of privileges granted to the State as a borrower. Some segments of the private service sector, such as retail trade, pharmacies, notaries and taxis continue to be fraught with tight regulations, hindering access of efficient suppliers and imposing welfare losses upon consumers. Moreover, there are distortions in the interest rate structure. The wide spread between bank lending and deposit rates is mainly a consequence of high minimum reserve requirements, which had increased in the early 1980s to offset the creation of liquidity by the Treasury through the automatic credit-line extended by the Central Bank. Largely for this reason, average deposit rates have remained low, weakening the competitive position of Italian banks in attracting financial wealth.

The extent to which the various laws and specific measures described above will lower barriers to competition will critically depend on the determination and willingness of the authorities to enforce laws, rules and regulations, and on the Government's attitude towards state-controlled firms. In this context, the independence of the newly-created anti-trust Commission and its legal power to initiate investigations into competitive practices is to be welcomed. In the past, legal rules, whether of domestic or international origin, have often been left unenforced, while public procurement policies have been highly restrictive. The dividends to be reaped from the new regulatory framework will not only depend upon the rulings of the anti-trust Commission but also upon the type of industrial policy, which in the past has often stifled entrepreneurial initiatives. Allowing the new exchange-rate regime in tandem with fiscal restraint to impose its full discipline on labour and management, both in the private and the public sector, should serve to create an increasingly competitive environment, helping to meet the challenge of, and drawing the full benefits from, rapid economic and financial integration in Europe.

Notes and references

1. Under the new rules, the tax will be repaid within 60 days. Delays of up to five years seem to have been common under the previous regime.
2. CDs with a maturity exceeding eighteen months enjoy a favourable tax treatment, i.e. the tax rate is 12.5 per cent as against 25 per cent for shorter maturities.
3. The Treasury has discretionary power over its current account facility with the Bank of Italy. This facility is subject to a ceiling of 14 per cent of government spending. See, Banca Commerciale Italiana, *The Italian Economy, Monetary Trends,* March 1990, p. 13.
4. The new rules apply to all banks except for second-class pledge banks and rural and artisans' banks. Savings banks, previously free to deposit their compulsory reserves through the Central Institute for Italian Savings Banks (ICCRI), will now act in the same way as other banks. See, Bank of Italy, *Economic Bulletin, No. 11,* October 1990, p. 46.
5. The number of network participants rose from 181 in October 1990 to 272 in January 1991.
6. The stabilisation of the public debt/GDP ratio has been repeatedly postponed under the different medium-term fiscal adjustment programmes. For instance, in 1985 the Government aimed at reaching this target in 1988.
7. More than half of the increase in general government borrowing requirements in 1990 was accounted for by the regularisation of debt incurred in previous years by local health and public transport authorities.
8. Central government expenditure accounts for three-fourths of total public sector spending. About one-third of central government spending represents transfers to local authorities and the social security administration. Central government transfers constitute the main source of revenues of local authorities. In 1990, the budget of local authorities posted a deficit equal to 1 per cent of GDP. A government decree of October 1990 imposes restrictions on the recourse to bank financing by local authorities, while authorising the sale of public assets by communes and provinces.

9. According to a "sensitivity analysis" based upon a statistical model of the Italian Treasury a fall in real GDP growth by 1 percentage point increases current spending by an estimated L 300 billion, mainly on account of higher unemployment compensation, including payments by the Cassa Integrazione Guadagni. Revenue shortfalls are much larger (an estimated L 1 700 billion). After the removal of the "fiscal drag" in 1990, the primary deficit is only marginally affected by a quickening of inflation. On the other hand, a 1 point rise in inflation raises interest payments by L 3 400 billion or 0.2 per cent of GDP. See, International Monetary Fund, *Italy: Recent economic developments, supplementary materials and appendices'*, January 1991.

10. The corrective measures implied a more ambitious objective for the primary deficit and included revenue gains from higher taxes on water, gas and selected fuels, stamp duties on financial transactions and spending decreases (transfer payments to industry, the defence and health sectors. The streamlining of the Finance Bill since 1988 has made it easier to win Parliament approval of the budget as a whole. Budgetary outcomes though depend crucially on the full implementation of accompanying provisions. See, Bank of Italy, *Economic Bulletin, No. 12,* February 1991, p. 30.

11. Overshooting gives rise to the so called "debiti pregressi", which are not included in the official target for the borrowing requirement.

12. Floating rates are typically adjusted with a lag.

13. Revenues from the surtax on electricity use are earmarked for local authorities.

14. The implementing decree laws were issued at the end of December 1990, and those ratified in early 1991 were officially expected to yield around L 22.2 trillion of additional revenue and L 19.6 trillion of spending cuts. Bank of Italy, *Economic Bulletin,* No. 12 February 1991, p. 52.

15. An amount worth L 4 trillion is expected to come from full or partial privatisation of State-owned enterprises. The remainder (L 1.6 trillion) reflects sales of property. A bill for the privatisation of public property has already been in Parliament for a year and a half.

16. This involves taxes on cars and increased coefficients on real estate taxation to compensate for the postponement to 1992 of a new tax on property aimed at raising local authorities' tax revenues further. Increased tax revenues for local authorities means reduced transfers by the state government to local authorities.

17. Under this measure, funds available for industrial conversion projects (Law 675) are reduced. Moreover, state-controlled companies (IRI, ENI and ENEL) are responsible for the repayment of certain loans previously serviced by the state.

18. Some regional governments have asked the Courts to rule against the State government decision to make them liable for L 2.5 trillion of public health debts

incurred in 1989 and 1990. If the Courts' ruling goes against the State government, expenditure will rise. Another source of unplanned spending may be pensions. The Constitutional Court has recently taken several decisions extending certain benefits to broader categories of pensioners. Unless the Court reverses its decisions, an extra amount of L 10 trillion will have to be paid in 1991.

19. Domestic financial assets of the non-state sector excluding direct holdings of shares.

20. According to customs data, the annual real rate of growth for exports of goods has fallen from 10.3 per cent in the first half of 1989 to 1.4 per cent in the second half of 1990 (year-on-year). However, this profile is not confirmed by national accounts data for exports including services. Following the abolition of remaining capital controls in May 1990, there has been a break in the series of national accounts data, as data on international service trade are now based upon surveys, which necessitated substantial revisions, notably for services traded among enterprises and net income derived from credit transactions. Thus, exports and imports of services in 1990, excluding transfers, were revised upwards by as much as 39 per cent and 45 per cent, respectively, year-on-year, leading to a large divergence between rates of increases for internationally-traded goods and those including services. The break in the statistical series affects both volume and deflators: while customs data indicate a rise in the terms-of-trade for goods equal to 3 per cent in 1990, no such gains are recorded by national accounts statistics.

21. A model developed by the Bank of Italy suggests that households adapt purchases of consumer durables on the basis of a desired stock of such goods. According to this model, the stock of consumer durables reached desired levels in 1990. Thus, the slowdown of car sales, which began well before the Gulf Crisis, is not explicable in terms of lower gains in real disposable income, even allowing for the traditional imprecision surrounding data on disposable income. Indeed, both employment and real wages per head of employment showed a robust rise in the first half of 1990.

22. There are three types of intervention made by the Cassa Integrazione Guadagni: ordinary payments when companies suffer from a cyclical decline in sales; extraordinary payments when companies are faced with structural problems; and special payments to construction workers. Disbursements by the Wage Supplementation Fund cover about 80 per cent of previous pay, much more than unemployment insurance benefits. Benefits accrue largely to employees of large firms. The Fund is financed through the social security system (INPS).

23. The female participation rate is about 10 percentage points lower than the average of the rest of the OECD.

24. In 1988, the educational attainment of more than 75 per cent of women and 55 per cent of young people did not exceed the level of secondary education. These are

higher percentages than recorded for other OECD countries. Moreover, Italy is the only country where the proportion of persons completing upper secondary education and going no further has not declined. OECD *Employment Outlook,* Paris, July 1989, pp. 54-56.

25. In 1987, domestic migrations involved only 0.5 per cent of total population as against 1.1 per cent in 1970. By international comparison, migration is weak. In 1987, the migration/population ratio was 1.3 per cent in France, 2.6 per cent in Japan and 2.8 per cent in the United States. See, OECD *Employment Outlook,* July 1990, pp. 85-86. See also OECD, *Economic Survey of Italy, 1989-90.*

26. In terms of job security, pension schemes and work schedules, public service jobs are more attractive than private sector jobs, especially at the lower end of the job spectrum. See, P. Carniti, *Rapporto sul sistema retributivo e contrattuale,* Ministero de Lavoro e della Previdenza Sociale, 1988.

27. Tourist outlays reached 1.7 per cent of private consumption in 1990 compared with 0.5 per cent in the early 1980s. This ratio stood at 1.8 per cent for France and at 3.5 per cent for the average European OECD country in the late 1980s. The Italian tourist industry also suffers from an insufficient adaptation to a rising differentiation of international tourist demand. Aside from this, there have been problems in preserving the artistic heritage and natural environment of the country. See, Banca d'Italia, *Economic Bulletin, No. 12,* February 1991, pp. 26-27.

28. Between 1984 and 1989, the proportion of Italian direct and portfolio investments abroad in total of capital outflows surged from 10 to 60 per cent. For foreign direct and portfolio investments in Italy, this ratio rose from 15 to 45 per cent.

29. See, P. Carniti *op. cit.*

30. See, OECD, *Economies in Transition, Structural Adjustment in OECD countries,* Paris 1989, pp. 51-52; G. Bodo and P. Sestito, *op. cit.* and OECD, *Economic Survey of Italy, 1989/90,* pp. 24-27.

31. Empirical studies suggest that nominal wage growth is largely determined by labour market conditions in the North. See, G. Bodo and P. Sestito, *op. cit.,* and OECD, *Economic Survey of Italy, 1989-90,* pp. 24-27.

32. See, *Labour land employment policies in Italy,* 1988 report, Ministero del Lavoro e della Previdenza Sociale.

33. P. Carniti, *op. cit.*

34. The level of jobs with limited duration has remained low compared with other countries (6.3 per cent of total employment in 1989 as against 11 per cent in other EC countries and Japan). Some efforts have, however, been made in the early 1980s to stimulate the extension of limited work contracts for young persons.

35. See, S. Vinci and A. Cardone, ''Fostering employment in Southern Italy: the effectiveness of recent policies'', Banco di Roma, *Review of Economic conditions in Italy,* January-April 1990.

36. In the period 1975-86, even though reductions in labour costs amounted to as much as 2.5 per cent of the South-GDP, the effects upon employment were disappointing. This has been attributed to the defensive nature of these measures, providing little incentive to modernisation and innovation. See, OECD, *Economic Survey of Italy 1989/1990,* Paris 1990, pp. 60-81; A. del Monte and A. Giannola, ''I problemi dello sviluppo industriale nel Mezzogiorno ed i riflessi di questi nella determinazione del quadro di politica industriale'', in A. Bataglia, R. Valcamonici (a cura di), *Nella competizione globale,* Bari, Laterza, 1989.

