

INTERNATIONAL MONETARY FUND

December 23, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: A Survey of the Italian Economy

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INTERNATIONAL MONETARY FUND

Research Department

A Survey of the Italian Economy

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Summary

A larger population and reduced resources form the basic features of the Italian economy to-day. The upward trend of population, after an interruption during the war, has now been resumed, while emigration is for the moment still limited. The resident population has increased more than 8 per cent during the last 11 years and is now about 46.4 million.

Agriculture, after the good crop of 1946, has reported in 1947 much lower production mainly because of weather conditions and partly, in relation to cereals, because official prices have been too low. At least 2,500,000 tons of cereals should be imported in 1947-48 to maintain a basic ration of 270 grams daily of cereals in the form of bread and "pasta". The total calorie availability is estimated at 2,000 calories daily per person: the figure is actually higher for the farm population (one-fourth of total) and lower for the non-farm population.

Industry, which had not suffered badly from the war, reported a very rapid recovery from January 1946 on. The index of production rose from 28 per cent of 1938 at that date to 71 in July 1947. Most of the recovery was reported during the first 9 months of 1946 and was probably due to UNRRA imports of raw materials. At present Italian industry is facing an acute shortage of raw materials caused by the shortage of foreign exchange.

Employment is suffering from this shortage of supplies, so that at least 3-5 per cent of the population is now not regularly employed. Unemployment is also a result of the increase in population and, to a certain extent, of the demobilization of the Armed Forces, which in 1942 were employing 2,000,000 men.

The scarcity of all staple commodities, together with an increasing deficit in the State budget financed mainly by increases in note circulation, provoked a steep rise in prices. The wholesale price index is in 1947 58 times the index of 1938. Wages and salaries have been adjusted and revised several times. However, the real wage of a laborer is in 1947 only 75 per cent of 1938, and of a skilled worker only 55 per cent. Therefore an increasing levelling of wages of different categories of workers is apparent. With wages increasing less than prices family expenditure has also been distorted, so that now at least 80 per cent of the family income is spent on food, as against less than 60 per cent before the war.

Foreign trade shows profound changes as a consequence of the war. The traditional excess of imports over exports, both in value and in tonnage, is at present even greater. 1946 exports have been estimated at about 400 million dollars, against 950 million dollars of imports. Germany and Austria, which before the war contributed 27 per cent of imports and 18 per cent of exports (in value), have almost disappeared from Italy's foreign trade. The same is true for the Italian colonies, which used to receive 24 per cent of Italy's exports. The bulk of imports (70 per cent) came in 1946 from U.S.A. while the greatest part of exports (64 per cent) went to U.S.A., U.K. and Switzerland. The nature of the commodities imported has also changed. The proportion of foodstuffs to total imports was in 1946 almost three times as high in 1938, while imports of "productive goods" like coal and other raw materials have fallen sharply.

The large deficit in the balance of payments in 1946 was covered by grants and loans to such an extent as to permit the partial coverage of the deficit of the balance of payments for the first 6 months of 1947 by foreign exchange earned during the preceding year; the rest of this deficit was covered by receipts from current exports, and other donations or credits. However, during the Summer of 1947 this flow of foreign currencies declined sharply, so that the deficit for the second 6 months will be only partially covered; the Government has been therefore forced to curtail even basic imports.

Public finance, after a few years of increasing budget deficits, shows at present a recovery in yield from taxation. Expenditure is expected to increase only slightly in 1947-48 in comparison with the previous year: about one-third is to be allocated for "constructive" activities such as repair of war damage, building of railroads, etc. The deficit should therefore be lower than last year, when there was an actual excess of expenditure of almost 300 billion lire. The deficit has been covered mainly by borrowings from the public and commercial banks.

Note circulation, as a consequence of the huge volume of credits extended to the Government in various forms by the Bank of Issue, increased about 28 times from December 1938 to 1947 reaching a total of 585 billion lire in June and of 6 to 8 billion lire in August. Deposits with commercial banks during the same time increased 16 times, reaching 874 billion lire. Measures have been recently taken to limit inflation. A stronger control of State expenditure and of credits requested by the State from the Bank of Issue has been enforced, while measures have been taken to increase the investments of the Commercial Banks with the Bank of Issue and the Treasury, so to assure to the State a larger share of the money accumulation. These measures will result in a proportionate reduction in the loans of commercial banks to private enterprises, with the expected result of a reduction of prices. A full-fledged experiment in credit deflation is now going on; its outcome is still uncertain, as Einaudi's policy encounters fierce opposition from business and workers alike.

1. Territory and Population

The most recent official Census was taken by the Italian Government in April 1936. At that time the metropolitan territory covered an area of 310,290 square kilometers (or 119,770 square miles). This area has since been reduced by territorial changes embodied in the Treaty of Peace and already enforced. Part of the Venezia Giulia region was ceded to Yugoslavia and its northern section to the free territory of Trieste; only the city of Gorizia and the shipbuilding center of Monfalcone and other small towns along the coast have been left to Italy. The villages of Briga and Tenda in Piedmont and the adjacent territory were also ceded to France. Although no official data are yet available, the area of Italy can now be estimated at 302,000 square kilometers (or 116,700 square miles).

According to the same census, the total population of the metropolitan territory at the date of the census was 42,444,588 people. 474,138 Italian citizens were also resident in the colonies.

The total gainfully employed population in 1936 was 18,346,000, classified as follows:

Agriculture and forestry	47.7
Industry	29.8
Trade and transportation	12.0
Public Administration and other occupations	<u>10.5</u>
	100.0

Although no official figures are available on the present distribution of the gainfully employed, it may be assumed that most of the increase in the active population since 1936 represents new industrial workers.

No official data on the Italian population have been published since 1936. It can be estimated that in June 1947 the population living in Italy amounted to 46,400,000 people. This figure is obtained by adding to the 1936 census record:

- (a) the annual excess of births over deaths, and
- (b) A part of the 474,138 citizens who in 1936 were in the colonies and have since been repatriated;

and subtracting:

- (a) some emigrants; and
- (b) a part of the population living on the territories separated from Italy by the Treaty of Peace (the total population of Venezia Giulia and of Briga and Tenda was about 1,000,000, of whom about 300,000 are estimated to be still Italian citizens); and
- (c) deaths on account of war operations, which are not included in the estimated excess of births over deaths in 1940-1945.

The main characteristic of the Italian population is its very high rate of increase. According to the first census taken at the time of the

unification of Italy (1871), the population then amounted to 28,006,973. Therefore, in 76 years it had increased by 75 per cent. This increase is clearly shown by the following figures:

Excess of births over deaths from 1872 to 1935

<u>Periods</u>	<u>Annual average of each period</u>	
	<u>Total</u>	<u>Per thousand</u>
1872-75	170.225	6.3
1876-80	208.565	7.5
1881-85	307.420	10.7
1886-90	306.745	10.3
1891-95	325.808	10.6
1896-1900	353.011	11.1
1901-05	351.081	10.7
1906-10	388.837	11.5
1911-15	415.532	11.7
1916-20	-50.143	-1.4
1921-25	476.058	12.4
1926-30	436.255	10.9
1931-35	410.278	9.8
1935-36	387.902	9.1
1937-39	417.025	9.5
1940-42	365.965	7.7
1943-45	187.216	4.2
1946	481.082	10.6
1946 (Jan-Apr)	146.342	9.7
1947 (Jan-Apr)	156.559	10.1

The annual rate of increase, after increasing from 6.3 per thousand in 1872-75 to 10.7 in 1881-85, has always remained in the neighborhood of 10, lower rates appearing only in years affected by war, i.e. 1916-20 and 1935-45. The 1946 rate shows again a very high increase and the first 4 months of 1947 report an excess of births higher than that reported for the same period of 1946. The Italian population therefore still shows a clear upward trend at a rate among the highest reported by the main countries.

The excess of births over deaths does not cover the whole net annual increase of population. Account must also be taken of emigrants, whose number, however, after having reached a peak during the first 10 years of this century, then rapidly decreased, while the population has continued to increase almost continuously.

Complete migration statistics are not available. Only for 1902 onwards are data on expatriations and repatriations available, and they are not always in strictly comparable form.

Movement of migrants
(Annual Average)

<u>Periods</u>	<u>Expatriations</u>	<u>Repatriations</u>	<u>Net Emigration</u>
1902-05	554.050	136.071 ^{1/}	- - - -
1906-10	651.288	200.072 ^{1/}	- - - -
1911-15	548.612	195.178 ^{1/}	- - - -
1916-20	217.001	46.656 ^{1/}	- - - -
1921-25	303.264	143.281	159.983
1926-30	212.897	132.347	80.550
1931-35	91.628	67.208	24.420
1936-40	91.628	50.814	40.814
1941-42	8.527	NA	NA
1943-45	NA	NA	NA
1946 ^{2/}	36.051	4.274	29.777
1947 (Jan - May)	42.235	7.984	34.251

It is evident that after 1930 the effects of the excess of births over deaths were offset by net emigration to only a limited extent. Most of the annual natural increase, of at least 300,000, continued to live in the metropolitan territory and therefore to share the available domestic resources. Although complete data are not available, the significance of this trend must have been even more evident during the war, when practically no emigration took place.

This net increase of population is therefore one of the causes of the present shortage of foodstuffs and high percentage of unemployment. Although food shortage and unemployment can be reduced by increasing agricultural and industrial production, over-population is a serious problem for Italy and the only remedy which can be envisaged is to resume as soon as possible mass emigration to countries with greater local resources and lower population density.

Some steps have been taken, negotiations initiated and agreements signed with various nations for the restoration of a regular flow of Italian workers and their families to other countries. It is proposed that France should absorb 200,000 workers and Argentina 500,000, while some Italian skilled miners are to go to Belgium. All these arrangements are, however, still in a preliminary stage, as the problems of selection and of determining the method of paying the workers are not yet completely solved. From January 1946 to May 1947 (with the exception of December for which no data are available), 76,286 people emigrated from Italy, of whom 16,299 went to France, 10,759 to Belgium, 27,408 to Switzerland and 10,597 to U.S.A.

^{1/} Only from overseas
^{2/} Data for December are missing.

2. Agriculture

Agriculture is one of Italy's most important economic activities, accounting for almost one-half of the gainfully employed population, and contributing, according to an estimate of 1938, 36 per cent of the national income.

In normal prewar years Italian agricultural products supplied more than 90 per cent of domestic food requirements, in terms of calories, while the percentage of domestically consumed raw materials supplied by Italian agriculture varied widely, from 60 per cent for lumber to almost nil for cotton. The money value of agricultural imports slightly exceeded that of agricultural exports. Agricultural items represented roughly two-fifths of the total foreign trade of Italy. Agriculture is nevertheless an activity for which natural conditions in Italy are not favourable, for much of its area is mountainous, arid or covered by forests.

Food crops, and especially cereals, are the leading agricultural products. Wheat covers almost 40 per cent of all the arable land. Among other food crops, rice, potatoes, tomatoes, vegetable and fruit crops are also important. Although one-fifth of the productive land is under feed crops, livestock breeding is ill-developed. Cattle is the major branch of animal husbandry, but lacks specialization. In an effort to reach economic self-sufficiency, the Fascist Government encouraged progress in many directions, such as land reclamation, mechanization, wheat cultivation, etc. The result, however, was to withdraw Italian agriculture almost entirely from effective relations with world conditions, and the end of the war revealed its extreme inflexibility, operating at high costs which could not always be met by corresponding price increases.