37. In 1986, only 27 per cent of the unemployed in Italy belonged to family units with no breadwinner as against 41 per cent in the EC. See, OECD, *Employment Outlook,* July 1989, p. 38.

38. For a detailed description of the institutional framework for wage negotiations, see OECD, *Economic Survey of Italy, 1985/86,* pp. 49-58.

39. A formula adopted in 1990 in the wage contract for the chemical industry is to make nominal wage growth dependent on the projected rate of inflation. It may be recalled in this context that expectations of currency devaluation decreased after Italy joined the EMS in 1979, setting the stage for changes in the wage indexation scheme in 1983 and 1985. Under the 1985 reform full compensation for inflation was confined to low wages, with the degree of indexation decreasing with rising pay levels. Overall, the current indexation scheme implies an average automatic compensation of less than 50 per cent of inflation. See, *OECD Economic Survey of Italy, 1985/1986,* pp. 49-58.

40. In Italy, ''profit sharing'' plays a relatively minor role (3 per cent of overall emoluments), contributing to the cyclical inertia of income from dependent employment.

41. At present, legislation is the ultimate source of public sector employment rules, as agreements with public sector unions require parliamentary approval.

42. Proceeds from privatisation are expected to total 2½ per cent of 1991 GDP in 1991-94.

43. Relazione sull'Andamento dell'Economica nel 1990 e Aggiornamento delle Previsioni per il 1991, presentata al Parlamento dal Ministro del Bilancio e della Programmazione Economica il 15 Marzo 1991, p. 90.

44. Commisione per il Riassetto del Patrimonio Mobiliare Publico e per le Privatizzanioni, Rapporto al Ministero del Tesoro, Rome, 7 November 1990.

45. Costs of partial privatisation show up in comparatively low sale prices, reflecting both a relatively low expected rate of return on capital and risks of future re-nationalisation.

46. Public expenditure on labour market programmes (''active measures and income maintenance'') amounted to 1.6 per cent of GDP in 1988. Excluded from this total are payments under the disability scheme and revenue losses due to differentiated social security contributions. See, OECD, *Employment Outlook,* July 1989, p. 206. In February 1990, social security tax rates in manufacturing were 49.5 per cent for white-collar workers and 53.5 per cent for blue-collar workers, of which 8.5 per cent was payable by the employee. Tax exemptions, especially for the South, have reduced the effective social security tax rate for employers to around 31 per cent in 1989.

47. For instance, the Government plans to bring social security contributions payable by public sector employees in line with those of dependent employees in the private sector. A rise in these rates took effect already in January 1990.

48. In 1988, the Finance Bill modified the indexation mechanism, by linking the real adjustment of pensions to changes in the index of average contractual wage of all dependent employees (*including those in the public sector*). Until then, pension adjustments only reflected changes in the minimum contractual wages of *industrial* workers. Also in 1988, minimum pensions for autonomous workers were aligned to those applying to dependent workers. In 1989, minimum pensions were raised. In August 1990, pensions of autonomous workers were made dependent upon their declared income during the last ten years of their work.

49. In 1989, the number of invalidity pensions (4.6 million) accounted for 35 per cent of the total number of all pensions compared with 34 per cent for old age pensions.

50. See, OECD, *Reforming Public Pensions,* Paris 1988.

51. ''In recent years, the most successful instrument of economic legislation of the European Commission has been the promotion of competition among national regulations. By forcing the different countries to lower their barriers to foreign entry and by adopting the principle of mandatory mutual recognition of regulatory standards, all companies are authorised to operate abroad on the basis of their home country rules. F. Modigliani and E. Perotti, 'Reforms are overdue'', *Financial Times, Survey on Italy,* 19 November 1990.

52. In manufacturing, self-employment accounted for 16 per cent of total employment in Italy compared with 12 per cent in Japan in 1988. Spain had a share of 8 per cent, France and Germany 5 per cent and the United Kingdom 4 per cent.

53. There are several approaches to competition policy. The *structuralist* one emphasises the influence of the market structure upon the behaviour of firms and consequently upon the market outcome. The market structure is seen to determine

efficiency. D. Swann, *Competition and industrial policy in the European Community,* London and New York, 1983. The *process-oriented* approach stresses competition as a process of selection, under which the most efficient market agents survive, thereby shaping the market structure. J.A. Schumpeter, *Capitalism, Socialism and Democracy,* New York, 1942. In the absence of competitive market structures firms may abstain from abusing market power as long as there is a credible threat of market entry, i.e. "contestable market". W. Baumol, J. Panzar and R. Willig, "Contestable markets and the theory of industrial structure, New York, 1982.

54. Starting in the 1950s, numerous laws were adopted, providing special credit facilities and incentives for small and medium-sized companies. See P. Bianchi, "Industrial policies for small and medium firms and the new direction of European Community Policies", *Rivista di Politica Economica,* May 1990. A new set of assistance measures is currently under consideration.

55. See R. Prodi and D. de Giovanni, "Forty-five years of industrial policy in Italy: Protagonists, objectives and instruments", *Rivista di Politica Economica,* May 1990, pp. 33-34 and p. 53

56. See F. Barca, *The development of Italian microproducers: Theory and empirical evidence,* 1990, Banca d'Italia; M.E. Porter, *The competitive advantage of Nations,* Free Press, 1990, pp. 121-153.

57. In industrial districts, trust between companies is fostered by shared cultural values and traditions in the community. See *Distretti e sistemi produttivi alla soglia degli anni 90,* 1989, F. Gobbo, F. Angeli, Milano et *Politiche industriali di settore,* 1985, P. Bianchi in *Esperience di ristrutturazione industriale,* V. Balonni, Bologna, il Mulino. There is a high correlation between the degree of regional industrialisation, measured by the ratio of manufacturing employment to regional population, and the evolution of industrial districts between 1951 and 1981. See *Industrial districts and interfirms co-operation in Italy,* G. Becattini et W. Sengenberfer, 1990, Ed F. Pyke, IILS-ILO.

58. The market share of small companies (employing between 20 and 99 persons) in total output of firms employing more than 20 persons rose from 23 per cent in 1973 to 30 per cent 1985. F. Barca, *op. cit..*

59. F. Barca, *op. cit..* On the other hand, new electronic technologies, by lowering size thresholds of entry into many sectors, assisted the creation of small business units in the 1980s, e.g. in the central North-east and in the Southern Adriatic strip. G. Fua, "L'industrializzazione nel nord est e nel centro", in G. Fua and C. Zacchia: *Industrializzazione senza fratture;* il Mulino, Bologna, 1983. Moreover, losers of high-wage jobs in large firms accepted "low-wage" jobs in small firms, allowing flexible modes of production to be applied. Business start-ups jumped as a consequence. F. Coltroti, "Phases of Italian industrial development

and the relationship between the public and private sectors', *Rivista di Politica Economica,* May 1990, pp. 59-96.

60. According to price equations used by the INTERLINK model, the output price deflator in the Italian business sector is much more elastic with respect to demand pressures than in other major OECD countries. The coefficient on the rate of capacity utilisation is O.110 for Italy as against 0.083 for the United States; 0.059 for Canada; 0.051 for the United Kingdom; 0.0048 for Germany; 0.042 for France and 0.031 for Japan. At the same time, there is some evidence of a low intertemporal variability of sectoral output price changes, especially in textiles, wearing apparel and wholesale and retail trade (Annex Table A2).

61. While 15 per cent of *electricity* is privately produced, there are barriers to access for production and distribution. Moreover, end-use prices do not always cover long-run marginal costs, e.g. electricity used by small households.

62. P. Rubino and I. Visco, "Tariffe pubbliche e prezzi al consumo: un' analisi applicata", Progetto Finalizzato CNR, "Struttura ed evoluzione dell'economia italiana", Tema n.3, 1989.

63. In the case of footwear, VERs *vis-à-vis* South Korea and Taiwan were eased in mid-1990 after an agreement at EC level.

64. In the cement industry, the four largest companies account for 47 per cent of total turnover, with imports covering less than 1 per cent. For the motor-cycle industry the corresponding figures are 59 per cent and 14 per cent; for the rubber industry 57 per cent and 16 per cent; and for the leather industry, 40 per cent and 16 per cent. On the other hand, a combination of high concentration (more than 40 per cent) and low import penetration (less than 10 per cent of turnover) can be found also for other sectors not subject to NTBs, pointing to other barriers to competition. These sectors include transport equipment for railways; agricultural machines and equipment; naval construction; household appliances; soap, perfumes and other hygiene articles; steel tubes, electric cables and wooden cans. See S. Chiri, *La concentrazione della produzione industriale in Italia,* 1988, Banca d'Italia.

65. Article 115 of the EC Treaty will become redundant which will mean that national measures will no longer be possible. Trade restrictions will still remain, at an EC level.

66. The system of subsidies, administered by the central government, requires parliamentary approval. Government bills are often changed by Parliament, depending upon the possibilities to reach a compromise in a multi-party world. This makes it difficult to reappraise subsidies in the light of new economic developments.

67. Law 46 on technological innovation and Law 696, paying subsidies for purchases of machine tools, are generally considered significant improvements on earlier types of assistance. Law 696 was replaced in 1987 by Law 399. See M. Baldas-

sarri, "Introduction to 45 years of industrial policy in Italy: Phases, links, perspectives to the 90s", *Rivista di Politica Economica,* May 1990, p. 7.

68. P. Bianchi, *op. cit.,* p. 181.

69. In the mid-1980s, only an estimated 1 per cent of government purchases was of foreign origin compared with 10 to 20 per cent for Germany, France and Belgium. These estimates, being based upon survey data, need to be interpreted with caution. See "The cost of non-Europe in public-sector procurement", 1988, Commission of the European Communities, *Research on the cost of non-Europe, Basic findings,* Volume 5, Part A.

70. For example, EFIM controls BREDA, a company, which produces railway rolling stock and busses. See also E. Pontarollo, "Le politiche di acquisto nel settore delle telecommunicazioni in Italia", *L'Industria,* April-June 1983.

71. The market share of Southern firms in public purchases has remained small: state-controlled companies and administration at national and local level often circumvent this provision, as supplies from the South do not always match demand, especially in terms of quantity.

72. About 20 per cent of public purchases are realised by provinces and local authorities, 21 per cent by the enti pubblici and 5 per cent by local public companies. Other public companies cover 30 per cent of total public purchases, with the central government handling only one fifth.

73. Thus, purchases have at times been declared "urgent" so as to avoid the use of normal procedures.

74. For example, the 5-year plan for economic development covering the period 1966-70, used public-sector firms as instruments in the pursuit of its goals. While the plan maintained the entrepreneurial function of these companies through the requirement of cost efficiency, investment plans of state-owned firms were subject to the approval of CIPE, an Interministerial Committee. This opened the door to the "hidden political shareholder" and consequent anti-entrepreneurial decisions. F. Coltorti, "Phases of Italian industrial development and the relationship between the public and private sectors", *Rivista di Politica Economica,* May 1990, p. 74.

75. As part of industrial feather-bedding, large enterprises were rescued by state-owned firms, IRI in particular. The first major transactions included the purchase by ENI (Ente Nazionale Idrocarburi, created in 1953) of a large number of clothing and textile firms from the mid-1960s onward; the absorption of the Motta, Alemagna, Cirio and Star food concerns from 1968 to 1972 by SME owned by IRI (Istituto per la Ricostruzione Industriale, created in the 1930s) and the purchase of the Montedison aluminium business by EFIM (Ente Participazioni e Finanziamento Industria Manufatturiera, created in 1962).

76. Proceeds from GEPI's privatisation operations generated part of the funds needed for financing interventions as a lifeboat for small- and medium-sized companies. In 1990, 21 companies were transferred from its books R. Prodi and D. De Giovanni, *op. cit,* pp. 31-55. F. Coltorti, "Phases of Italian industrial development and the relationship between the public and private sectors", *Rivista di Politica Economica,* May 1990, p. 77.

77. G.M. Gros-Pietro, "The restructuring of large-sized industrial groups", *Rivista di Politica Economica,* May 1990, p. 149.

78. A special ministry (Ministry of State Participations) overlooks the operations of these companies.

79. See The Economist Intelligence Unit, *Report on Italy, 1991,* No. 1, p. 8.

80. By international standards, the price/cost ratio is extremely low. In 1989, the ratio of turnover to labour costs in the *Ferrovie dello Stato* was 36 per cent compared with 115 per cent in France. As many as 1 100 railway stations experience hardly any railway traffic, making it cheaper to use taxis as a means of transport than passenger trains. *24 Ore,* 4 February 1991.

81. A study prepared by McKinsey in 1990 recommended to cut the number of employees (nearly 23 000) by 1 500 to raise productivity. A dollar spent by Alitalia on labour costs yields an operating surplus of \$2.19, far below values of \$4.34 for British Airways, \$3.47 for the United States (average value), \$3.27 for KLM, \$2.89 for Iberia and \$2.77 for Swiss Air. In early 1991, Alitalia drew up an emergency plan aimed at cutting the workforce by more than 10 per cent.

82. In postal services, overmanning also mirrors the desire to meet seasonal variations in the demand. Thus, in 1983, the utilisation of labour in postal services averaged 50 per cent. Despite dramatic progress since 1988, it takes still a letter, on average, 4.6 days to be delivered (1988: 8.5 days) compared with 2.5 days in other European countries. The average delivery time for parcels has been 8 days as against 4 in France and 2 days in Germany. See V. Ceriani and B. Spadoni, "Servizi pubblici, privatizzazioni e contratto di programma, 1989, in *Le politiche di privatizzazione in Italia,* il Mulino.

83. A long-distance telephone call from Italy to the United States at peak time use in December 1989 was 130 per cent more expensive than a call from the United States to Italy. For telephone calls between Italy and Germany, this premium was 70 per cent. In the case of Italy-France, the premium was 50 per cent. This has led foreign supplier to offer international telecommunication services at lower cost than Italcable e.g. Gateway McConnel, European easy calls, etc. For a general overview of deregulation in OECD countries see: A. Pera, "Deregulation and privatisation in an economy-wide contest", OECD Economic Studies, Spring 1989, pp. 159-204.

84. Postal service employment rose by nearly 30 per cent between 1980 and 1987, much more than in the United Kingdom (17 per cent) and France (5.5 per cent). In Germany, postal service jobs shrank by 2 per cent.

85. See L. Prosperetti, *Il controllo dell' efficienza e della qualità nei principali servizi pubblici: esperienza internazionali e proposte per l'Italia,* 1989, Nomisma. In the public sector, the number of working days lost through strikes is less than one half of that in manufacturing.

86. See V. Ceriani et B. Spadoni, *op. cit.*

87. See L. Prosperetti *op. cit.*

88. Since January 1991, the price for inter-continental telephone calls has fallen by as much as 20 per cent, while that for local calls was raised by 5 per cent.

89. Banca d'Italia, "Libro bianco sui sistemi di pagamento", April 1987. An abridged English versioin was published one year later.

90. Banca d'Italia, "Il sistema dei pagamenti in Italia: progetti di intervento", April 1988.

91. As an example, at the end of 1988 there was only one automatic bank counter per 10 000 inhabitants, compared with two in France and 2.4 in the United Kingdom; in the two years to 1990 the number of automatic bank counters has increase sharply to 1.7 per 10 000 inhabitants.

92. Banks are allowed to conduct operations beyond eighteen months up to a ceiling set in proportion to their capital and reserves. Longer-term credits in fact amount up to 12 per cent of total assets.

93. All banks are allowed to operate nation-wide; only small rural banks are subject to geographical restrictions.

94. At the end of 1985, there were 36 foreign banks operating in Italy compared with 41 in the Netherlands and 38 in Spain. See G. Bröker, *Competition in Banking,* OECD, Paris 1989, p. 201.

95. Over the past few years, several mergers involving private- and public-sector banks have nevertheless taken place. These included the merger between the Banco Ambrosiano and the Banca Cattolica del Veneto, both private popular co-operative banks, and that between the Cassa di Risparmio di Roma and the Banco di Santo Spirito, both public-sector banks.

96. Special credit institutions were always allowed to hold shares in insurance companies. This loophole was first exploited in 1983, when IMI (Instituto Mobiliare Italiano), known for its medium-term and mutual funds operations, acquired Lloyd Italico Vita.

97. The legal basis for these restrictions is Law 462 adopted in 1971. See L. Pellegrini and A.M. Cardani, "Retail distribution systems", Note prepared for the OECD, February 1990.

98. In 1990, there were only 4 350 large retail centres compared with 8 300 in France and nearly 9 000 in the United Kingdom. See *Il Sole-24 Ore,* 1 February 1991.

99. New regulations are under consideration, allowing for a more rapid rise in the number of pharmacies. For a detailed description of the anti-competitive effects of restrictions on access to professions see, OECD, *Competition Policy and the Professions,* 1984.

100. Partly reflecting the multitude of laws and decrees, there are more lawyers in Rome alone than in the whole of France. *The Economist,* "Survey on Italy", 1 June 1990.

101. The Italian Constitution enshrines the principles of private economic initiative and private property (Art. 41 and 42). These Articles allow restrictions to be placed on individuals so as to fulfil "social function" and pursue "social goals". See G.F. Macconi and A. Colvin: "Competition Law in Italy: Italy tries antitrust – again", *World Competition Law and Economics Review,* December 1989, pp. 23-24.

102. The first initiative, called the Togni bill, was taken in 1950 followed by another attempt to introduce a competition law in 1958. See G.F. Macconi and A. Colvin, *op. cit.,* pp. 22-23.

103. Italy has been lagging behind her EC partners in implementing Community directives. At the end of May 1991, Italy had barely managed to turn half the single-market measures into Italian law, the lowest implementation rate. See *EC Information Memorandum,* 11 June 1991.

104. In this respect, the new law follows the process-oriented approach to competition policy (see above). The role of the Government is confined to dealing with the abuse of market power rather than with the market structure *per se.*

105. The law does not rule out the own production by enterprises of goods and services normally provided by "monopolies", except in telecommunications.

106. The Competition Authority has five members proposed and appointed jointly by the Presidents of the Chamber of Deputies and Senate of the Republic for a non-renewable period of seven years.

107. The Commission is to make proposals within eighteen months after its appointment of how to adapt rules governing public utilities, the distribution system and the award of public contracts to the principles of competition (Article 24).

108. Under Article 4, the improvement of supply conditions is meant to serve the dual purpose of helping consumers and ensuring international competitiveness.

109. Notification is required for all mergers with a combined turnover exceeding L 500 billion ($ 420 million) or with a turnover of L 50 billion for the company which is to be purchased (Article 16).

110. The Commission has one month after the notification to decide whether or not an investigation on the merger should be undertaken. It must then decide 45 days after the beginning of its investigation. The first pronouncements by the Commission referred to the price determination for oil products, to the port authority monopoly, to insurance companies, to financial intermediaries and to food and textile firms. Autorità Garante della Concorrenza e del Mercato, *Relazione annuale al Presidente del Consiglio dei Ministri,* Rome, 30 April 1991.

111. Turkey is now the only OECD country without competition legislation.

112. For a detailed discussion of the new competition law see, D. da Empoli, "The Italian Law for the Protection of Competition and the Market", *Economia delle scelte pubbliche,* No. 2-3, May-December 1990, pp. 69-78.

113. Under Article 25.2 of the competition law, mergers including enterprises from countries which do not apply the principle of reciprocity of treatment may be prohibited by the government within 30 days after their notification on "essential grounds relating to the national economy", i.e. only in cases of substantial acquisitions. The principle of reciprocity is commonly accepted in international relations.

114. Article 4 enumerates the possible derogations from the ban on cartels restricting freedom of competition. Its rather wide possibilities of interpretation may hinder the legal certainty and introduce the risk of political assessment of cartels.

115. The articles of the banking association were redrafted in 1987, laying the foundations for agreements with foreign banks.

116. The law confers broad powers to the CONSOB (Commissione nazionale per le societa e la borsa) with respect to the organisation of trading, including computerised systems. Computer links between regional markets will enable the creation of a single national market.

117. Under the previous regime, market participants included commission dealers, banks and special credit institutions, investment fund management companies as well as one-man businesses.

118. A special law banning insider trading in securities in organised markets was passed by Parliament in May 1991.

119. R. Prodi, *op. cit.,* p. 52. Privatisation was retarded by legal complexities, relating to the question whether the government can decide the privatisation of subsidiaries belonging to certain, but not all state-controlled holding companies. In addition, candidates for privatisation need to be transformed into companies governed by

private law. This requires the passage of a law of reform for many public institutions. Parliamentary procedures are known to be lengthy and uncertain.

120. Privatisation has even been reversed, as illustrated by the Enimont case. One of the world's biggest chemicals companies, Enimont became a joint venture in 1988, the principal shareholders being ENI, the state-owned energy group, and, until 1990, the private chemical company Montedison. Each owned 40 per cent, the other 20 per cent having been floated in autumn 1989.

121. These include CREDIOP (Istituto di Credito per le Opere di Pubblica Utilità) and IMI (Istituto Mobiliare Italiano), two major credit institutions, and ENEL, ENI and INA (the National Insurance Institute).

122. Two privatisation bills are currently being examined, one dealing with the sale of public equity stakes in private companies, the other with the sale of public property. The latter bill has been approved by the Senate, but awaits approval by the Chamber of Deputies.