The following table classifies agricultural production during the 1945-46 and 1946-47 crop years, compared with the prewar average.

Agricultural Production

<u>Food Commodities</u>	<u>Average</u> <u>1934-38</u>	<u>Crop Year</u> <u>1945-46</u>	<u>Crop Year</u> <u>1946-47</u>
In thousand tons			
Wheat	7,246	6,125	4,630
Other cereals	4,675	3,171	3,524
Total cereals	11,921	9,296	8,154
Olive oil	256	160	210
Butter	50	35	35
Animal fats	150	100	108
Total fats	456	295	353
Potatoes	2,820	2,342	2,600
Vegetables	3,269	3,492	3,715
Fresh Fruit	1,966	1,934	2,000
Nuts <u>1/</u>	630	400	400
Wine	3,795	3,373	3,000
Sugar	335	264	319
Beef <u>2/</u>	330	210	200
Other meats <u>2/</u>	418	283	298
Total meat <u>2/</u>	748	493	498
Eggs <u>2/</u>	317	211	200
Milk for direct consumption <u>2/</u>	1,570	1,240	1,260
Cheese <u>2/</u>	242	112	165
<u>Raw materials</u>			
Silk (in cocoons)	26	23	22
Hemp	89	55	51
Wool	14	11	12

1/ The figures for dry fruits relating to almonds, walnuts and hazelnuts refer to shelled products.

2/ The above figures for animal products refer to the year following the crop-year stated, so as to be comparable with vegetable products which are actually available for consumption from the end of the crop-year.

Production in 1947 of nearly every crop is still below the prewar figures. Cereals, after a sudden drastic decline in 1944 and 1945, caused by the war, had started to recover, and in 1946 production was reported at about 78 per cent of prewar. This year's production according to the most recent estimates will amount to 8,154,000 tons of cereals (rice included), equal to only 68.5 per cent of prewar average production. Of this total only 1,900,000 tons of cereals are expected to be collected by the State's compulsory pools, the rest being retained by farmers for food, feed and seed purposes. To assure for the whole consumption year to the non-farm population (about three-fourths of the total) a basic daily ration of bread and "pasta" equal to only 270 grams of cereals, 2,500,000 tons, to be imported from abroad, has to be added to the amount of cereals collected by the State. The main reasons for low cereal production are (a) progressive reduction in the fertility of soil due to a continuous lack of fertilizers during the war which has not been made good by imports of phosphates and nitrates since the war, (b) reduction in acreage, especially of cereals, though the area under vegetables and in meadow and pastures has increased, (c) bad weather during the past winter and last June.

The recovery of fats is expected to continue in 1947, the main contribution coming from olive oil. A good harvest of olives is now being collected.

For all the vegetable products the estimates of production for 1947 are fairly good and show a continuous upward trend. Vegetable production for 1947 is expected to be even higher than prewar mainly because of an increase in the acreage.

Meat should be available in 1947-48 in much the same quantities as in 1946-47, although the livestock population is still increasing. Farmers are restocking their herds and they fear to slaughter animals which represent for them, during the present inflation, a safe investment of money.

Silk and hemp production do not show any recovery, mainly on account of international marketing difficulties. Wool is recovering slightly, mainly because of a natural recovery in the sheep and goat population, but as the quality is poor, the requirements of the Italian textile industry will not be adequately met.

The problems of Italian agriculture today are problems of prices and problems of means of production. The acreage of cereals, which provide nearly 70 per cent of the calories consumed in Italy, has been progressively reduced, because the farmers have not found it profitable to cultivate wheat at the present high costs of production, while all cereals in excess of their own requirements had to be delivered to the State "ammassi" at low prices. On the other hand an increase in prices paid to farmers would have compelled an increase either of the bread and pasta prices paid by rationed consumers or of the State subsidy. There is already a sharp difference between the price paid by the State to farmers and the price paid by the mills to the State, which amounts to at least 100 billion lire per year and is one of the main causes of the present budgetary deficit.

A new policy for encouraging cereal production and at the same time giving farmers a reasonable profit will be attempted next year. Delivery to the State at fixed prices will be required for only part of the crop, sufficient to meet the most essential needs of the rationed population. The remainder, approximately three-fourths of the total, will be left to the farmers to sell at free prices. This program requires a considerable importation of cereals to supplement domestic supplies. A similar system was enforced last year for olive oil; previously it had been obligatory to deliver the whole output of this product to the State.

The second immediate problem is that of technical means of production, and in particular of fertilizers and pesticides. The limiting factor here is the availability of foreign currencies. Pesticides and nitrates have to be imported mainly from the dollar area, while payment in dollars is requested for phosphates which come principally from the French colonies.

The immediate objective of Italian agriculture is an increase of basic foodstuffs, mainly cereals, in the face of the present world food shortage. In the longer run it will aim at a more careful equilibrium between different types of production, in accordance with international requirements and availabilities, reducing production, e.g. of cereals, which beyond certain limits is now uneconomic for Italy and of which supplies from other countries should be more readily accessible; and encouraging other types with good prospects of development in Italy and likely to meet a demand in world markets.

In this longer range program new land-reclamation and irrigation works are included to improve the soil conditions of certain areas, to encourage the redistribution of land and to reduce unemployment.

3. Industry

Before the war Italian industry contributed 30 per cent of the national income, and employed more than one-third of the total labor force, absorbing most of the annual increase in population and supplying 40 per cent of Italian exports.

Italian industry has to rely heavily upon imported raw materials, so that it can be mainly considered as "industry of transformation". Its three main assets are an abundant supply of manpower, large waterpower resources which make up to a certain extent for the lack of coal, and nearness to the Western and Central European market where, before the war, Italy bought a large portion of her raw materials and sold her finished products.

Industry in Italy is very unevenly distributed: it is mostly concentrated in Northern Italy which employs 70 per cent of the total labor force and hydroelectric power. In the highly industrialized Northern regions are to be found electrical, mechanical, textile, metallurgical and chemical industries, while in the Central and Southern parts there are also textile and some metallurgical industries.

Small and medium-sized enterprises form the backbone of Italian industry, although the tendency toward concentration progressed fairly rapidly during the last ten years before the war. Whereas in 1927 71 per cent of all industrial establishments employed less than 250 persons, in the period 1937-39 this proportion had fallen to 63 per cent.

Industry emerged from the war with 75 per cent of its capacity intact, the damage occurring mostly in Central and Southern Italy, where the most extensive war damage was suffered by electric installations and the iron and steel industry. On the other hand, the textile industry retained 90 per cent of its productive potential, making possible the 1946 boom, which provided the greater part of Italy's exports during that year.

Industrial Production Indexes

(Monthly average 1939=100)

<u>Month</u>	<u>Textiles</u>	<u>Mining</u>	<u>Metallurgy</u>	<u>Electric Power</u>	<u>Chemical</u>	<u>Construction Materials</u>	<u>General Index</u>
<u>1946</u>							
Jan.	29.0	47.2	21.1	81.6	8.1	33.6	25.0
Feb.	37.7	48.1	22.0	65.9	10.2	33.1	26.6
Mar.	39.1	50.9	24.9	75.2	13.2	46.4	32.4
Apr.	48.5	53.4	32.4	77.1	25.1	48.4	41.2
May	57.7	56.7	40.7	87.8	34.0	51.6	49.3
June	70.0	51.5	41.3	88.9	37.8	52.7	53.4
July	64.0	54.2	47.9	99.9	36.4	64.3	55.5
Aug.	62.0	51.7	43.2	98.4	42.1	58.3	53.7
Sept.	66.0	53.9	51.8	103.4	44.5	69.6	59.6
Oct.	64.0	49.0	51.0	99.2	40.1	67.4	57.1
Nov.	62.0	56.8	42.5	87.6	32.0	58.6	51.6
Dec.	60.0	56.5	39.9	90.9	--	47.8	48.0
<u>1947</u>							
Jan.	58.0	51.7	37.8	80.3	--	36.6	43.0
Feb.	--	48.7	35.4	72.1	--	34.0	42.0
Mar.	--	58.0	49.6	90.8	--	34.9	49.0
Apr.	--	47.9	61.6	103.4	--	36.1	52.0
May	--	46.9	72.0	121.4	--	42.7	61.0
June	--	47.0	70.0	120.2	--	50.0	68.0
July	--	55.0	73.0	127.7	--	56.0	71.0

The frequent sharp changes which industrial indexes show between successive months are due mainly to the irregular flow of imported raw materials. However, a general trend is also visible which shows the rapid recovery of Italian industry during the first nine months of 1946, largely due to UNRRA's raw material import program. The decline after September is to be attributed to serious electric power shortage because of lack of water in the mountainous areas and to coal shortage following the prolonged

strike of American longshoremen which delayed coal shipments to Italy. As soon as these two causes disappeared the index of production started again to rise; however, no data are available on textile and chemical industries, and the general index was computed without taking them into account.

The electric industry which employed 51,682 persons before the war, is the most heavily capitalized of all Italian industries--capital invested in it in 1940 was estimated at 37.5 million of 1938 lire, or roughly one-third of the total capital invested in industry. It is mostly concentrated in Northern Italy which produces some 70 per cent of total output. Italy has stressed the development of her electric power resources to offset her lack of mineral fuels. It was estimated in 1938 that the output of electric power for all uses had roughly the same aggregate horsepower as was produced by imported coal. As a result of the fast development of hydroelectric plants, monthly output increased from 1,095 mill. Kwh. in 1938 to 1,478 million Kwh. in 1941. A low of 940 mill. Kwh. was reached in 1945 following upon the serious damage suffered by high-tension transmission lines in Southern Italy. Partly as a result of seasonal factors, monthly output increased from 1,166 million Kwh. in January to 1,869 million Kwh. in July 1947. Plans are at present being studied to increase monthly output by 1,225 million Kwh. during the period 1947-1948.

Coal consumption in 1938 was about 14 million tons, of which only 2,200,000 were domestically produced. Sardinian mines contributed 466,000 tons, and Istrian mines 882,000 tons. Compared with good bituminous coal, the calorific value of Sardinian and Istrian coal is however inferior by approximately 20 per cent. The rest of the domestically produced coal is mainly made up of anthracite, xiloid lignite and black lignite, all with a still lower calorific value. The transportation of domestic coal is therefore comparatively expensive. In 1942, the year of highest consumption, imports totalled approximately 14 million tons, while Sardinian production had almost trebled since 1938, reaching 1,153,000 tons, and Istrian production amounted to 1,201,000 tons. Domestic production in all was in 1942 equivalent in calorific value to 3 million tons of bituminous coal. As a consequence of the war, the Istrian mines have been lost and some other mines damaged. Sardinian mines are now rapidly recovering: in 1946 they had an output of more than 1 million tons. The rest of the domestic production has recovered only partially, so that the total domestic production during 1946 in terms of bituminous coal can be computed as 1,600,000 tons. Preliminary data for the first 6 months of 1947 show a further recovery of the Sardinian mines: in June their output was 110,000 tons. However, imports still provide the largest share of the domestic supply. They amounted to 6,083,000 tons in 1946 and to 3,635,000 tons during the first half of 1947.

Postwar imports of coal can be broken down by countries and periods as indicated in the following table. The same table contains comparable data for the prewar periods, so as to show the sharp change Italy was forced to make in her postwar sources of imports shifting from Germany to the U.S.; this solution is, however, expensive because of the much higher freight charges.

Imports of Coal By Countries and By Periods
(in thousands of metric tons)

Period	United States	Great Britain	Germany	Poland	Others	Total	
						Quantity	% of 1935-38 Average
<u>1935-38</u>							
Quar. Aver.	4	493	1,755	352	431	3,035	100.0
<u>1945</u>							
3rd Quarter	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4th Quarter *	897	-	-	-	161	1,058	34.9
<u>1946</u>							
1st Quarter *	1,669	-	-	-	172	1,841	60.7
2nd Quarter	948	31	25	-	116	1,120	36.9
3rd Quarter	1,609	70	306	-	102	2,087	68.8
4th Quarter	671	16	215	26	107	1,035	34.1
<u>1947</u>							
1st Quarter <u>1/</u>	1,149	2	134	45	88	1,418	46.7
2nd Quarter <u>2/</u>	1,602	-	262	170	183	2,217	73.0

1/ Preliminary figures.

2/ Based on a production assumed to be equal to that of the first quarter, and on allocations of exportable surpluses by the European Coal Organization.

* Exports from country of origin were used because a breakdown of import figures was not available.

Italy's most important minerals are sulphur and mercury. Before the war, with a monthly output of 186,470 tons, the Sicilian sulphur mines were responsible for 98 per cent of European production, but the postwar increase in production costs impaired their competitive position in the world market. Today, they produce 80,237 tons only (January 1947) and have to meet the competition of U.S. mines.

In 1938, with a monthly average of 66,300 tons of mercuric ore, Italy produced 45 per cent of total world output, her Idria mine being the second largest single producer in the world. In January 1947, monthly production had dropped to 14,200 tons. The government now controls some 53 per cent of Italian production.

Liquid fuel resources are practically negligible--13,000 tons a year--and leave Italy entirely dependent upon outside sources of supply.

Liquid fuels, which before the war were imported at an annual rate of 26 million quintals, came mainly from the U.S., Iraq, Albania, Romania, and Central American countries. Today, the U.S. is supplying the bulk of her petroleum products of which almost 90 per cent came from the United States.

The iron and steel industry which has to rely upon imported coal and pig iron is of comparatively recent development. The steel industry made rapid progress under government control (70 per cent of the steel industry is under the control of the Istituto Ricostruzione Industriale) and increased its output from 1,000,000 tons in 1932 to a peak of 2,344,000 tons in 1939, thus satisfying 90 per cent of domestic requirements. Allied air raids and German looting put 12 of the 14 Italian blast furnaces out of action, so that total production for 1946 amounted to only 1,153,293 tons of steel and 176,694 tons of pig iron, representing 50 and 20 per cent respectively of the 1938 output. By the end of May 1947, monthly pig iron production had reached 41,000 tons, or nearly 60 per cent of prewar output, while steel production was already 166,358 tons, or 85 per cent of prewar.

The mechanical industry employed 839,716 persons before the war. It comprises three main branches: automotive, shipbuilding and electro-technical industries.

The automotive industry employs 115,000 persons; it comprises 168 body manufacturing firms, and 13 assembling firms. Whereas in 1939 there was a monthly production of 4,667 cars and 1,079 trucks, in May 1947, these figures were 2,258 and 2,052 respectively. Before the war, 25 per cent of car production was exported to nearby European markets, British India and Argentina. Today the main export markets are Switzerland, Brazil, Argentina and Uruguay, although the number of vehicles now exported is almost negligible. Before the war, 310 shipyards with a productive capacity of 200,000 tons a year and a total labor force of 200,000 were operating in Italy. As of the middle of September 1947, 77 ships with a total tonnage of 191,347 tons were under construction, of which 32 ships with a total tonnage of 98,120 tons were for foreign account.

The electro-technical industry manufactures mainly generators, transformers and big machinery. Generators, motors and transformers constituted an important item in the Italian export list; they were sold mainly in Western Europe, the Near East and South America.

Last May, it was estimated that the general index of production of the mechanical industry was around 60-70 per cent of prewar. The main obstacles to its development are lack of fuel and of ferrous and non-ferrous metals.

The textile industry in 1938 employed 633,000 persons or 14 per cent of the total labor force, and comprised 3,000 firms; the total value of its output was 11 billion lire (1938 value), and it was contributed nearly 30 per cent of Italian exports. Western Europe and the Mediterranean basin are the chief export markets. Because it emerged from the war with an almost intact capacity the textile industry experienced an unprecedented boom in 1946. Rising costs of foreign raw materials and domestic labor have impaired its competitive position on world markets and made its goods too costly for the home market, so that, even though it is now turning out 60 per cent only of its prewar output, it may soon be faced by conditions of overproduction.

The textile industry is essentially based on imported raw materials. Imports of raw cotton and linters amounted before the war to 1.9 million quintals, supplied mainly by the U.S., British India, Egypt and Brazil. Total imports in 1946, for the most part from the same sources, amounted to 1.6 million quintals. Wool imports, which amounted before the war to 375,000 quintals, came mainly from Australia, South Africa, and Argentina. During 1946, total imports amounted to 753,141 quintals, coming mainly from the U.S. (223,172 quintals), South Africa (126,957 quintals), Australia (108,600 quintals), and the United Kingdom (97,908 quintals).

Before the war the chemical and allied industries (artificial fibers, cellulose and paper, oil and fats and soap) gave employment to 261,685 persons, and the total value of their output was 9 billion lire (1938 value). The Italian chemical industry is mainly based on distilleries of coal and mineral oils, pharmaceutical products, fertilizers and sulphuric acid. Only 10-15 per cent of the working capacity was destroyed as a result of the war. The resumption of production in the postwar period was, however, very slow because of lack of coal and other imported raw materials, so that by the end of 1946 the production index was only 40 per cent of its prewar figure. At present the chemical industries, properly speaking, produce only for the domestic market, the emphasis being placed on fertilizer and pesticide production.

Problems

Italian industry at present faces an extremely delicate situation with implications both economic and political.

The first problem which most urgently requires solution is that of raw materials. The flow of UNRRA imported commodities was practically over at the end of June 1947. Since that date only raw materials imported through the U.S. foreign relief program (post-UNRRA) have been coming without any payment in foreign currency. Apart from barter transactions, the rest has to be imported against payment in foreign currency, mostly U.S. dollars. Italian dollar resources have been practically exhausted since the end of last September, so that all imports against payment of dollars have been discontinued. U.S. relief imports are still coming into Italy, but they amount in terms of dollars to a monthly flow of only about 30 per cent of what UNRRA imported into Italy during the preceding 12 months. Absolute priority must moreover be given to food-stuffs, mainly cereals, and there is now only a small flow of raw materials for industry (practically only coal). All available stocks of raw materials are being used but they will not last long. Great uncertainty affects every sector of industry. The cancellation of many contracts for exports of industrial products (mainly mechanical) threatens serious loss, both immediate and in the future.

A second problem arises from the restriction of credit which is being enforced to prevent further inflation. Many industrial firms are now being forced to sell all their stocks of finished products (mainly textiles); this is a contribution to the battle against inflation, which may, however, entail some hardships for marginal enterprises. In this

situation some industrialists are being forced to repatriate directly or indirectly foreign currency held abroad which is one of the causes of the decline of the exchange rate of the dollar. The only official action taken up to now to prevent too drastic reductions in credit in the mechanical industry is a "Fund for the financing of the mechanical industry", which has been recently made available through the Istituto Mobiliare Italiano (IMI, a governmental institution for industrial medium-term credit). The fund has been restricted to this particular branch of industry, which the Government intends to encourage on account of its good export prospects. The electrical industry is also considered by the Government likely to expand its present structure and production to meet increased domestic as well as foreign requirements. However, nothing certain can at present be known about the future plans of Italian industry, which are strictly dependent upon the decisions made with regard to the Marshall Plan.

4. Transportation

Rail Transportation

Most of the railway system in Italy is State-owned and operated. The railways and the merchant marine are probably the economic activities that have suffered most from the war and that are now recovering more rapidly. The Italian rail system totalled 21,196 kilometers of track (of which 8,345 was double tracked) in 1943, while at the end of March 1947, 15,895 kilometers were in operation. Reconstruction has so far been concentrated on the principal lines: more than 3,000 kilometers, including station tracks, have been rebuilt. The locomotive and rolling stock situation is as follows:

	<u>June 1939</u>	<u>March 1947</u>
Steam locomotives	3,691	2,230
Electric locomotives	1,321	948
Rail motor-cars	521	302
Coaches	6,350	1,824
Luggage and mail vans	3,755	1,791
Freight cars	125,956	87,214

This table covers only rolling stock in service. Up to now the main effort of the State railways has been concentrated on the repair or construction of coaches and freight cars.

Most progress, however, has been made with the reconstruction of bridges and tunnels, i.e. of the elements of the railway system that suffered most in the war from bombing or other damage.

Number of units in Service

	<u>June 1943</u>	<u>March 1947</u>
Iron bridges	4,067	3,456
Masonry bridges	39,091	35,748
Tunnels	1,849	1,673

It has been officially stated that at the end of 1946 123 billion lire had already been spent for the reconstruction of State railways, while 115 billion were to be spent during 1947 and 108 billion in 1948. The total reconstruction is to cost 456 billion of lire (lire of 1947).

The present traffic situation is as follows:

	<u>1939</u>	<u>1946-47</u>
<u>Passenger traffic</u>		
Number of train-kilometers	11,299,000	4,662,206
Number of passengers transported (monthly average)	8,964,667	13,302,000 <u>1/</u>
<u>Freight traffic</u>		
Number of train-kilometers	5,105,000	3,578,819
Tons of commodities transported (monthly average in metric tons)	4,288,913	2,352,000 <u>1/</u>

1/ Average computed on the basis of figures from August 1946 through March 1947.

Passenger traffic has expanded mainly because of a corresponding reduction of automobile traffic, although train-kilometers were in March 1947 only 41 per cent of prewar. Freight traffic has decreased mainly as a consequence of the reduced availability of freight cars. For the first five months of 1947, the index of freight hauled was 70 per cent of prewar.

Road transportation

Italy had in 1939 178,281 kilometers of roads, including:

State highways	21,340 kilometers
Provincial routes	41,493 "
Communal routes	115,448 "

Although some of the bridges destroyed by the war are still under repair, practically the entire system of roads is now in use and generally in fairly good condition. There has been an increase in freight vehicles and a reduction in passenger vehicles. Many military surplus trucks are available, a number of passenger cars have been transformed into small trucks and the automobile industry is at present mainly producing industrial vehicles. The vehicle position at the end of 1946 in comparison with prewar was as follows:

	<u>1939</u>	<u>1946</u>
Trucks	89,593	105,645
Passenger cars	287,962	97,709
Buses	6,928	3,830

Merchant Marine

In July 1943 the total tonnage of the Italian merchant marine was as follows:

	<u>No.</u>	<u>Gross tons</u>
Passenger or mixed ships	164	1,112,727
Cargo ships	558	2,000,173
Tankers	<u>97</u>	<u>485,134</u>
	819	3,598,034

The last two years of the war had terrific consequences for the Italian merchant marine, which was reduced to about 500,000 tons. Beginning with the summer of 1945 some sunk or damaged Italian units in territorial waters or Italian harbors were salvaged. Other units under construction were completed and fitted. Two groups of Liberty ships and tankers were purchased, while two Italian liners returned from the U.S.