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Annex I

Supporting statistical material to Part IV

Table A1. **The economic performance of small (20-99 employees) and large (more than 200 employees) firms in manufacturing, 1973-1989**

	Small firms				Large firms			
	Average annual percentage change							
	1974-77	1978-80	1981-85	1986-89	1974-77	1978-80	1981-85	1986-89
Investment (1980 prices)	–3.6	8.2	3.2	6.6	–5.4	–3.1	0.8	6.5
Value-added (1980 prices)	3.4	5.9	4.4	1.2	1.8	0.8		
Employment [1]	0.3	0.6	0.8	1.9	–0.4	–1.2	–6.1	–2.1
Labour productivity:								
Output per employed person [1]	3.1	5.3	3.6	..	1.6	3.1	7.3	..
Real income from labour [2]								
per employed person [1]	6.9	2.9	2.2	..	3.0	0.3	2.5	..

1. Excluding persons supported by the Wage Supplementation Fund
2. Deflated by consumer price index.
Source: Barca and Magnani, "Industrial development and work organisation: from restructuring to capacity expansion", 1990, Research Department of the Bank of Italy.

Table A2. **Variability [1] of sectoral output price changes between 1973 and 1988**

	Italy	United States	Japan	Germany	France	Canada
Agriculture	0.57	4.39	1.74	26.7	1.07	2.10
Manufacturing	0.49	0.89	3.35	0.45	0.34	0.49
of which:						
Food, beverages and tobacco	0.49	0.96	0.79	1.15	0.57	0.59
Textiles, wearing apparel	0.51	0.77	5.60	0.84	0.48	0.61
Fabricated metal products	0.65	1.63	–2.85	0.49	0.34	0.65
Electricity, gas and water	0.96	0.68	1.35	2.01	0.97	0.46
Construction	0.47	0.47	1.01	0.84	0.48	0.96
Wholesale and retail trade	0.41	0.55	3.08	0.56	0.37	0.58
Transport storage and communications	0.44	0.61	1.27	0.98	0.94	0.54
Finance, insurance and real estate	0.41	0.23	1.14	1.09	0.35	0.54

1. Measured by coefficient of variation.
Source: OECD, *National Accounts*.

Table A3. **The weight of public enterprises in 1987**

Percentage of sectoral total[1]

		Gross value-added of production	Fixed investment	Employment
1.	**Energy, electricity and water**	**88**	**87**	**85**
	Petroleum industry	34	31	35
	Production and distribution of energy, electricity and water	93	91	92
	Water purification and distribution	90	95	92
2.	**Mining, basic metals and chemicals**	**15**	**27**	**21**
	Basic metal industry	43	57	52
	Non-metallic (mineral products)	4	5	13
	Chemicals	10	23	11
3.	**Fabricated products**	**12**	**9**	**13**
	Fabricated metal products	5	4	6
	Fabricated machinery and equipment	7	6	7
	Electric and electronic equipment	15	17	16
	Transportation equipment	58	42	61
4.	**Food, textiles, wool, skins and other manufactures**	**4**	**3**	**4**
	Basic foodstuffs	5	3	6
	Sugar, beverages, other food and tobacco	15	10	19
5.	**Construction**	**4**	**10**	**4**
6.	**Commerce, hotels and restaurants**	**4**	**8**	**9**
	Retail trade	9	8	9
7.	**Transportation and communication**	**76**	**91**	**81**
	Railways	87	97	64
	Shipping	42	74	64
	Other transportation-related activities	47	84	41
	Communications	99	100	99
8.	**Business services**	**11**	**7**	**12**
	Total public enterprises[2]	**24**	**47**	**25**

1. Sectoral enterprises employing 20 or more.
2. Share of public enterprises in non-agricultural and non-financial sectors.

Source: Centre européen de l'entreprise publique.

Table A4. **Incidence of non-tariff barriers by EC countries in 1986**[1]

	Italy	France	Germany	United Kingdom
Foodstuffs and agricultural raw materials				
Live animals	66.7	53.0	83.7	3.4
Meat	80.2	60.0	79.6	93.6
Dairy products	99.9	99.5	99.9	100.0
Fish and seafood	0.0	13.9	0.0	0.0
Cereals and preparations	99.5	92.9	89.0	97.7
Fruit and vegetables	15.2	36.0	50.3	13.3
Sugar and honey	64.0	95.7	24.7	95.2
Coffee and cocoa	0.1	1.4	63.9	0.0
Animal foods	5.7	3.2	11.4	24.0
Beverages	0.3	22.9	68.4	0.0
Silk, wool and cotton	22.7	2.3	3.4	1.5
Crude animal and vegetable fibres	16.7	16.7	28.7	6.1
Chemical products				
Chemical elements	4.7	0.4	0.1	0.2
Petroleum-based chemicals	1.5	10.5	0.0	0.0
Soap, perfumes, cosmetics	1.2	0.0	0.0	0.0
Manufactured fertilizers	3.9	8.8	23.2	0.0
Explosives	23.9	0.0	0.0	0.0
Plastic materials	64.4	0.7	0.6	0.6
Various manufactured products				
Leather products	25.7	0.0	0.0	0.0
Rubber products	77.5	0.0	0.0	0.0
Paper articles	68.8	0.8	19.3	0.0
Textiles	41.3	36.9	35.7	29.2
Cement, clay and glass	30.6	2.7	1.9	0.3
Iron and steel	60.6	48.6	31.4	39.2
Non-electric machinery	14.1	1.5	2.7	1.3
Electric machinery	9.0	8.6	24.2	9.1
Transport equipment	6.9	25.8	32.7	15.4
Clothing	64.1	67.7	74.8	63.6
Footwear	83.3	9.2	5.3	0.2

1. The value share of imports subject to NTBs. Petroleum products have been excluded from the calculations. In the case of EC countries, the EC intra-trade has been excluded.

Source : S. Laird and A. Yeats (1989), "Quantitative methods for trade barrier analysis", Cambridge, Harvard University Press.

Annex II

Chronology of main economic events

Fiscal policy

1990

May

Presentation of the government's medium-term fiscal programme (documento di programmazione economico-finanziaria) aimed at stabilising the public debt as a percentage of GDP by 1993. Adoption of additional measures of fiscal restraint designed to cut the state deficit in 1990 by L 11.8 trillion relative to the level based upon unchanged policies. Additional revenues worth L 5.8 trillion (flowing from higher indirect taxes and public service charges) together with reduced interest payments and spending cuts (i.e. reduced transfers to the health sector and public companies) account for the bulk of the planned deficit reduction.

June

Parliament approves two bills introduced by the government in autumn 1989 as part of the 1990 budget. One of them modifies the financial relations between state and local authorities. The other concerns revenue-augmenting measures proposed in the original budget for 1990.

September

Presentation of the state budget for 1991 aimed at cutting L 48 trillion from a trend deficit estimated at L 180 trillion, with additional revenue accounting for L 28.4 trillion of the proposed reduction in the deficit. The budget proposals rely on a combination of measures including the customary cuts in outlays and tax increases accompanied by novel steps such as the introduction of capital gains tax and plans for public asset sales.

December

Parliament approves all budgetary proposals for 1991 except the introduction of a capital gains tax, which was approved in April 1991.

1991

February

With a view to limiting public outlays, the government issues special spending rules for each Ministry and the public sector as a whole. Ceilings for discretionary outlays in the first half of 1991 are limited to 25 per cent of total discretionary appropriations.

April

Adoption of new rules aimed at speeding up the reimbursement to non-residents of the 12½ per cent withholding tax on government securities. The tax will now be repaid within 60 days as opposed to a delay of up to five years under the previous regime.

May

In the face of renewed deficit slippage, the government announces a package of fiscal restraint worth L 14.2 trillion or 1 per cent of GDP to hold the state deficit in 1991 to L 132 trillion, as initially budgeted. The fiscal package is equally split between expenditure cuts (reduced interest payments and public pay restraint) and revenue gains from higher indirect taxes on spirits, credit cards and luxury goods, higher pension contributions and special payments from tax evaders in return for tax amnesty;

Presentation of the government's medium-term fiscal programme, aimed at stabilising the public debt as a percentage of GDP by 1993 and reducing the state budget deficit to 5.5 per cent of GDP in 1994.

Monetary, financial and exchange rate control policy

1990

March

The maturity of foreign exchange accounts is without limits for directly obtained currency. "Giro" accounts continue to be subject to 120 days limit. In addition, Italian residents are allowed to purchase foreign short term securities and certificates of deposit with maturity below 180 days. The securities must be bought and kept through Italian authorised intermediaries;

Screen-based trading of interbank deposits begins.

April

For banks, elimination of geographical limits to the expansion of the branch network of all banks other than the small rural and artisan banks.

May

Full liberalisation of capital movements of non-bank residents. Foreign bank accounts can be opened by residents. For tax purposes, foreign investment and holdings of more than L 20 million need to be declared.

Cut in discount rate from 13.5 per cent to 12.5 per cent.

July

Adoption by Parliament of the Amato law permitting the transformation of public-sector banks into joint stock corporations.

October

Modification of system of compulsory reserve requirements, allowing banks to mobilise parts of their compulsory reserves, provided that the average monthly level (mid-month to mid-month) does not fall below the reserve requirement. The new rules apply to all banks except second-class pledge banks and rural and artisans' banks.

Announcement of the monetary target for 1991 limiting M2 growth to a range between 5 and 8 per cent. Domestic credit expansion to the non-state sector will be held to 10 per cent.

1991

January

Adoption by Parliament of the law concerning stock market transactions.

May

Cut in the discount rate from 12.5 per cent to 11.5 per cent.

July

Government proposal to give Central Bank full authority to set the discount rate.

Other measures

1990

June

Adoption of a law on strikes requiring prenotification in the case of essential services.

October

Adoption of an anti-trust law on the "protection of competition and the market" and the establishment of a Commission ("Autorità Garante della Concorrenza e del Mercato") responsible for enforcing the new anti-trust law.

1991

January

Adoption by Parliament of the new energy plan designed to step up energy savings over the next three years.