On July 15, 1947 the situation of the merchant marine was as follows:

	<u>No.</u>	<u>Gross tons</u>
Mixed ships	30	115,809
M/V Saturnia and Vulcania	2	48,966
Cargo ships	179	478,947
Tankers	59	366,124
Liberty ships	90	646,393
Ships to be returned by the U.S.	<u>29</u>	<u>225,728</u>
	389	1,881,967

5. Employment

The prewar and the war period

According to the 1936 census there were 33.7 million employed persons in Italy. The highest percentage of population employed was reported by Northern Italy (81 per cent), mainly because of the concentration of industrial workers in that area. Central Italy had also a high percentage (79 per cent), due, however, mainly to agricultural and white collar workers. Southern and Insular Italy had lower percentages (74 per cent and 76 per cent).

Population employed in
April 1936
(thousands)

	<u>Agriculture</u>	<u>Industry</u>	<u>Trade and transportation</u>	<u>Other occupations</u>	<u>Total No.</u>	<u>% of total population</u>
Northern Italy	3,951	3,272	1,192	9,862	16,277	81
Central Italy	1,695	845	376	3,151	6,068	79
Southern Italy	2,300	859	411	3,986	7,557	74
Insular Italy	897	398	295	2,306	3,827	76
Total	8,843	5,375	2,205	16,423	33,728	78

In the last two decades before the war, Italy enjoyed a relatively high level of employment. Even at the lowest point of the depression during the thirties, the total number of unemployed did not exceed 1 million. This was made possible by a set of very favorable circumstances, such as the low level and flexibility of wages, and the mobility of labor between agriculture and industry. The vast public work program and reclamation works carried on by the Mussolini Government employed, on the average, 240,000 workers a day between 1935 and 1938. War plants which considerably enlarged their labor force before and during the war also contributed to eliminate unemployment. An increasing number of males during the last prewar years was going into the armed forces and para-military organizations.

Preparation for war and the war itself helped maintain high levels of employment. The employment index computed by the Fascist Confederation of Industrial Employers increased from 106 in 1938 (1937 = 100) to 117 in 1942, while at the peak of Italy's war effort some 2 million men were estimated to be in the Army.

The postwar period

The situation was suddenly reversed with the almost complete dissolution of the Italian Army after the Armistice and the German occupation. War damage and the lack of raw materials which at the same time caused the collapse of Italian economy further contributed to create the most severe unemployment crisis ever known in Italy.

The first official figures on unemployment were issued in December 1945. They are based on the number of workers registered in the unemployment lists of the provincial labor offices.

Workers Registered in Unemployment Lists
(thousands of workers)

1945 Dec	1,325	1947 Jan	2,228
1946 Jan	1,428	Feb	2,279
Feb	1,198	Mar	2,177
Mar	1,335	Apr	2,169
Apr	1,468	May	2,152
May	1,546	June	1,995
June	1,531	July	2,031
July	1,683		
Aug	1,770		
Sept	1,858		
Oct	1,946		
Nov	1,998		
Dec	2,098		

These figures are also available broken down by regions and occupations. The following is a percentage breakdown for the month of June 1946. The percentages for other months are not very different.

Percentage Breakdown of Italy's Unemployment
(as of June 1946)

<u>Region</u>	<u>Agriculture</u>	<u>Industry</u>	<u>Commerce</u>	<u>Other Occupations</u>	<u>Total</u>
Northern Italy	10.6	64.1	6.9	18.4	100.0
Central Italy	7.0	62.0	14.5	16.5	100.0
Southern Italy	26.5	46.2	4.4	22.9	100.0
Insular Italy	<u>18.6</u>	<u>54.1</u>	<u>15.5</u>	<u>12.0</u>	<u>100.0</u>
Total	14.1	59.2	8.1	18.6	100.0

These figures, however, are not of real significance. Many cases of double registration have been discovered. Workers who were at first unemployed and therefore registered, were still included after finding employment. Even the trend shown by the monthly figures is of no great

significance, because the use of the unemployment lists was in December 1945 not so well known by workers as it was later. Besides, many workers who are registered as unemployed have part-time or occasional jobs. On the other hand, the statistics do not include the disguised unemployment in the factories, compelled by law until recently to keep a redundant labor force with a very low productivity.

As a very rough estimate, it can be said that workers actually not working, and therefore living by charity, assisted by the rest of the family, or returned to the country to find a cheaper and an easier living, numbered during the summer of 1947 approximately 1,500,000.

In July 1945 an agreement between the General Confederation of Labor and the General Confederation of Industry put a ban on the dismissal of workers. The agreement also provided that workers should receive a proportion of their wages even when not working, or working less than 40 hours (which was made the standard working week by a decree of August 1945).

The ban on dismissal, which was putting a heavy financial burden on many industrial firms, was partially lifted during a short period (February to May 1946), and then enforced again, as an emergency measure, until the end of July 1946.

A decree of February 14, 1946 compelled firms with more than 10 workers to employ veterans up to 5 per cent of their total labor force. A very modest unemployment benefit has been paid by the Government to specially needy categories of workers registered with the employment offices.

As a consequence of all these measures the effect of manpower on total costs of production increased rapidly, while the individual productivity of workers was falling. At the end of 1946 the industrial labor force was estimated at more than 4 million workers, against 5.4 million in 1936, while the index of industrial production compared with 1938 was less than 50 per cent. Disguised unemployment with lower productivity and increasing wages, is probably mainly responsible for the increase in prices of industrial products, at least until summer 1947.

Less serious have been the direct consequences of unemployment for the State budget. The cost of unemployment benefits which are limited to a small percentage of workers and small in amount was not more than about 4 billion lire for each of the fiscal years 1945-46 and 1946-47.

The indirect cost of unemployment has, however, been very expensive for the State budget. Loans and subsidies have been granted to industries either through IMI (Istituto Mobiliare Italiano, a Governmental Agency for medium term credit), IRI (Institute for Industrial Reconstruction), or through Banks with the guarantee of the State and with interest paid by the

State. It is not possible to know even approximately the amount of these contributions, either for 1945-46 or for 1946-47. They should, however, represent at least 10-15 per cent of the total deficit of each year, ranging between 30 and 50 billion lire.

Finally, public works have also been undertaken, the most of which represent undoubtedly a real contribution to economic reconstruction. But, mainly during the period October 1946-April 1947, a number of works were also ordered with the main purpose of giving a job to the workers, without any effective contribution to economic recovery. This was evidently done not in accordance with a specific program but under political and social pressure. In the Province of Rome alone during this period at least 5 billion lire have been spent by the Ministry of Public Works for this type of work. The daily average number of workers paid out of the funds of the Ministry of Public Works varied from 183,897 in January to 338,104 in November. In April 1947, it was 266,279.

As a consequence of the anti-inflationary policy enforced last summer the Government is no longer encouraging the policy of keeping idle workers on factory payrolls. Attempts are being made to utilize as many as possible of these workers in activities genuinely useful for the nation. Besides works of a public nature, private building is also an activity which could absorb many workers, and many private firms during 1946 and 1947 have rapidly developed their activity, mainly in Northern Italy. However, this rapid recovery caused a sharp increase in prices of the few raw materials available (cement, iron, coal); therefore the new constructions were mainly of a luxury type, sold at prices beyond the reach of the average-income classes.

Efforts should now be concentrated on works of real utility to the nation requiring the maximum of labor and the minimum of raw materials.

Long run programs for coping successfully with unemployment include increased availability of raw materials which would make possible a better utilization of existing plants, new plants and new industrial activities, and a revival of mass-emigration. Agriculture has very few chance to absorb new manpower.

6. Prices and Wages

Until a few years before the war both prices and wages in Italy were generally sensitive to international economic trends. It was when the Government, aiming at economic self-sufficiency, endeavored to free the economy from dependence on international markets that the first distortions were felt in the structure of prices and wages.

Along with increasing controls of foreign trade, foreign currencies, credits, sales of exchange etc., prices and wages also began to be more and more controlled and inflexible.

Wholesale Price Indexes.

After 1938 prices began to show more and more clearly the consequences of the various phases of Italy's economic policy. Three different series of wholesale price indexes were calculated before the war, but discontinued during the war. New series are now calculated, all with 1938 as basis. The existence for many commodities of an official price and of a black market price, and the delicate problem of establishing the proper weighing for each of these prices make difficult the calculation of these series, and differences between the systems of weighing may cause substantial differences between the indexes. The series now in general use for official purposes is that of the Central Institute of Statistics, based on goods produced and imported in 1938 and on both official and black market prices: free prices are obviously assumed for commodities which are not controlled.

However, this series although based on 1938 is available as a monthly index only from May 1946. From 1938 to 1945 (May) a series of annual indexes is available, calculated by the Institute of Statistics but covering only official prices. Other series have been started from January 1945 (Centro Aziendale of Florence), from 1946 (Edison electric company) etc.

Wholesale prices since 1938.

Until June 1940, when Italy entered the war, prices, although mostly controlled, were subject to revision. Prices and wages were fixed by the Ministry of Corporations in agreement with the Confederations of employers and laborers concerned. The slight upward trend of the index between 1938 and 1940 was mainly due to these adjustments of official prices. On the outbreak of war in Italy, however, all prices, salaries and wages were immediately blocked. From 1940 to 1943, the main policy of the Government was to extend the control of wholesale prices to more and more commodities, and to prevent the fixation of the price of one product leading to an increase in the price of its substitute, or to a reduced production of the controlled goods. This price fixing policy was also due to the increasing scarcity of all products, and aimed at maintaining prices at the 1940 level, in order to assure to salaries and wages the same purchasing power. However, both official prices and wages had frequently to be revised, and in the meantime a black market was developing for all controlled products outside the official market. The index of official wholesale prices for 1943 was 262, against 122 for 1940.

General Index of Official Wholesale Prices From 1938 to 1945

1938 = 100	1942 = 153
1939 = 104	1943 = 262
1940 = 122	1944 = 892
1941 = 136	1945 = 944 (May)

With the armistice (September 8, 1943) the national territory was divided into two parts. In Central and Southern Italy, liberated from the Germans and Fascists, the price control system was completely shattered for various reasons. The national market was broken into a number of local markets with entirely different prices, because of a serious destruction of land and sea transportation facilities and of scarcity of fuel, coal, etc. The existing price control organization was at the moment of liberation ignored or even destroyed in almost every province, as being set up by the Fascist Government, while no action was immediately taken to replace it by a new organization. This encouraged the rise of all prices and a flourishing black market for those few basic items for which a system of controlled distribution remained in force. Black markets were also encouraged by the dependence of Southern Italy on Northern Italy for most commodities, either agricultural or industrial. Finally inflation, due to inadequate taxation and an uncontrolled issue of Allied Military Government Notes, also contributed to raise prices.

Prices in Northern Italy, during this time, were lower. Official prices were enforced for a greater number of commodities at lower levels. This was made easier by the relative abundance of locally produced commodities.

However, as the fighting moved North, the prices in the Northern regions rapidly moved upward to the higher levels prevailing in Central and Southern Italy.