STATISTICAL AND STRUCTURAL ANNEX

Selected background statistics

	Average 1980-89	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. Percentage changes from previous year											
Private consumption[1]	3.0	1.4	1.3	0.6	2.1	3.1	3.8	4.2	4.1	3.6	2.7
Gross fixed capital formation[1]	2.4	–3.2	–5.2	–0.9	4.5	1.4	1.6	5.8	6.8	4.5	3.0
Residential	5.0	–4.2	–4.6	–3.6	10.9	3.4	2.1	12.6	11.6	5.1	3.5
Non-residential	–0.1	–2.3	–5.7	1.5	–1.0	–0.5	1.1	–1.1	1.2	3.8	2.5
GDP[1]	2.5	1.0	0.3	1.1	3.0	2.6	2.5	3.0	4.1	3.0	2.0
GDP price deflator	11.7	18.5	17.1	14.9	11.5	8.9	7.7	5.9	6.2	6.0	7.5
Industrial production	1.9	–1.6	–3.1	–3.2	3.3	1.2	3.5	3.9	6.0	3.1	0.0
Employment	0.4	0.2	–0.3	0.2	0.4	0.4	0.5	–0.1	1.1	0.1	1.4
Compensation of employees (current prices)	13.6	21.7	16.4	15.1	11.6	11.7	8.0	8.6	10.0	9.4	11.7
Productivity (GDP/employment)	2.1	0.7	0.6	0.9	2.6	2.2	2.0	3.2	3.0	3.0	0.5
Unit labour costs (Compensation of employees/ GDP)	10.8	20.6	16.1	13.8	8.3	8.8	5.3	5.4	5.6	6.2	9.6
B. Percentage ratios											
Gross fixed capital formation as % of GDP at constant prices	22.3	23.3	22.0	21.5	21.9	21.6	21.4	22.0	22.5	22.8	23.1
Stockbuilding as % of GDP at constant prices	1.6	0.7	1.0	0.6	1.9	1.9	1.4	1.7	2.0	1.6	1.1
Foreign balance as % of GDP at constant prices	–2.8	–1.8	–1.8	–0.9	–1.8	–2.0	–2.2	–3.9	–4.5	–4.5	–4.5
Compensation of employees as % of GDP at current prices	46.2	48.3	47.8	47.4	46.1	46.0	45.0	44.8	44.6	44.7	45.5
Direct taxes as % of houshold income	10.0	9.3	10.0	9.9	10.1	10.4	10.2	10.1	10.8	11.0	11.3
Household saving as % of disposable income	18.0	20.5	19.0	20.0	20.5	18.0	15.3	15.7	15.4	14.4	15.1
Unemployment as % of total labour force	10.3	8.5	9.2	10.0	10.1	10.2	11.2	12.1	12.2	12.1	11.0
C. Other indicator											
Current balance (US$ billion)	–4.4	–8.9	–5.7	1.7	–2.3	–3.6	2.4	–1.1	–5.8	–10.6	–14.4

1. At constant 1980 prices.
Source: OECD, National Accounts.

Table A. **Expenditure on gross domestic product, current prices**

Trillion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Private consumption	289.1	342.5	396.7	453.1	509.2	559.5	612.1	670.9	738.8	806.2
Public consumption	75.3	88.8	105.1	120.0	135.5	148.3	166.6	186.9	202.2	229.6
Gross fixed investment	110.8	121.8	134.6	153.4	168.2	176.8	193.6	218.4	239.9	263.2
Final domestic demand	475.2	553.1	636.4	726.4	813.0	884.6	972.3	1 076.2	1 181.0	1 298.9
	(20.8)	(16.4)	(15.1)	(14.1)	(11.9)	(8.8)	(9.9)	(10.7)	(9.7)	(10.0)
Stockbuilding	4.4	6.5	2.9	13.8	15.0	9.1	9.5	12.4	9.3	4.2
	(–1.6)	(0.5)	(–0.7)	(1.7)	(0.2)	(–0.7)	(0)	(0.3)	(–0.3)	(–0.4)
Total domestic demand	479.5	559.5	639.3	740.2	828.0	893.7	981.9	1 088.6	1 190.3	1 303.1
	(18.7)	(16.7)	(14.3)	(15.8)	(11.9)	(7.9)	(9.9)	(10.9)	(9.3)	(9.5)
Exports	99.9	114.2	126.8	150.7	169.0	167.2	175.9	193.7	226.4	250.8
Imports	115.4	128.6	132.8	163.7	184.3	163.7	179.0	200.0	234.5	257.7
Foreign balance	–15.5	–14.3	–6.0	–13.1	–15.3	3.5	–3.1	–6.3	–8.0	–7.0
	(0.2)	(0.3)	(1.5)	(–1.1)	(–0.3)	(2.3)	(–0.7)	(–0.3)	(–0.2)	(0.1)
GDP (market prices)	464.0	545.2	633.3	727.2	812.6	897.2	978.7	1 082.3	1 182.2	1 296.1
	(19.7)	(17.5)	(16.2)	(14.8)	(11.8)	(10.4)	(9.1)	(10.6)	(9.2)	(9.6)

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

Sources: ISTAT.

Table B. **Expenditure on gross domestic product constant 1985 prices**

Trillion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Private consumption	474.6	480.3	483.6	493.2	507.8	526.6	548.6	571.5	591.9	607.8
Public consumption	120.8	123.9	128.2	131.1	135.5	139.0	143.8	147.8	149.2	150.6
Gross fixed investment	169.7	161.7	160.7	166.5	167.6	171.3	179.9	192.4	201.1	207.2
Final domestic demand	765.1	765.9	772.5	790.8	810.9	836.9	872.2	911.7	942.2	965.6
	(0.8)	(0.1)	(0.9)	(2.4)	(2.5)	(3.2)	(4.2)	(4.5)	(3.4)	(2.5)
Stockbuilding	4.8	8.8	3.9	12.9	15.0	13.8	13.8	13.6	11.1	6.0
	(–1.9)	(0.5)	(–0.6)	(1.2)	(0.3)	(–0.1)	(0)	(0)	(–0.3)	(–0.6)
Total domestic demand	769.8	774.7	776.4	803.7	825.9	850.7	886.0	925.2	953.3	971.6
	(–1.1)	(0.6)	(0.2)	(3.5)	(2.8)	(3.0)	(4.1)	(4.4)	(3.0)	(1.9)
Exports	151.1	147.4	150.9	163.7	169.0	173.2	180.9	191.1	210.2	226.0
Imports	160.6	160.1	157.9	177.3	184.3	189.6	206.5	221.0	241.0	257.1
Foreign balance	–9.5	–12.7	–7.1	–13.6	–15.3	–16.5	–25.6	–29.8	–30.7	–31.0
	(1.6)	(–0.4)	(0.7)	(–0.9)	(–0.2)	(–0.1)	(–1.1)	(–0.5)	(–0.1)	(0)
GDP (market prices)	760.4	762.0	769.4	790.0	810.6	834.3	860.4	895.4	922.6	940.6
	(0.5)	(0.2)	(1.0)	(2.7)	(2.6)	(2.9)	(3.1)	(4.1)	(3.0)	(2.0)

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

Sources: ISTAT.

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

Trillion lire and percentage changes

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
At current prices										
(Trillion lire)										
Agriculture	24.8	27.9	33.3	33.8	36.3	38.6	40.1	39.3	41.5	41.1
Industry[1]	140.0	163.0	185.1	210.8	234.0	256.8	277.3	308.8	335.1	354.8
Energy	16.2	22.0	29.0	33.8	37.5	43.6	48.1	52.5	56.4	64.8
Manufacturing	123.9	141.0	156.2	177.0	196.5	213.2	229.2	256.3	278.7	290.0
Construction	34.6	37.9	42.6	47.0	51.0	54.0	56.7	61.9	67.9	76.6
Services	261.1	309.7	364.2	423.4	479.0	542.3	594.9	662.2	727.0	818.3
Market services	201.5	240.0	282.7	330.9	375.9	428.8	469.0	520.3	572.6	640.3
Public administration	59.6	69.7	81.5	92.5	103.1	113.5	125.9	141.9	154.4	178.0
Subtotal	460.5	538.5	625.2	715.0	800.3	891.7	969.0	1 072.2	1 171.5	1 290.8
GDP (at market prices)	464.0	545.1	633.4	725.8	810.6	899.9	983.8	1 091.8	1 192.7	1 306.8
At 1985 prices										
(Percentage changes)										
Agriculture	0	–2.3	9.2	–5.0	0.8	1.9	3.8	–3.1	0.8	–4.3
Industry[1]	–1.9	–1.1	–0.1	3.7	2.7	3.0	3.7	6.5	3.1	1.3
Energy	–1.5	–2.5	–4.3	0.5	–0.5	5.9	2.0	1.7	2.2	2.6
Manufacturing	–2.0	–0.8	0.8	4.4	3.3	2.5	4.0	7.4	3.3	1.0
Construction	–0.6	–3.3	0.6	–3.2	0	0.6	1.4	2.7	3.7	2.5
Services	1.9	1.6	1.2	3.4	3.1	3.2	2.8	3.6	3.2	2.8
Market services	2.0	1.6	1.2	4.0	3.5	3.6	3.3	4.3	3.8	3.3
Public administration	1.7	1.5	1.5	1.4	1.7	1.6	1.1	1.3	0.8	0.7
GDP (at market prices)	0.6	0.2	1.0	2.7	2.6	2.9	3.1	4.1	3.0	2.0

1. Including mining.

Source: ISTAT.

Table D. **Household appropriation account**

Trillion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Compensation of employees	224.0	260.9	300.2	335.0	374.1	404.1	438.8	482.6	527.9	589.8
Property and entrepreneurial income	164.0	193.8	227.5	273.9	290.0	315.0	346.7	389.6	428.7	468.2
Transfers received	86.6	106.8	138.0	154.0	176.6	193.8	213.6	237.6	262.9	295.0
Gross total income	474.6	561.4	665.7	762.8	840.7	912.9	999.1	1 109.8	1 219.6	1 353.0
Direct taxes	44.1	56.0	66.0	77.0	87.4	93.5	101.3	120.1	134.6	152.6
Social security contributions	74.8	93.1	117.9	130.7	148.4	170.4	181.0	199.5	224.0	252.7
Disposable income	355.7	412.4	481.8	555.1	604.9	648.9	716.8	790.2	861.0	947.8
Consumption	282.8	334.0	385.6	441.3	495.8	549.5	604.4	668.2	737.1	805.0
Savings ratio[1]	20.5	19.0	20.0	20.5	18.0	15.3	15.7	15.4	14.4	15.1
Real disposable income (percentage change)	0.2	–0.8	1.5	3.0	0	1.4	5.2	4.7	2.6	3.6

1. As a percentage of disposable income.

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

Table E. General government account

Trillion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Current receipts	159.5	197.5	240.5	274.0	310.8	351.8	386.1	432.3	494.2	554.0
Direct taxes	50.9	64.5	78.4	91.4	105.5	115.7	130.6	145.8	170.7	189.3
Social security contributions	59.8	74.9	89.2	98.5	110.2	125.5	135.8	149.4	167.4	189.5
Indirect taxes	38.3	46.6	58.0	67.3	72.7	81.7	93.2	109.1	123.8	138.9
Other current receipts	10.4	11.4	14.9	16.7	22.4	28.9	26.5	28.1	32.2	36.4
Current expenditure	192.3	236.2	283.9	325.6	367.0	412.8	447.2	499.6	560.2	629.0
Expenditure on goods and services	74.2	87.4	103.2	118.0	133.3	146.0	163.9	184.3	199.5	226.5
Subsidies	13.3	16.9	18.1	22.2	22.8	27.7	26.1	26.6	29.3	29.1
Interest paid	28.8	39.3	48.0	58.1	65.1	76.4	78.2	88.8	106.9	126.4
Social benefits	73.1	88.9	109.7	121.6	139.1	154.8	170.5	189.5	209.9	235.3
Other current transfers	2.9	3.6	4.9	5.7	6.8	8.0	8.5	10.3	14.6	11.7
Saving	–32.9	–38.7	–43.4	–51.6	–56.2	–61.0	–61.1	–67.2	–66.0	–75.0
Fixed investment	16.9	20.3	23.5	26.2	30.4	31.9	34.5	37.3	41.9	45.7
Capital transfers net	–4.9	–4.1	–2.3	–7.9	–17.4	–14.2	–15.2	–16.5	–15.4	–22.6
Consumption of fixed capital	1.1	1.3	1.4	1.7	2.0	2.3	2.7	3.2	3.8	4.5
Net lending	–53.6	–61.9	–67.7	–84.0	–102.0	–104.7	–108.1	–117.9	–119.5	–138.9
(as a percentage of GDP)	–11.6	–11.3	–10.7	–11.6	–12.5	–11.7	–11.0	–10.9	–10.1	–10.7

Source: Relazione generale sulla situazione economica del paese (1990).

Table F. **Prices and wages**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Indices 1985=100										
Consumer prices										
Total	61.9	72.1	82.7	91.6	100.0	105.8	110.9	116.5	123.8	131.8
Food products	65.4	75.4	84.2	91.9	100.0	105.3	109.2	112.9	120.0	127.2
Non-food products	60.6	70.8	82.1	91.5	100.0	106.0	111.5	117.7	125.1	133.4
Services (excluding rent)	58.6	69.2	80.1	89.7	100.0	111.9	119.0	127.2	137.5	146.3
Per capita compensation										
Total economy										
Nominal	60.3	70.0	81.3	90.8	100.0	107.5	116.6	127.5	139.2	..
Real	97.4	97.2	98.3	99.2	100.0	101.6	105.2	109.5	112.5	..
Industry										
Nominal	58.0	68.0	78.9	89.7	100.0	107.5	116.1	126.8	139.6	..
Real	93.7	94.4	95.5	98.0	100.0	101.6	104.7	108.9	112.8	..
Percentage changes										
Consumer prices										
Total	17.8	16.5	14.6	10.8	9.2	5.8	4.7	5.1	6.3	6.5
Food products	16.1	15.3	11.7	9.2	8.8	5.3	3.6	3.5	6.3	6.0
Non-food products	18.5	17.0	15.9	11.4	9.3	6.0	5.1	5.6	6.3	6.6
Services (excluding rent)	22.0	18.2	15.7	12.0	11.5	11.9	6.4	6.9	8.1	6.4
Per capita compensation										
Total economy										
Nominal	22.6	16.2	16.0	11.8	10.1	7.5	8.4	9.3	9.2	..
Real	4.0	–0.3	1.2	0.9	0.8	1.6	3.5	4.1	2.7	..
Industry										
Nominal	22.1	17.3	16.0	13.7	11.4	7.5	8.0	9.2	10.1	..
Real	3.6	0.7	1.2	2.6	2.0	1.6	3.1	4.0	3.7	..

Sources: ISTAT; OECD, *National Accounts.*

Table G. **Employment indicators**

Labour units thousands

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total employment	22 061	22 182	22 325	22 413	22 613	22 786	22 878	23 096	23 140	23 367
Dependent employment	15 301	15 337	15 210	15 188	15 404	15 473	15 528	15 696	15 793	15 984
Agriculture	875	848	827	792	784	767	749	734	746	744
Total industry	6 380	6 204	5 970	5 699	5 614	5 544	5 500	5 554	5 559	5 617
of which: Manufacturing	4 918	4 767	4 565	4 343	4 281	4 228	4 212	4 263	4 283	4 303
Construction	1 270	1 248	1 217	1 166	1 141	1 120	1 089	1 092	1 080	1 118
Market services	4 312	4 473	4 532	4 737	4 967	5 091	5 150	5 211	5 265	5 384
General government	3 734	3 811	3 882	3 960	4 038	4 071	4 129	4 198	4 223	4 239
Self-employment	6 760	6 845	7 114	7 225	7 209	7 314	7 349	7 399	7 347	7 383
of which: Agriculture	1 970	1 835	1 918	1 894	1 796	1 796	1 759	1 662	1 530	1 487
Total industry	1 354	1 378	1 378	1 306	1 300	1 328	1 308	1 315	1 323	1 324
Market services	3 436	3 632	3 818	4 025	4 113	4 191	4 283	4 422	4 494	4 573

Source: ISTAT.

Table H. **Money and credit**

a) The monetary base

Changes in billion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Origin of liquid assets										
Net impact of the foreign sector	25	–5 647	8 840	5 141	–13 677	3 543	6 756	10 947	14 971	15 454
Net impact of the public sector	14 233	12 676	4 514	10 027	27 519	10 994	9 172	2 748	6 346	1 009
Banks	119	638	–3	–218	5 881	–4 333	–730	–30	1 203	1 260
Other sectors	–5 739	2 669	–747	–1 103	–646	–1 003	–1 253	–708	–2 015	–4 047
Total net impact	8 639	10 336	12 604	13 847	19 076	9 200	13 946	12 957	20 505	13 675
Use of liquid assets										
Liquidity in the hands of the public	4 431	3 526	4 079	3 852	4 004	3 140	4 381	4 450	10 507	1 778
Compulsory bank reserves	2 946	8 544	9 092	8 855	12 213	9 022	8 740	9 444	9 567	13 026
Bank liquidity	441	–1 216	360	1 142	2 858	–2 962	167	–280	431	–1 129
Compulsory bank deposits	821	–519	–927	–2	..	..	657	–657	..	..
Total	8 639	10 336	12 604	13 847	19 076	9 200	13 946	12 957	20 505	13 675

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

Table H. **Money and credit**

b) Selected indicators

Changes in billion lire

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Money[1]										
Currency in circulation[2]	4 294	3 471	3 944	3 662	3 807	3 107	4 126	4 733	10 269	1 848
Sight deposits	12 134	27 514	23 238	26 701	24 569	29 981	21 987	24 154	37 038	32 367
Saving deposits	13 909	30 806	21 697	24 671	27 581	20 518	26 530	30 027	34 531	45 305
Money supply M2	30 337	61 790	48 879	55 035	55 957	53 605	52 643	58 913	81 828	79 520
Money supply M3	54 801	73 294	64 332	76 661	71 338	57 489	86 325	102 897	123 065	112 170
Central bank										
Credit to Treasury	13 418	11 397	1 264	13 728	27 461	10 943	6 575	2 278	6 673	986
Credit to banking sector	475	1 049	2 768	–1 530	5 673	–3 360	327	478	917	1 621
Banking sector										
Credit	17 092	13 493	24 713	38 290	28 410	22 821	22 878	54 281	75 766	68 956
Government securities shares and bonds	7 536	32 964	27 834	13 027	15 388	14 573	7 567	–10 629	–3 348	–7 488
Special credit institutions										
Credit	14 080	15 412	14 401	15 768	10 336	16 801	22 217	27 525	36 608	40 057
Total domestic credit	74 806	100 799	121 273	145 151	153 435	152 676	151 991	197 171	229 560	230 097
Private sector	29 567	31 666	36 076	53 442	46 168	45 967	46 119	78 181	106 865	105 673

1. Data refers to households and firms only.
2. Excluding banking sector.

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

Table I. **Foreign trade by main commodity groups**

Million US dollars

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Imports total	98 443	88 999	83 818	78 323	81 998	88 144	99 775	122 211	135 500	149 426
Food drink and tobacco	11 793	10 192	10 839	10 285	9 703	11 443	13 931	16 513	17 664	18 520
Crude oil	20 166	22 202	18 924	15 904	13 259	13 339	8 341	8 888	7 063	8 753
Other fuels	7 312	8 676	8 324	8 753	10 039	10 457	9 093	8 157	7 823	5 964
Metals ores and scrap	9 573	5 786	5 554	5 133	6 111	6 221	7 308	8 579	11 387	14 222
Textile materials and products	4 517	3 702	3 636	3 553	4 221	4 525	5 258	6 702	7 567	8 113
Chemical products	7 993	7 020	6 890	7 307	7 813	8 476	11 001	13 689	15 991	17 064
Motor vehicles and parts	6 810	5 937	5 444	4 152	4 633	5 190	7 366	10 572	12 202	13 913
Machinery and other transport	12 835	11 352	10 368	9 633	11 172	12 619	16 787	22 791	27 243	28 843
Wood and products	2 606	1 856	1 535	1 323	1 423	1 304	1 601	2 119	2 388	2 569
Miscellaneous manufactures	9 170	7 996	7 682	7 346	7 947	8 764	12 117	16 477	18 898	20 580
Other imports	5 667	4 279	4 621	4 934	5 677	5 805	6 972	7 724	7 274	10 885
Exports total	78 530	75 303	73 551	72 670	73 358	78 682	97 815	116 582	127 849	140 466
Food drink and tobacco	5 286	5 415	5 299	4 724	4 805	5 562	6 221	7 243	8 452	8 832
Refined petroleum products	4 164	4 494	4 822	3 667	3 103	3 460	2 616	2 695	1 970	2 214
Mineral manufactures	6 851	6 364	5 865	5 983	5 686	5 657	7 349	8 841	9 937	10 942
Metals ores and scrap	4 747	4 978	4 619	4 135	4 250	4 448	4 815	5 316	6 208	7 289
Textile materials and products	4 466	4 511	4 398	4 628	4 868	5 207	6 917	7 915	8 206	8 477
Chemical products	5 505	5 214	5 296	6 116	6 203	6 608	7 060	8 745	10 123	9 902
Motor vehicles and parts	5 483	4 590	4 033	4 183	4 080	4 242	6 139	8 007	8 908	10 045
Machinery and other transport	18 256	18 229	17 806	18 086	17 727	19 500	25 506	31 136	35 073	39 759
Clothing and shoes	8 205	7 444	7 890	7 949	8 300	9 038	12 323	14 303	14 142	14 791
Miscellaneous manufactures	11 315	11 134	11 095	10 745	11 547	12 432	15 763	19 073	20 953	23 031
Other exports	4 251	2 930	2 428	2 455	2 789	2 527	3 105	3 308	3 876	5 185