After the liberation of the whole territory a disorderly adjustment took place, delayed by the disruption of the whole transportation system. Prices were, in the meantime, affected by the increasing inflation (the index of circulation with base 1938 = 100 was 1,532 in December 1944 and 1,871 in December 1945) and by various psychological factors. The lack of efficient controls and a flourishing black market reduced greatly the importance and the efficacy of legal prices. The last index of the Central Institute of Statistics for official wholesale prices only refers to May 1945 and is 944 (1938 = 100). The index computed by the Centro Aziendale of Florence for wholesale free and black market prices (but excluding official prices) is for the same month 2,952. This index is also the only one which shows the trend of wholesale prices during 1945. In January it was 3,047 (1938 = 100), in June 2,952 and in December 3,666.

After the end of 1945 the flow of UNRRA imports neutralized for a few months the other influences tending to raise wholesale prices. The index for Florence in May 1946 had dropped to 2,985.

From May 1946 a complete series of indexes is available from the Central Institute of Statistics.

Index By Main Groups of Commodities--Weighed
Average of Official, Free, and Black Market Prices 1/
(1938 = 100)

	General Index	Food (Solid and Stuffs Liquid)	Fuel (Solid and Liquid)	Materials For Con- struction	Raw Materials and Finished Products of		
					Mechanical & Metallurgical Industry	Textile Industry	Chemical Industry
May 1946	2,582	2,812	1,355	3,320	2,099	3,550	2,781
Jun	2,593	2,709	1,370	3,356	2,104	3,607	2,987
Jul	2,675	2,772	1,400	3,205	2,154	3,826	3,137
Aug	2,791	2,894	1,447	3,306	2,131	4,193	3,166
Sept	3,011	3,099	1,628	3,329	2,197	4,600	3,442
Oct	3,176	3,305	1,717	3,608	2,401	4,759	3,613
Nov	3,376	3,439	1,805	3,902	2,748	5,151	3,930
Dec	3,677	3,790	2,031	4,166	3,023	5,660	4,253
Jan 1947	3,754	3,852	2,145	4,353	3,161	5,880	4,656
Feb	3,891	3,927	2,221	4,953	3,495	5,858	4,580
Mar	4,139	4,169	2,455	5,204	3,855	5,954	5,198
Apr	4,536	4,808	2,757	5,151	4,011	6,367	5,319
May	5,203	5,419	3,371	5,659	4,739	6,988	5,515
Jun	5,329	5,396	3,592	6,060	5,066	6,988	5,565
Jul	5,752	5,899	3,778	6,326	5,292	7,105	5,550

1/ Prices are official when fixed by the Government for controlled commodities, black market when referred to commodities for which there are also official prices, free for commodities which have no official prices as not being controlled.

The general index shows from May 1946 on, a continuous increase. From 2,582 in May it goes as high as 3,677 in December 1946, an increase of 42 per cent.

The reasons for this increase have to be found, in addition to the general influence of expanding money supply, more in the continuous increases of wages than in the scarcity of raw materials which in 1946 were relatively abundant thanks to UNRRA. In fact the highest rates of increases are reported for the chemical, textile, mechanical and metallurgical industries, where labor represents an important factor of production. The increase in textiles has also to be attributed to the boom in the export trade.

The rise in prices has in 1947 been even more rapid. The general index increased from December 1946 to July 1947 by 56 per cent, so that from May 1946 it has more than doubled (123 per cent). The sharp rise in wholesale fuel prices (77 per cent between December 1946 and July 1947) was caused by an increasing demand for coal, the imports of which were falling, due to shortage of electric power and general revival in the meantime in almost all industries. The rise in textile prices has, however, been less than one-half the average increase, probably because of the decline of exports due to increasing difficulties in international markets.

During the period under consideration (May 1946-July 1947) the note circulation increased by 57 per cent in comparison with a 123 per cent increase in wholesale prices and 44 per cent increase in industrial production. The greater part of the increase both of prices and of production has been reported after September 1946, i.e. when an increasing flow of money began to be invested by Commercial banks in private enterprises, reducing in the meantime their deposits with the Bank of Italy and the Treasury.

Retail prices since 1938.

Retail prices have approximately followed the same developments as wholesale prices. No complete series exist on account of no profound inter-provincial differences: the consumption of the various items is also different in various areas so that the weighing of local prices would be very complicated. Several series are, however, available for the main commodities, most of them foodstuffs, and referring to the main cities. A summary appears in the following table, which includes those food items which contribute at least 80 per cent of calories to the average individual food consumption in Italy.

Indexes of Retail Prices of Main Foodstuffs in Rome

		(1938 = 100)			
		Dec. 1945	Sept. 1946	Dec. 1946	Mar. 1947
Bread:	off.	894	891	1,027	955
"	b.m.	5,545	3,227	5,909	6,864
Pasta:	off.	1,028	1,067	1,265	--
"	b.m.	8,379	5,692	9,605	11,028
Sugar:	off.	891	2,458	2,458	2,304
"	b.m.	14,608	10,384	12,120	13,472
Olive oil:	off.	1,975	4,000	4,000	4,438
"	b.m.	7,538	8,075	8,600	8,375
Potatoes:	free	8,769	5,231	7,538	9,692

off. = official; b.m. = black market

Data on retail prices of items other than foodstuffs are seldom available and not always comparable. They concern mainly clothing and some public services.

The disruption of the national market into disconnected local markets, which particularly affected retail prices, continued to be felt throughout the greater part of 1945 and itself was a factor tending in the direction of higher retail prices. The following figures show clearly the sharp differences between some prices in Northern and in Southern Italy during 1945.

Official Retail Prices of Rationed Foods in
Lire Per Kilogram

Foodstuff	Oct. 1944		March 1945		May 1945	
	Milan	Rome	Milan	Rome	Milan	Rome
Bread	2.60	5.	5.	18.	5.	18.
Pasta	3.80	7.	3.80	22.50	3.80	22.50
Rice	3.70	25.	7.20	-	-	-
Sugar	12.50	16.25	27.30	20.	27.30	-
Beef	28.50	160.	41.	340.	41.	-
Potatoes	10.	15.	13.	-	13.	-
Dry Beans	6.	39.	6.	95.	6.	95.
Milk(per liter)	4.	7.	6.	30.	6.	30.

Price policy.

The Allied Military Government with the collaboration of the Italian Government, was first responsible for the revision and fixation of whole-sale prices. Later responsibility was transferred to the Italian Government, and in 1946 concentrated under an Interministerial Price Committee formed by all the economic Ministers, whose decisions had to be enforced by the various Administrations concerned.

The Government's general policy followed in fixing and adjusting prices since the liberation has been to maintain as low as possible the prices of those items indispensable to meet the basic necessities of the citizens, i.e. food and housing.

In relation to foodstuffs the first decision was to maintain the price of cereals very low, to assure cheap bread to the whole population. However, the prices enforced in 1944 and in 1945 were so low, in comparison with the sharp increase in prices of all other commodities, that farmers were discouraged and acreage under wheat reduced, the few fertilizers available were employed in more profitable cultivations and the amount of cereals to be imported increased. Prices of cereals were, therefore, revised in 1946 and again in 1947. At present they are approximately 5 times the prices of 1944 and 1945. A similar, though less drastic, policy was followed for other controlled food items i.e. fats and sugar.

1940 rents remained frozen completely until 1945, and then underwent a very limited revision. At present average rents are less than twice as much as in 1938. Such a drastic provision, however, has resulted in a diversion of new building activities to luxury houses which can be sold or rented without price limits, so that the rich man can very easily find a house while for others this is extremely difficult.

Public utilities have in general increased their prices much less than the average. They now range between 8 and 15 times pre-war prices.

Prices of coal and petroleum have been kept by the Government as low as possible. They have always been fixed on the basis of the import price, as the bulk of these products had always to be imported from abroad. For UNRRA imported coal and petroleum, for which no price had to be paid by

the Government, the prices for consumers, which determined the credits paid into the UNRRA Lira fund for rehabilitation, were fixed by the Government in agreement with UNRRA.

Cost of living index

An index with base 1928 = 100 was calculated by the Central Institute of Statistics until 1943, and then discontinued. A new series was later started with base 1938 = 100, beginning from June 1945 for food and from February 1946 for total expenditure. Both old and new series are based on the typical consumption of an urban industrial worker's family of five, husband, wife and three children aged 10, 7, and 3. The old series was based on a food consumption of 2,100 calories daily per member, the new one on 1,700 calories until December 1946 and on 2,000 calories from January 1947 on.

The following table summarizes the main results of these surveys.

Index numbers of cost of living by class of expenditure

1938 = 100

		<u>Food</u>				<u>Food</u>	
	1938 = 100			1945	Jul.		2,312
	1939 = 105				Aug.		2,424
	1940 = 123				Sept.		2,635
	1941 = 149				Oct.		2,902
	1942 = 186				Nov.		3,172
	1943 = 243				Dec.		3,167
				1946	Jan.		3,395
		<u>Food</u>	<u>Clothing</u>	<u>Heat and lighting</u>	<u>Misc.</u>	<u>Total</u>	
1946	Feb.	3,298	3,289	928	3,122	2,406	
	June	3,525	2,832	897	2,141	2,433	
	Sept.	3,137	3,373	1,107	2,274	2,290	
	Dec.	3,807	4,636	1,213	2,605	2,785	
1947	Jan.	4,321	4,925	1,254	2,737	3,102	
	Feb.	4,257	4,966	1,319	2,819	3,086	
	March	4,757	5,295	1,347	3,019	3,489	

Index numbers of food increased two-fold from 1938 to 1943. In July 1945, after two years of war in Italy itself, the index rose to 23 times its prewar level. From July 1945 to April 1946 the rise was less steep, while after April 1946 the food index declined. This decline, which continued until August, was probably an indirect consequence of the good crop of 1946 and of UNRRA imports. After September the trend of food is continuously upward. Clothing, which appears in the cost of living index from February 1946, also shows a reduction in the summer months of 1946 and then a sudden rise at the end of the same year. Other items report much smaller increases.

The pattern of household budgets has profoundly changed in comparison with prewar. Food which before the war rarely exceeded 60 per cent of total family expenditure now accounts for 80 per cent, while rent and heating and lighting are now negligible items in the family budget. The "index of occupancy" is now, however, estimated at 1.6 persons per room against 1.4 before the war, while much less light and heat is available. Clothing represents a percentage of expenditure which is now considerably higher than prewar, though products of poorer quality and in smaller quantities are purchased. As a whole, there is much more uniformity in consumption as only the upper classes can afford to buy what larger strata of the population were previously accustomed to consume.

Wage indexes

Statistical data on wages have always been in Italy fragmentary and not easily comparable. Two historical series are available from 1913 to 1938. The series covering industrial wages shows that real wages fell from 100.0 in 1913 to 65.6 at the end of World War I: then as a result of the pressure of labor organizations in 1922 the index rose to 136.4. Under the Fascist Government, after considerable fluctuations, it reached 123.8 in 1938, about 10 per cent lower than in 1922.

Real wages in agriculture increased consistently during the first World War, reaching in the period 1919-1923 around 150 per cent of prewar. Subsequently they fell and in 1938 were 134.3 per cent of 1913. Agricultural wages have always been some 30-50 per cent lower than industrial wages.

From 1938 on, the series of data computed by the greatest Italian industrial concern, the "Montecatini," gives the only complete set of data on industrial wages, while no comparable and complete data are available for agricultural wages.

Wages since 1938

Although no comprehensive data are available for the 1940-42 period, wages of industrial workers showed a continuous increase from 1938 on.