Source: OECD, *Foreign Trade Statistics, Series B.*

Table J. Geographical breakdown of foreign trade

Million US dollars

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Imports total	98 443	88 999	83 818	78 323	81 998	88 144	99 775	122 211	135 500	149 426
OECD countries	62 004	52 781	50 796	47 969	51 994	56 990	73 253	92 614	105 307	114 461
EEC	45 845	38 349	37 460	35 638	38 100	42 628	55 951	70 611	79 633	86 659
of which: Germany	16 473	14 190	13 813	12 743	13 397	15 033	20 415	26 308	30 118	32 347
Belgium-Luxembourg	3 536	2 815	2 774	2 716	3 098	3 359	4 639	6 217	6 777	7 571
France	13 807	11 358	10 774	10 112	10 468	11 275	14 582	18 248	20 564	22 454
Netherlands	4 133	3 763	3 724	3 911	4 116	4 605	6 450	6 991	7 935	8 402
United Kingdom	4 393	3 508	3 386	3 115	3 665	4 466	5 092	6 562	7 043	7 393
USA	6 912	6 137	5 789	4 751	5 121	5 349	5 645	6 653	7 731	8 320
Canada	1 013	867	740	522	583	525	573	812	942	1 101
Japan	1 299	1 261	1 096	1 112	1 348	1 479	2 092	2 676	3 503	3 527
Non OECD countries	36 080	36 190	33 008	30 279	29 830	30 848	26 160	29 421	29 951	34 743
COMECON	5 290	4 738	5 194	5 251	6 110	4 883	4 798	5 131	5 531	6 277
OPEC	16 988	18 477	14 235	11 972	11 182	12 619	9 377	8 904	7 211	8 545
Others	13 803	12 975	13 579	13 056	12 537	13 345	11 985	15 386	17 209	19 921
Exports total	78 530	75 303	73 551	72 670	73 358	78 682	97 815	116 582	127 849	140 466
OECD countries	53 337	47 653	49 116	49 741	51 944	57 749	76 272	93 402	102 723	111 784
EEC	40 126	34 309	35 596	35 267	34 802	37 975	52 392	65 403	73 167	79 417
of which: Germany	14 212	11 679	11 467	12 053	11 817	12 705	17 742	21 667	23 101	23 842
Belgium-Luxembourg	2 583	2 073	2 132	2 089	2 123	2 335	3 260	3 936	4 317	4 596
France	11 757	10 222	11 184	10 687	10 280	11 040	15 283	19 041	21 208	22 886
Netherlands	2 864	2 294	2 258	2 175	2 109	2 434	3 201	3 596	3 938	4 353
United Kingdom	4 723	4 358	4 605	4 615	4 955	5 475	6 931	8 672	10 271	11 077
USA	4 124	5 109	5 182	5 605	7 989	9 645	10 503	11 201	11 366	12 106
Canada	485	562	558	636	807	982	1 204	1 356	1 431	1 556
Japan	705	667	791	790	843	928	1 323	1 863	2 414	3 209
Non OECD countries	23 200	26 655	23 387	22 146	20 685	20 152	20 999	22 659	24 586	28 133
COMECON	2 824	2 532	2 501	2 753	2 553	2 699	2 955	3 673	3 710	4 448
OPEC	9 175	11 956	9 793	8 852	7 529	6 552	5 428	5 230	5 452	5 936
Others	11 200	12 167	11 093	10 542	10 603	10 901	12 616	13 755	15 424	17 749

Source: OECD, *Foreign Trade Statistics, Series B.*

Table K. **Balance of payments**

Million US dollars

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Current account										
Merchandise exports	76 272	72 695	72 056	73 790	75 686	96 395	115 879	127 387	140 082	169 339
Merchandise imports	87 936	81 537	74 500	79 627	81 933	92 181	116 181	128 540	142 237	168 870
Trade balance	–11 664	–8 842	–2 444	–5 837	–6 247	4 214	–302	–1 153	–2 155	470
Services net	1 828	2 074	2 681	1 907	1 600	–173	161	–3 239	–6 277	–12 534
Travel	5 889	6 601	7 211	6 496	6 474	6 944	7 634	6 414	5 214	5 912
Investment income	–3 194	–3 923	–3 896	–3 902	–3 979	–6 210	–6 610	–7 127	–8 286	–13 352
Other services	–867	–604	–634	–687	–895	–907	–863	–2 526	–3 205	–5 094
Transfers net	899	1 110	1 449	1 627	1 061	–1 600	–935	–1 381	–2 189	–2 381
Private	1 442	1 469	1 403	1 455	1 323	1 458	1 286	1 447	1 307	889
Official	–543	–359	46	172	–262	–3 058	–2 221	–2 828	–3 496	–3 270
Current balance	–8 937	–5 658	1 685	–2 303	–3 585	2 441	–1 076	–5 773	–10 620	–14 446
Capital account										
Long-term capital net	8 450	5 290	803	1 601	2 562	–2 682	2 868	7 626	15 507	22 475
Private direct	–258	–389	–936	–705	–815	–2 676	1 733	1 389	526	–735
Private portfolio	–404	–376	232	99	375	–1 043	–7 416	331	3 463	–283
Public[1]	4 439	2 369	1 836	2 542	2 300	1 833	4 463	2 204	950	4 542
Short-term capital net	185	–3 791	3 696	736	–1 973	4 202	6 170	8 763	9 237	17 464
Private non monetary	1 526	–1 527	406	–1 450	802	–127	1 873	908	–1 683	–1 705
Private monetary institutions	–1 341	–2 264	3 290	2 186	–2 775	4 329	4 297	7 855	10 920	19 169
Miscellaneous official accounts	–4	–276	98	–208	181	210	–115	–847	93	–1 207
Allocation of SDRs	139	0	0	0	0	0	0	0	0	0
Errors and omissions	312	31	–399	2 922	–4 153	–1 621	–2 738	–2 238	–2 907	–12 818
Change in reserves	57	–2 738	4 586	2 647	–4 124	–437	4 573	8 270	9 983	11 203

1. Excludes special transactions.

Sources: OECD.

Table L. **Public sector**

A. Budget indicators: general government accounts

Per cent of GDP

	1970	1980	1985	1989
Curent receipts	27.9	32.3	37.2	40.7
Non-interest expenditure	31.3	36.5	42.8	42.9
Primary budget balance	–3.5	–4.2	–5.6	–2.1
Net interest	–0.6	–4.3	–7.0	–8.0
Central government budget balance	–4.0	–8.6	–12.5	–10.1
of which:				
Central government	n.a.	n.a.	–12.6	–9.5
Social security	n.a.	n.a.	0.1	0.2
General government gross debt	41.7	58.9	84.0	97.2

B. Structure of expenditure and taxation

Per cent of GDP

1. General government expenditure

	1970	1980	1985	1989
Expenditure: total	33.0	41.9	50.8	51.9
Current consumption	13.2	15.0	16.7	17.1
Transfers to households	12.8	14.9	17.9	19.0
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	1988	1988	1989
Tax receipts	30.2	37.1	36.4	40.8
Income tax	9.4	13.2	12.4	13.9
of which:				
Personal income tax	7.0	10.0	10.5	11.2
Corporate pofit taxe	2.4	3.5	2.5	3.0
Social security contributions	11.5	12.4	10.5	11.6
Taxes on goods and services	8.0	10.4	11.2	13.1

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

Table M. Table M. Financial market

	1970	1980	1985	1988
Financial institutions plus insurance sector[1]				
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 pour cent of total NFC financial assets)	57.4	29.2	19.5	18.2
Corporate bonds (as pour cent of total NFC liabilities)	0.2	0.1	0.3	0.4
Mutual fund shares (as pour cent of total NFC financial assets)[4]	–	–	–	–
Structure of non-financial corporate liabilities[5]				
NFC debt/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 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	11.0
Unemployment rate				
Male[1]	4.8	5.6	4.7	8.0
Female[1]	13.1	13.9	13.0	18.6
Youth[2]	25.6	28.0	25.2	34.5
Regional unemployment rate				
North-Centre	7.7	9.1	7.6	7.7
South	10.9	13.0	11.5	20.6
Share of long-term unemployment[3]	n.a.	n.a.	n.a.	56.8
Hours worked, 1980=100[4]	98.3	99.2	100.0	103.3

	B. Structural and institutional characteristics			
	1970	1980	1985	1988
Participation rate[5]				
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[6]	n.a.	n.a.	5.3	n.a.
Non-wage labour costs[7]	21.4	21.8	22.0	22.8
Government unemployment insurance benefits[8]	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. Commonly used definitions.
2. People between 16 and 24 years as a percentage of the labour force of the same age group.
3. People looking for a job since one year or more as a percentage of total unemployment.
4. Index of monthly hours effectively worked per worker in industry.
5. Labour force as a percentage of the corresponding population aged between 16 and 64 years.
6. As a percentage of dependent employment.
7. As a percentage of wages and salaries.
8. Unemployment benefits per unemployed worker as a per cent of compensation per employee.

Sources: ISTAT and OECD.

Table O. **Production structure and performance indicators**

	GDP share (% of total)				Employment share (% of total)			
	1970	1980	1985	1989	1970	1980	1985	1989
Production structure (constant prices)								
Tradeable goods and services								
Agriculture	8.8	6.6	6.3	5.7	10.8	8.0	6.9	6.5
Manufacturing	26.8	31.9	31.2	32.0	42.1	43.7	37.7	37.0
of which:								
Food, beverage and tobacco	2.8	3.1	2.8	2.9	3.1	3.1	2.8	2.7
Textiles, wearing apparel and leather industries	4.7	5.2	4.8	4.5	9.7	9.1	7.9	7.7
Non-metallic mineral products except products of petroleum and coal	2.1	2.4	2.0	2.4	3.2	2.8	2.4	2.9
Basic metal industries	2.6	1.6	1.6	1.5	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	13.6
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	6.5	15.4	10.7	10.0	9.3
Wholesale and retail trade, restaurants and hotels	20.2	20.8	21.1	20.2	14.0	15.4	17.7	17.8
Transport, storage, communications	5.2	5.9	6.1	6.6	7.8	8.8	9.5	10.2
Finance, insurance, real estate and business sector	21.1	22.0	24.4	25.2	8.4	11.8	16.5	17.5

Productivity growth
(Sectoral output per employed person)
Average annual percentage growth

	1971-80	1981-85	1986-89
Manufacturing	4.7	4.9	4.4
of which:			
Food, beverage and tobacco	4.5	2.3	3.8
Textiles, wearing apparel and leather industries	5.0	3.4	2.8
Non-metallic mineral products except products of petroleum and coal	6.4	1.7	4.8
Basic metal industries	–0.8	5.8	5.9
Fabricated metal products, machinery and equipment	4.5	5.4	4.8

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
Population												
Total	Thousands	1989	16 833	7 624	9 938	26 248	5 132	4 964	56 160	61 990	10 033	253
Inhabitants per sq. km	Number	1989	2	91	326	3	119	15	102	249	76	2
Net average annual increase over previous 10 years	%	1989	1.5	0.1	0.1	1.0	0.0	0.4	0.5	0.1	0.5	1.1
Employment												
Total civilian employment (TCE)[2]	Thousands	1989	7 725	3 342	3 670	12 486	2 610	2 460	21 484	27 208	3 671	140
Of which: Agriculture	% of TCE		5.5	8.0	2.8	4.3	5.7	8.9	6.4	3.7	25.3	10.0
Industry	% of TCE		26.5	37.0	28.5	25.7	27.4	30.9	30.1	39.8	27.5	30.7
Services	% of TCE		68.0	55.1	68.7	70.1	66.9	60.2	63.5	56.5	47.1	59.3
Gross domestic product (GDP)												
At current prices and current exchange rates	Bill US $	1989	282.4	126.5	153.0	545.5	106.2	115.5	958.2	1 189.1	54.2	5.2
Per capita	US $		16 800	16 603	15 393	20 783	20 685	23 270	17 061	19 182	5 399	20 516
At current prices using current PPP's[3]	Bill US $	1989	240.4	102.1	135.0	506.7	74.9	74.6	818.0	929.0	72.8	4.0
Per capita	US $		14 304	13 407	13 587	19 305	14 594	15 030	14 565	14 985	7 253	15 870
Average annual volume growth over previous 5 years	%	1989	3.9	2.7	2.6	3.9	2.0	4.0	2.7	2.6	2.2	3.1
Gross fixed capital formation (GFCF)	% of GDP	1989	25.5	24.0	19.1	22.2	18.2	27.6	20.8	20.5	18.5	18.7
Of which: Machinery and equipment	% of GDP		10.7	10.2	9.5	7.5	8.0	10.9	9.3	9.3	8.0	5.1
Residential construction	% of GDP		5.4	4.7	4.1	7.4	4.2	7.7	5.1	5.3	4.6	4.3
Average annual volume growth over previous 5 years	%	1989	6.1	4.6	7.5	8.1	3.5	6.3	5.3	3.5	1.3	1.6
Gross saving ratio[4]	% of GDP	1989	22.5	26.0	20.9	19.9	17.4	25.6	21.3	26.5	14.7	16.6
General government												
Current expenditure on goods and services	% of GDP	1989	16.4	18.1	14.4	18.7	25.1	19.8	18.3	18.7	21.6	19.07
Current disbursements[5]	% of GDP	1989	32.1	44.9	53.3	41.6	56.0	35.1	46.2	41.6	47.7	32.1
Current receipts	% of GDP	1989	34.2	46.1	48.5	39.6	57.4	39.9	46.5	44.6	31.8	36.6
Net official development assistance	% of GNP	1989	0.38	0.23	0.43	0.43	0.88	0.57	0.75	0.41	0.07	0.04
Indicators of living standards												
Private consumption per capita using current PPP's[3]	US $	1989	8 258	7 434	8 486	11 225	7 705	7 766	8 733	8 120	5 026	9 447
Passenger cars, per 1 000 inhabitants	Number	1988	435 (87)	370	349	454 (86)	321	344	394	457	130	488
Telephones, per 1 000 inhabitants	Number	1987	550 (85)	525	478	780	864	617 (85)	608 (85)	650	413	525
Television sets, per 1 000 inhabitants	Number	1986	472	323	301	546	386	372	332	379	174	306
Doctors, per 1 000 inhabitants	Number	1989	2.3 (86)	2.1	3.3 (88)	2.2 (88)	2.7 (88)	2.0	2.6	3.0	3.2 (88)	2.7 (88)
Infant mortality per 1 000 live births	Number	1989	7.9	8.3	8.6	7.2 (88)	7.5	6.1 (88)	7.5	7.5	9.9	5.3
Wages and prices (average annual increase over previous 5 years)												
Wages (earnings or rates according to availability)	%	1989	5.3	4.7	2.9	3.9	6.0	7.6	3.9	4.1	16.1	..
Consumer prices	%	1989	7.8	2.2	2.4	4.3	4.3	4.9	3.6	1.3	17.1	23.7
Foreign trade												
Exports of goods, fob *	Mill US $	1989	37 191	32 448	100 081[7]	117 154	28 113	23 279	179 192	340 987	7 595	1 429
As % of GDP	%		13.2	25.7	65.4	21.5	26.5	20.2	18.7	28.7	14.0	27.5
Average annual increase over previous 5 years	%		10.0	15.6	14.0	6.2	12.0	11.5	13.0	14.7	9.5	14.2
Imports of goods, cif *	Mill US $	1989	40 981	38 902	98 586[7]	114 288	26 721	24 537	186 159	269 403	16 200	1 407
As % of GDP	%		14.5	30.8	64.4	21	25.2	21.2	19.4	22.7	29.9	27.1
Average annual increase over previous 5 years	%		12.7	14.7	12.2	9.2	10.0	14.5	13.2	12.0	11.0	10.8
Total official reserves[6]	Mill SDR's	1989	10 486	6 543	8 192[7]	12 217	4 868	3 889	18 728	46 196	2 453	257
As ratio of average monthly imports of goods	ratio		3.1	2.0	1.0	1.3	2.2	1.9	1.2	2.1	1.8	2.2

	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population															
Total	3 515	57 525	123 120	378	14 849	3 343	4 227	10 337	38 888	8 493	6 723	55 255	57 236	248 762	23 690
Inhabitants per sq. km	50	191	326	145	364	12	13	112	77	19	163	71	234	27	93
Net average annual increase over previous 10 years	0.4	0.2	0.6	0.4	0.6	0.6	0.4	0.5	0.5	0.2	0.6	2.4	0.2	1.0	0.8
Employment															
Total civilian employment (TCE)[2]	1 077	20 833	61 280	181	6 065	1 461	2 014	4 377	12 260	4 466	3 518	16 771	26 457	117 342	..
Of which: Agriculture	15.1	9.3	7.6	3.3	4.7	10.3	6.6	19.0	13.0	3.6	5.6	50.1	2.1	2.9	..
Industry	28.4	32.4	34.3	31.5	26.5	25.4	25.3	35.3	32.9	29.4	35.1	20.5	29.4	26.7	..
Services	56.5	58.2	58.2	65.2	68.8	64.3	68.1	45.7	54.0	67.0	59.3	29.5	68.4	70.5	..
Gross domestic product (GDP)															
At current prices and current exchange rates	33.9	865.8	2 869.3	7.0	223.7	41.7	90.2	45.3	380.3	189.9	177.2	79.1	837.5	5 132.0	81.8
Per capita	9 644	15 051	23 305	18 613	15 063	12 503	21 341	4 623	9 711	22 360	26 350	1 432	14 642	20 629	3 454
At current prices using current PPP's[3]	31.6	799.7	1 934.4	6.5	203.6	38.2	69.4	72.1	401.2	131.7	119.0	247.4	820.6	5 132.0	..
Per capita	8 984	13 902	15 712	17 192	13 709	11 446	16 422	7 360	10 244	15 511	17 699	4 481	14 345	20 629	..
Average annual volume growth over previous 5 years	3.2	3.1	4.5	4.4	2.4	0.8	2.2	4.3	4.2	2.3	3.0	5.1	3.8	3.6	..
Gross fixed capital formation (GFCF)	18.4	20.2	31.0	24.1	21.8	21.0	27.5	26.2	24.0	21.2	27.6	22.8	19.6	16.6	14.5
Of which: Machinery and equipment	9.9	10.6	13.0	10.9	10.6	10.5	9.4	9.8 (86)	8.5	9.6	9.5	11.7 (87)	9.4	7.8	..
Residential construction	3.6 (88)	4.8	6.1	4.3	5.5	4.9	4.1	4.8 (86)	4.9	5.2	18.1[9]	5.8 (87)	3.8	4.4	..
Average annual volume growth over previous 5 years	0.5	4.1	8.1	7.8	5.7	3.2	0.2	8.9	11.1	6.5	6.7	4.6	6.9	3.9	..
Gross saving ratio[4]	19.7	20.2	34.2	60.9	24.3	17.4	24.8	26.0	22.1	18.7	34.0	24.0	15.4	15.6	..
General government															
Current expenditure on goods and services	15.4	16.8	9.2	16.0	15.3	16.4	21.0	16.1	15.1	26.0	12.9	16.0	19.4	17.9	14.4
Current disbursements[5]	49.9 (87)	47.1	25.6	45.0 (86)	51.7	..	50.9	40.4 (86)	35.5 (88)	57.3	29.9	..	37.6	34.6	..
Current receipts	43.7 (87)	41.1	33.3	52.9 (86)	50.1	..	54.9	37.6 (86)	36.3 (88)	64.1	34.1	..	39.7	31.8	..
Net official development assistance	0.16	0.39	0.32	0.26	0.97	0.23	1.05	0.18	0.06	0.88	0.33	..	0.31	0.17	..
Indicators of living standards															
Private consumption per capita using current PPP's[3]	5 079	8 577	9 068	9 534	8 133	7 007	8 224	4 683	6 443	8 090	10 181	2 768	9 154	13 768	1 638*
Passenger cars, per 1 000 inhabitants	210 (87)	408	241	443	348	490	388	190 (87)	263	400	419	20 (83)	318	559	129 (87)
Telephones, per 1 000 inhabitants	265 (85)	488	555 (85)	425 (86)	639	697	622 (84)	202	396	890 (83)	856 (86)	91	524 (84)	650 (84)	154 (86)
Television sets, per 1 000 inhabitants	216	255	585	253	327	358	348	157	322	393	411	165	534	813	176
Doctors, per 1 000 inhabitants	1.5 (88)	1.3 (88)	1.6 (88)	1.9 (88)	2.4	1.9	2.5 (87)	2.8	3.7	3.1	2.9	0.8	1.4 (88)	2.3 (88)	1.8 (86)
Infant mortality per 1 000 live births	7.6	8.9	4.6	9.9	6.8	10.8 (88)	8.3 (88)	12.2	7.8	5.8	7.3	6.5 (88)	8.4	9.7	24.8 (88)
Wages and prices (average annual increase over previous 5 years)															
Wages (earnings or rates according to availability)	6.1	6.9	3.3	..	2.1	9.2	9.0	15.6	8.8	7.9	..	..	8.4	2.7	220.8
Consumer prices	3.7	6.2	1.1	1.8	0.7	11.2	6.6	12.6	6.9	5.6	2.1	50.6	5.3	3.6	210.2
Foreign trade															
Exports of goods, fob *	20 782	140 596	274 266	..[8]	107 760	8 883	27 145	12 722	43 408	51 592	51 683	11 557	153 121	363 811	13 363
As % of GDP	61.3	16.2	9.6	..	48.2	21.3	30.1	28.1	11.4	27.2	29.2	14.6	18.3	7.1	16.3
Average annual increase over previous 5 years	16.6	13.9	10.1	..	10.4	10.2	7.5	19.6	13.3	11.9	14.8	10.1	10.3	10.8	9.8
Imports of goods, cif *	17 490	152 910	209 763	..	104 224	8 822	23 630	18 842	70 971	49 113	58 464	15 793	197 806	473 211	14 802
As % of GDP	51.6	17.7	7.3	..	46.6	21.1	26.2	41.6	18.7	25.9	33.0	20.0	23.6	9.2	18.1
Average annual increase over previous 5 years	12.5	12.7	9.0	..	10.9	7.4	11.2	18.9	19.8	13.2	14.7	7.8	13.5	7.8	8.6
Total official reserves[6]	3 087	35 551	63 887	..	12 562	2 303	10 490	7 573	31 554	7 274	19 234	3 638	26 456	48 358	3 147
As ratio of average monthly imports of goods	2.1	2.8	3.7	..	1.4	3.1	5.3	4.8	5.3	1.8	3.9	2.8	1.6	1.2	2.6

* 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. I 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.

August, 1991

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 Papers* 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 100 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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The salary for recruits depends on educational and professional background but positions carry a basic salary from FF 252 888 or FF 312 036 for Administrators (economists) and from FF 363 012 for Principal Administrators (senior economists). This may be supplemented by expatriation and/or family allowances, depending on nationality, residence and family situation. Initial appointments are for a fixed term of two to three years.

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