The increase was every year greater for laborers than for skilled workers: a tendency to the levelling of wages is therefore evident.

Monthly wages of Montecatini workers

(1938 = 100)

	Index number of monthly salaries		Index number of real monthly earnings	
	<u>Laborer</u>	<u>Skilled worker</u>	<u>Laborer</u>	<u>Skilled worker</u>
Dec. 1938	100.0	100.0	100.0	100.0
Dec. 1939	114.3	112.9	-	-
Dec. 1943	311.6	255.0	-	-
Dec. 1944	465.1	396.0	-	-
Dec. 1945	1,507.0	1,139.6	54.0	41.0
June 1946	1,799.4	1,340.9	59.0	44.0
Dec. 1946	3,105.6	2,295.4	72.0	54.0
June 1947	4,364.0	3,264.3	79.0	59.0
Aug. 1947	4,949.9	3,669.8	75.0	55.0

From 1945 data on real wages are also available. In 1945 the situation had so deteriorated that real wages of laborers were only 54 per cent of real wages of 1938, while the wages of skilled workers had fallen to 41 per cent. Official data are lacking, but it is known that the main drop in real wages was in 1944 and 1945. During the period 1940-1943 wages, although frozen in 1940, had been actually increased through several forms of adjustments and bonuses, in face of the continuous increase in cost of living. In 1944 and 1945, as a consequence of the economic collapse and the almost complete standstill of industry, adjustment of wages was possible to only a limited extent. For a part of this period most of the wages were paid to idle laborers, employed by factories actually working only partially or not at all. Besides, great discrepancies existed between the wages paid by the various branches of industry in consequence of the different volume of production of each branch.

Only in October 1945 was it possible to rationalize wage policy by adopting a sliding scale system. In principle, the sliding-scale formula makes provision for bi-monthly revisions of both the basic pay and the cost of living indemnity into which the money earnings of workers are now divided on the basis of the cost of living index computed by the Central Institute of Statistics. On this basis there was a nationwide increase of 35 per cent in the basic rate of pay in October 1946 and two increases in the cost of living indemnity, one in February and one in April 1947. Meanwhile, some categories of workers secured a basic pay increase with the nationwide renewal of their labor contracts.

The sliding-scale principle has not been applied strictly in all sectors of the economy so that there are substantial variations in money and real earnings between different categories of workers and different regions. However, the index of real wages shows a net increase after the enforcement of the scale. The improvement is greater for unskilled workers.

7. Italian Foreign Trade

Prewar Developments

Although her prewar share in world trade was considerably smaller than that of any of the other leading countries of Western Europe, Italy was vitally dependent on foreign trade for her subsistence, the aggregate value of exports and imports in some years being as high as one-fourth of her national income. The value of imports has always exceeded that of exports, thus producing an annual deficit in the balance of payments. In 1922, against an import equal to 750 millions of dollars (1922 value), only 443 million dollars were exported. In 1938 imports amounted to 593 million dollars (1938 value) and exports to 552 million dollars (however in 1938 23.3 per cent of exports were to Italian colonies, while imports from those areas were 1.9 per cent only of the total).

The classic pattern of Italian trade was based on imports of raw materials, semi-finished products and food, while exports consisted mainly of manufactured products. This pattern underwent sharp modifications under the Fascist drive for national economic self-sufficiency. Within a 16-year period, as a result of the high protection enjoyed by Italian agriculture, food imports diminished by nearly 60 per cent; in the meantime raw material imports increased by 30 per cent as a result of industrialization. On the export side, the share of foodstuffs increased considerably while the proportion of raw materials was reduced, indicating that more raw materials were being processed at home. By 1938 Italian export trade had become more equally divided between its main components, while import trade was predominantly in raw materials.

Percentage Distribution of Italian Foreign Trade by Major Commodity Groups (by value)

<u>Commodity Groups</u>	<u>1922</u>	<u>Imports</u>		<u>Exports</u>		
		<u>1934</u>	<u>1938</u>	<u>1922</u>	<u>1934</u>	<u>1938</u>
Foodstuffs	32.0	14.7	12.0	23.6	31.6	34.0
Raw materials and semi- finished products	53.0	65.5	69.0	42.7	33.0	30.0
Manufactured goods	15.0	19.8	19.0	33.7	35.4	36.0
	100.0	100.0	100.0	100.0	100.0	100.0

The structural changes which materialized during these years were accompanied by a shift in geographical distribution.

Italy's Foreign Trade by Major Countries
(percentage of total value)

	<u>Imports</u>		<u>Exports</u>	
	<u>1922</u>	<u>1938</u>	<u>1922</u>	<u>1938</u>
Germany & Austria	7.9	26.7	10.4	19.1
United Kingdom	12.8	6.5	12.0	5.6
Other European Countries	<u>24.4</u>	<u>29.5</u>	<u>48.9</u>	<u>27.0</u>
Total Europe	45.1	62.7	71.3	51.7
Italian Colonies	<u>1.0</u>	<u>1.9</u>	<u>1.0</u>	<u>23.3</u>
Total European and Italian Colonies	46.1	64.6	72.3	75.0
U.S.A.	27.9	11.9	10.9	7.5
Rest of World	<u>26.0</u>	<u>23.5</u>	<u>16.8</u>	<u>17.5</u>
Grand Total	100.0	100.0	100.0	100.0

Both imports from and exports to areas other than Europe and the Italian colonies diminished between 1922 and 1938. This was a consequence of the self-sufficiency drive during the thirties in face of the increasing shortage of hard currencies and of the difficulty of exporting to hard-currency countries.

The shifts in geographical distribution in relation to Europe and the Italian colonies affected most directly Germany on the import side, and the colonies on the export side. Italy's exports to its colonies were mainly due to the high level of investment in those regions and to demands from the troops stationed there.

The War Period

The war period did not change significantly the character of Italian trade. As was to be expected, the drive toward self-sufficiency was intensified, the ties with Germany and her Southeastern European satellites were strengthened, while trade with other countries ceased almost completely.

By September 1943, trade had come to a complete standstill. The Allies then undertook to supply Italy with the most essential commodities. Throughout 1944 and 1945 relief imports were continued by the Allied Military Authority which also absorbed through direct purchases or requisitions whatever goods were available for export.

These purchases or requisitions might be considered, in certain cases and to a very small extent, as the first post-war exports, as some of them materialized into payments in dollars and sterling.

Postwar developments

In February 1945 a first partial relaxation of the Allied control permitted the signature of the first trade agreements. However, the actual transactions were very limited and confined to trade by the State (I.C.E., Institute for Foreign Trade). Foreign trade through private channels was resumed only on February 15, 1946, and soon after (March 20), the 50 per cent system was enforced. The year 1946 can be considered the first post-war year during which Italian foreign trade revived consistently and for which complete statistical data are available. These data were originally quite unreliable because different systems of registration were applied to the various types of imports (State imports, UNRRA, private imports). The statistics have been very recently completely revised and are now reliable, as far as the quantities are concerned. Value figures are expressed only in current lire, and no attempt can be made to convert these into dollars, because of the different rates of exchange applied and of the different types of imports and exports. For dollar valuations, therefore, only estimates can be made.

The excess of imports over exports has become in Italy's 1946 foreign trade a characteristic much more evident than in pre-war years. The estimated value of imports has been during this year 950 millions of 1946 dollars, against only 396 million dollars of exports. Details of the balance of payments are in the next chapter. A volume of exports equal to only 40 per cent of imports (59 per cent in 1922 and 94 per cent in 1908) is, however, not extremely low if account is taken of the almost complete interruption of commercial relations during several years, of the serious damage suffered by the Italian economy (mainly in transportation and agriculture) and of the practically complete absence of colonies from Italy's 1946 exports.

The Italian trade pattern during 1946 and the first 4 months of 1947 (for which data are also available) shows how drastic have been the changes in its distribution both by commodity and by country.

Percentage Distribution of Italian Foreign Trade by Major Commodity Groups (by value)

	<u>Exports</u>		<u>Imports</u>	
	<u>1938</u>	<u>1946</u>	<u>1938</u>	<u>1946</u>
Foodstuffs	34	22	12	30
Raw materials and semi-				
finished products	30	33	69	59
Finished products	<u>36</u>	<u>45</u>	<u>19</u>	<u>11</u>
	100	100	100	100

An outstanding feature is the large volume of imports of goods for immediate consumption in contrast with inadequate imports of "productive" commodities to be used for rehabilitation and thus to increase exports.

The nature of the change is shown more clearly by the following figures of foreign trade by main commodities:

Distribution of Italian Foreign Trade
by Principal Commodities

(1000 tons)

<u>Imports</u>	<u>1938</u>	<u>1946</u>	<u>4 mos. 1946</u>	<u>4 mos. 1947</u>
Coal	12,133	5,713	1,746	1,750
Wheat	291	1,206	699	398
Petroleum	1,682	1,207	106	1,064
Cotton	158	189	22	93
<u>Exports</u>				
Textiles	206	75	4	33
Fruits and vegetables	920	315	58	185
Wines (1000 hectoliters)	1,463	354	96	192
Machinery	33	11	.2	11

Imports of coal and petroleum have decreased mainly to allow for a much higher import of wheat. The drop in exports of textiles is mainly due to the almost complete disappearance of exports of artificial textiles. Exports of fruits and vegetables and wines have fallen because of the disappearance of the German market.

Data on Italy's foreign trade classified according to countries, although not as reliable and complete as data by commodities, still show very clearly the sharp changes in geographical distribution. The data are expressed in 1938 and in 1946-47 lire, respectively, so that a percentage breakdown is necessary to make the two series comparable.

Percentage Distribution of Italian Foreign Trade
by Countries

(millions of current lire)

<u>Imports</u>	<u>1938</u>	<u>Per-</u> <u>cent</u>	<u>1946</u>	<u>Per-</u> <u>cent</u>	<u>4 mos.</u> <u>1946</u>	<u>Per-</u> <u>cent</u>	<u>4 mos.</u> <u>1947</u>	<u>Per-</u> <u>cent</u>
Germany	1,291	11.5	556	0.6	9	.3	725	0.7
Austria	1,723	15.3	997	1.0	85	0.3	633	0.5
U.S.A.	1,338	11.8	51,791	56.6	15,751	69.9	58,394	48.4
U.K.	728	6.6	2,487	2.7	521	2.3	3,435	2.9
Switzerland	377	3.3	3,924	4.3	668	3.0	4,034	3.3
Argentina	274	2.4	1,528	1.7	7	.0	4,576	3.8
British India	257	2.3	145	.2	6	.0	1,115	0.9
Belgium	175	1.5	1,333	1.5	7	.0	5,301	4.4
Italian colonies	209	1.9	118	0.1	1	.0	329	0.3
All others	4,899	43.4	28,605	31.3	5,490	24.5	41,965	34.8
Total	11,271	100.0	91,484	100.0	22,545	100.0	120,505	100.0

Exports	1938	Per- cent	1946	Per- cent	4 mos. 1946	Per- cent	4 mos. 1947	Per- cent
Germany	1,672	16.0	615	1.0	103	1.0	402	.7
Austria	295	2.8	1,716	2.7	449	4.4	594	1.5
Italian colonies	2,468	23.6	444	.7	1	.0	62	.1
Southeastern Europe ^{1/}	752	7.2	3,401	5.3	139	1.4	804	1.4
U.S.A.	782	7.5	10,616	16.4	2,236	21.8	3,190	5.7
U.K.	586	5.6	8,446	13.1	2,389	23.3	5,219	9.3
Switzerland	494	4.7	6,806	10.5	1,949	19.0	6,310	11.3
France	325	3.1	3,222	5.0	372	3.6	1,814	3.2
Egypt	267	2.5	3,286	5.1	211	2.0	3,011	5.4
Sweden	137	1.3	3,167	4.9	622	6.1	3,903	7.0
Union of S. Africa	93	1.0	2,787	4.3	3	.0	1,945	3.4
All others	2,585	24.7	19,072	31.0	1,781	17.4	28,802	51.0
Total	10,456	100.0	64,578	100.0	10,255	100.0	56,036	100.0

^{1/} Include: Albania, Bulgaria, Greece, Hungary, Rumania, and Yugoslavia.

The geographical distribution of Italy's Foreign trade during the period January 1946--April 1947, compared with prewar data, shows very important modifications which have turned her traditional import deficit into a more critical problem. There has been an evident shift towards imports from the dollar areas, with a corresponding reduction of trade with most of the countries imports from which were determined by barter or clearing agreements. A similar shift can be noticed for exports, which, as it is on a smaller scale, does not, however, compensate for the added burden of the trade deficit payable in dollars.

German and Austrian imports, which represented 26.7 per cent of the total before the war, now make up only 0.6 per cent. Imports from the U.S. have increased from 11.9 per cent in 1938 to 56.6 per cent of the total in 1946. During the first four months of 1947, however, they show a substantial relative decline compared with the same period of the previous year, balanced by a bigger percentage of imports from Argentina, Belgium, and other countries, mainly of the Mediterranean basin.

During 1946 and the first four months of 1947, U.K. imports were less than 50 per cent of their 1938 level, the main U.K. import, coal, amounting to only 10 per cent of the quantity imported in 1938.

In 1946, the U.S. replaced Germany as the most important market for Italian exports, absorbing 16 per cent of the total. Rising prices, however, caused a sharp decline of Italian exports to the U.S. during the first four months of 1947, U.S. custom duties are also assessed on values calculated on the basis of the official rate of exchange, which sometimes makes the price of Italian goods almost prohibitive to American consumers.

8. Balance of Payments

In normal prewar years, the Italian balance of payments was characterized by (a) a large deficit in the balance of trade, and (b) a favorable balance for invisible items such as emigrant remittances, tourism, and freights. Exports were about 70 per cent of imports in value while only 20 per cent in weight.

At the end of the first World War, there was no serious deficit in Italy's balance of payments, thanks to the contribution of the invisible items, and some gold reserves were accumulated as a result of these invisible earnings and an inflow of about \$400 million of foreign capital in the form mostly of public borrowing. During the years of depression (1930-34), however, as a consequence of the peculiar nature of Italy's foreign trade--based mainly on imports of essential raw materials and on exports of nonessential commodities--there was a continuous deficit in the balance of payments, which had to be balanced by exports of gold and foreign currency. In 1934 it was, therefore, necessary to enforce exchange control and import licenses and later to promote the country's economic self-sufficiency. During the last prewar years Italy's foreign trade was, therefore, severely restricted while Germany became by far the principal import market for Italian commodities.

The 1946 balance of payments

With the end of World War II, various negative factors have had a serious effect upon Italy's balance of payments. These include (a) a sharp reduction of agricultural production, (b) a continuous increase of population, (c) an increase of all imports of basic commodities which coming from overseas carry much higher freight costs, (d) the rising international price-level, (e) the temporary loss of important markets such as Germany and the Balkans, (f) the destruction of most of the merchant marine, (g) an almost complete paralysis of tourism.

In spite of all these factors, the deficit in the balance of payments for 1946, although higher than the usual prewar deficit was showing a promising recovery, receipts from private sources amounting to 457 million dollars (375 million dollars from private exports, 20 million dollars from capital repatriation, and 61 million dollars from emigrant remittances, tourism, and other invisible items), or 47.7 per cent of all foreign exchange payments.

Balance of Payments, 1946

(millions of dollars)

<u>Receipts</u>		<u>Payments</u>	
<u>Goods and services</u>		<u>Goods and services</u>	
Private exports	376	Private imports	199
Troop pay account	<u>121</u>	Governmental imports paid:	
	497	(a) with Troop pay account	121
<u>Repatriation of Capital</u>		(b) with FEA grant	98
(Franco valuta)	<u>20</u>	"Franco valuta" imports	20
	20	War surplus imports	63
<u>Loans</u>		Cotton imported through	
Credit for the purchase		Export-Import Bank loan	4
of war surpluses	63	UNRRA imports	380
Share of Export-Import		Gift parcels imported	<u>65</u>
Bank cotton loan			950
utilized in 1946	<u>4</u>	<u>Other Payments</u>	
	67	Invisible items	<u>13</u>
			13
<u>Grants</u>			
UNRRA	380		
FEA (Foreign Economic			
Administration)	98		
Gift parcels	<u>65</u>		
	543		
<u>Other Receipts</u>			
Emigrant remittances	45		
Tourism	2		
Invisible items	<u>14</u>		
	61		
Total receipts	<u>1,188</u>	Total payments	963
		Increase in foreign exchange	
		holdings	<u>225</u>
			1,188

The salient characteristic of the 1946 balance of payments, however, is the large volume of grants made available to Italy to help her economic recovery.

The contribution of UNRRA to Italy's receipts was international, in the form of imported goods and services. FEA (Foreign Economic Administration of the U.S.A.) also contributed to relieve Italy's economy after the end of the first military program of assistance and before the beginning of the UNRRA Program. FEA contributions were mainly effected in 1945, but some goods were also received in 1946, made available in the form of credits. Private donations were also received from various sources, mainly through the American Relief to Italy; these are indicated in the item "gift parcels." All these donations have amounted to 543 million dollars (56.5 per cent of all payments).

Reimbursements of expenses made by the Italian Government on behalf of Allied Troops were also credited to Italy during 1946, in addition to other reimbursements previously made. These amounted to 121 million dollars, equal to 12.5 per cent of foreign exchange payments, and were utilized to pay for Government imports.

Finally, loans contributed about 6 per cent of Italy's foreign exchange payments. These, however, represented liabilities which must be met later.

The donations, reimbursements and loans indicated in the balance of payments cover only the contributions under these headings which were actually utilized in 1946. They were sufficient to meet 75.0 per cent of all payments due, so that about one half of the receipts from private sources (equal to 47.7 per cent of payments) was saved to meet payments due in 1947 and represent, therefore, a net increase in Italy's foreign currency availabilities. The following changes in the foreign currency situation have been reported by Italy's Foreign Exchange Office:

Italy's Foreign Currency Situation

(millions of \$)

	<u>Dec. 31,</u> <u>1945</u>	<u>Dec. 31,</u> <u>1946</u>	<u>Net increase or</u> <u>Net Decrease (-)</u>
Official holding (Banks and Foreign Exchange Office)	50.0	225.4	175.4
50 per cent export account	-	51.6	51.6
Special accounts opened in favor of the Bank of Italy for State exports prior to the reinforcement of private trade	9.7	7.9	- 1.8
Troop pay account	<u>81.6</u>	<u>81.6</u>	<u> </u>
Total	141.3	366.5	
Total net increase during 1946			225.2

Note: The official holdings and the 50 per cent export account indicated in the table above are accounts supplied only by private trade.

The foreign currency availability at December 31, 1946 can be broken down by currencies as follows:

Italian Foreign Currency Availability
at December 31, 1946

(in millions)

	<u>\$</u>	<u>£</u>	<u>Other currencies</u> <u>in \$</u>	<u>Total</u> <u>in \$</u>
Official holdings	126.6	22.7	8.0	225.4
50 per cent export account	15.4	8.8	1.0	51.6
Special accounts opened in favor of the Bank of Italy	4.7	.8	-	7.9
Troop pay account	<u>81.6</u>	<u>-</u>	<u>-</u>	<u>81.6</u>
	228.3	32.3	9.0	366.5

Actual data are available on the balance of payments for the first six months of 1947.

Italy's Balance of Payments for January-June 1947

(in millions)

	<u>\$</u>	<u>£</u>	<u>Other currencies</u> <u>in \$</u>	<u>Total</u> <u>in \$</u>
<u>Receipts</u>				
Exports	97.2	122.0	150.6	369.8
Invisible items	<u>25.8</u>	<u>9.2</u>	<u>2.2</u>	<u>37.2</u>
Total	124.0	131.2	151.8	407.0
<u>Payments</u>				
Imports	408.5	125.8	201.5	735.8
Invisible items	8.0	2.2	.7	10.9
Purchase of Liberty ships	<u>54.1</u>	<u>-</u>	<u>-</u>	<u>54.1</u>
Total	470.6	128.0	202.2	800.8
Deficit (-) or Surplus (+)	- 346.6	+ 3.2	- 50.4	- 393.8

This table shows for the first six months of 1947 a much bigger volume in all figures in comparison with 1946. Receipts, represented essentially by exports, have increased in a proportion only slightly higher than payments, so that substantial progress on the path toward economic equilibrium cannot yet be found. Besides, the greater volume of all operations brings as a consequence a much bigger deficit, the bulk of which is represented by payments in the dollar area. This deficit was covered during the first half of 1947, mainly thanks to the favorable foreign exchange situation at the end of 1946. According to the Foreign Exchange Office, the following is a breakdown of the receipts which covered the deficit.

Covering of Deficit of First Half of 1947 Balance of Payments

(in million \$)

Use of official holdings		141.6
Loans		
Advance on the Argentine loan	11.2	
Loan granted by U.S. for purchase of Liberty ships and tankers	40.5	
Ex-im Bank loan for cotton	<u>6.0</u>	
		57.8
Repatriation of capital		53.2
Raw materials imported to be processed for foreign account		20.0
Grants		
UNRRA shipments		120.0
LaGuardia children fund		<u>0.2</u>
Total		392.8

The balance of payments for the whole of 1947 was estimated by the Italian Government as follows:

Italy's Balance of Payments for 1947

(in millions)

	\$	£	Other currencies in \$	Total in \$
Receipts				
Exports	183.2	231.0	284.6	698.8
Invisible items	<u>53.8</u>	<u>18.2</u>	<u>2.2</u>	<u>74.2</u>
Total	237.0	249.2	286.8	773.0
Payments				
Imports	828.5	230.8	380.5	1,439.8
Invisible items	21.0	4.2	6.6	31.8
Purchase of Liberty ships	<u>71.1</u>	<u>-</u>	<u>-</u>	<u>71.1</u>
Total	920.6	235.0	387.1	1,542.7
Deficit (-) or Surplus (+)	- 683.6	+ 14.2	- 100.3	- 769.7

The estimate for the whole year 1947 therefore, corresponds approximately to the actual figures for the first six months. However, even assuming that for the second six month period also actual figures will not be far from estimates, the big problem of how to meet the deficit remains. The foreign currency situation of Italy had in fact rapidly deteriorated during the first six months of 1947; few new credits were open to Italy on Government account and the amount of foreign currencies made available through private exports (mainly textiles) had rapidly decreased because of

growing competition in world markets. Donations are almost at an end, and the only substantial program enforced during the second semester, the U.S. Foreign Relief Program, is planning to import in 1947-48 no more than one-fourth of what was imported by UNRRA.

The way the Italian Government plans to cover the deficit for the second half-year is as follows:

Covering of Deficit for the Second Six-Month Period of 1947
(in million \$)

Post UNRRA-U.S. relief program	90
Troop pay accounts	25
Credits for purchase of Liberty ships	13
Advance on the Argentine loan	26
Ex-im Bank loan for cotton	15
Ex-im Bank loan of 100 million dollars quota utilized	6
Repatriation of capitals	<u>55.5</u>
Total of coverage estimated by the Italian Government	230.5
Share of deficit still uncovered	145.4

The remaining deficit very probably will be covered mainly by reducing imports already planned. In fact, beginning last September, Italy has already started to curtail all imports to be paid in foreign currencies, and the main reductions have been made in coal and edible fats. On the other hand, the quota for the last quarter of 1947 of Post-UNRRA-U.S. relief, already increased in comparison with the first plan, may be increased again. However, the whole program, although not exactly known, has obviously some financial limitations and an increase of allocations in 1947 may imply lower allocations for 1948.

The present foreign currency shortage therefore will also affect the 1948 balance of payments. For that year, estimates made for the Marshall Plan conference gave an amount for both exports and imports bigger than for 1947, with an annual deficit of about 800 million dollars to be covered by loans or other contributions. The present forced contractions of imports will in turn reduce a number of exports to an extent that under the present circumstances is difficult to determine. However, with imports reduced to the minimum essential to satisfy the basic needs of the population, it may be expected that exports will probably fall more than imports, thus leaving a larger deficit.

1948 is expected to be for Italy the crucial year. Once the short-term difficulties are overcome, it is likely to see a rapid recovery in Italy's economy and a consequent improvement in her balance of payments. Revival in industrial production, mass emigration at present planned, a better world distribution of food commodities and an increase in tourism and emigrants' receipts will be the main factors in this recovery, so that in 3-5 years Italy may be expected to have an equilibrated balance of payments.

9. Foreign Trade Policy and Exchange Control

As a consequence of an increasing deficit in the balance of payments, due to the decline of invisible receipts, Italy's foreign trade policy underwent several changes in the interwar period. A modification was introduced in 1931, when partial exchange control legislation was enforced, and foreign trade on the basis of bilateral, clearing, and barter agreements became more and more common from 1932 onward.

The basic modification in foreign exchange legislation, however, took place in 1934, when all transactions involving foreign currencies were to be controlled by a new governmental agency, the National Foreign Exchange Institute. All foreign currencies for the purchase of imports had to be supplied by this Institute at the official rates of exchange, while all foreign currencies credited to an Italian exporter had to be delivered to the same Institute at the official rate. A limited number of Banks was authorized to handle these transactions. This tightening of control on foreign exchange transactions was mainly attributable to the necessities of the self-sufficiency drive, which was intensified as a consequence of the Ethiopian war, the League of Nations' economic sanctions, the Spanish civil war, and, above all, the preparation for World War II.

The control of foreign currencies was part of a new policy aiming to make Italy independent of countries whose exports had to be paid for in foreign currency. A new Ministry of Foreign Trade and Foreign Currencies was created to regulate transactions in foreign currencies through the issue of import and export licenses, so as to keep balanced the accounts in foreign currencies. The same Ministry was also responsible for all trade agreements. Italy thus became deeply involved in bilateral trading practices, which, by 1938, covered most of her trade. Through bilateral agreements Italy sought to exchange manufactured goods for foodstuffs, but mainly for essential raw materials.

Tariff policy was also used as an instrument of self-sufficiency. Agriculture was highly protected while tariffs on industrial raw materials were made more flexible.

There were no important changes in the exchange control regulations during the war. In 1945 the National Institute of Foreign Currencies was transformed into a Foreign Exchange Office. In place of the old Ministry of Foreign Trade and Foreign Currencies, a new Ministry of Foreign Trade was created with similar functions, but inspired by principles of international collaboration.

The most important reform which occurred subsequently was the enforcement of the 50 per cent system, by which exporters were entitled to sell on the free market 50 per cent of the foreign currencies accruing to them (cf. Memoranda RD-239 and RD-300 on Exchange control). The practice of bilateral trading was progressively resumed. However, most trade and payment agreements in 1946 were of the clearing type, though the recent tendency is to revert more and more to a barter basis, the rate of exchange between the lira and the foreign currency concerned being determined for each transaction.

By a decree issued last August the official rate of exchange with the dollar and the pound was raised from 225 to 350 lire and from 900 to 1400 (more precisely, to 1,411.38), respectively. All other exchange rates were modified accordingly. The main purpose was to reduce the difference between the official rate and the export rate and as a consequence to lower the export rate. This measure also represents a step toward a unification of the various rates of exchange which is the final goal of Italy's foreign exchange policy.

10. Public Finance

The trend of the State Budget during the last 30 years must be considered from two points of view. The ratio of State revenues and expenditures to national income has continuously increased since 1913-14 fiscal year, passing from 12 per cent in that year to 17-20 per cent in 1929-30, to 24-34 per cent in 1938, and to 16-43 per cent in 1946 (the first figure refers to the revenue and the second to the expenditure of the State). This comparison is, however, based on very approximate estimates of the national income (25 billion lire in 1914, 116 billion lire in 1938, and 2,164 billion lire in 1946). But the general character of the trend is no doubt correct, and is due to the increasing participation of the State in the economic activities of the country.

Secondly, until 1929-30 the State Budget shows expenditure more or less equal to revenue. Since 1930-31, on the contrary, there has been an increasing deficit, as shown by the following figures:

Surplus (+) or Deficit (-) of the State Budget (in millions)

<u>Fiscal Year</u>	<u>Current</u> <u>lira</u>	<u>1938</u> <u>lira</u>	<u>1947</u> <u>dollars</u>	<u>Per cent of expenditure covered</u> <u>by revenues</u>
1913-14	- 214	- 1058	- 85	92.2
1929-30	+ 170	+ 179	+ 14	100.1
1937-38	- 11,174	-11,509	- 932	71.1
1938-39	- 12,278	-12,179	- 986	69.1
1939-40	- 28,038	-24,758	-2,005	53.6
1940-41	- 63,989	-50,999	-4,130	34.8
1941-42	- 77,345	-54,528	-4,415	34.8
1942-43	- 86,274	-45,294	-3,668	36.2
1943-44	-187,829	-34,560	-2,798	18.2
1944-45	-284,229	-23,591	-1,910	14.4
1945-46	-373,075	-14,550	-1,178	25.6
1946-47	-582,000	-15,132	-1,225	37.6

The extremely low proportion of expenditures covered by revenue in 1943-44 and 1944-45 is entirely due to the military, political, and economic collapse which paralyzed the taxation system.

Composition of Expenditures Allocated
According to the State Budget

	<u>1913-14</u>	<u>1929-30</u>	<u>1938-39</u>	<u>1942-43</u>	<u>1946-47</u>	<u>1947-48</u> ^{1/}
Total budget expenditure (billions of current lire)	2.7	19.7	39.9	135.2	932	832
In per cent of total						
interest on debt	19.5	22.9	17.0	10.7	4.2	8.2
Public works	16.4	14.8	12.1	2.2	9.8	13.6
Military administration	23.7	22.2	24.6	10.7	10.5	13.4
Military exceptional expenditure	-	-	15.2	51.7	2.0	1.3
Exceptional expenditure for war damage	-	-	-	1.5	25.0	18.3
Other items	<u>40.4</u>	<u>40.1</u>	<u>31.1</u>	<u>23.2</u>	<u>48.5</u>	<u>45.2</u>
	100.0	100.0	100.0	100.0	100.0	100.0

^{1/} Estimate

The above table reveals (a) a continuous reduction of interest on public debt from 1929-30 to 1946-47; in 1947-48 it is expected that this will increase; (b) a continuous reduction until 1942-43 of the quota allocated to public works, as a consequence of the increasing expenses due to the war; (c) a military exceptional expenditure which in 1942-43 amounted to more than one-half of the total expenditure, but in 1946-47 and 1947-48 is negligible; (d) an exceptional expenditure for war damages and repairs which, from only 1.5 per cent in 1942-43 reaches 25.0 per cent in 1946-47 and 18.3 per cent in 1947-48.

On the whole, the postwar expenditure composition shows a clear tendency to a more equilibrate and stable adjustment of conditions. It must also be borne in mind that at least one-third of the expenditure planned for 1946-47 and 1947-48 is allocated to repair or to rebuild works such as railways or roads, therefore contributing to the reconstruction.

Taxation is by far the most important revenue of Italy's State Budget. The following is the breakdown by groups of revenues as per the State Budget:

Composition of Revenues Assessed According to the State Budget

	<u>1913-14</u>	<u>1929-30</u>	<u>1938-39</u>	<u>1942-43</u>	<u>1945-46</u>	<u>1946-47</u>
Total revenue (billions of current lire)	1.9	14.2	23.2	37.5	117.5	322.2
Percentage of total:						
Direct taxes	26.3	30.2	28.5	29.5	19.4	20.9
Indirect taxes	15.8	18.8	26.2	30.8	42.5	44.3
Customs and excise	31.6	30.0	27.7	16.2	5.9	13.1
State monopoly and public lottery	<u>26.3</u>	<u>20.0</u>	<u>17.6</u>	<u>23.5</u>	<u>32.2</u>	<u>21.7</u>
	100	100	100	100	100	100

The lower percentage of direct taxes in 1946-47 is due both to some delay in their adjustment to devaluation and to the general decline of national income. Increases in nominal capital values have, however, caused an automatic adjustment of some tax receipts, e.g., land, real estate and property taxes, while other revisions have been based upon the analysis of assessments for income tax, particularly on professional incomes, and income surtax.

Taxes other than direct have received more attention in recent adjustments of the Italian fiscal system. In 1938-39, 70 per cent of all tax collections was derived from indirect taxes, and as a result of impoverishment and inflation, this proportion has even increased. In 1946-47 80 per cent may be regarded as coming from indirect taxation. The increase is due entirely to the, strictly so-called, indirect taxes, thanks mainly to new regulations issued for the general tax on turnover, which is particularly sensitive to price changes and represents the most important source of taxation.

Customs and excise have been adjusted to monetary changes, particularly in relation to duties on the manufacturing of some commodities. Their relative importance has fallen because of the smaller volume of both foreign and domestic trade.

More recently a capital levy has been voted, the collection of which began in June 1947 and is estimated to yield in the fiscal year 1947-48 90 billions of lire (30 billions from the progressive tax and 60 from the proportional tax). In addition to its fiscal purposes this levy seems, from its short-term payment conditions, to be intended as an anti-inflationary measure.

Although no breakdown is available of revenues for 1947-48, the total has been estimated at 521 billion lire, the share of the capital levy being 90 billion. This expectation is based mainly on the upward trend of the tax assessments during past months, which is as follows:

<u>Assessed Budget Revenue</u>						<u>Index of</u>	
	<u>Direct</u>	<u>Indirect</u>	<u>Customs and</u>	<u>State Monopolies</u>	<u>Total</u>	<u>Wholesale</u>	<u>Reve-</u>
	<u>Taxes</u>	<u>Taxes</u>	<u>Excises</u>	<u>& Public Lottery</u>		<u>Prices</u>	<u>nues</u>
	(millions of current lire)						
1946							
Jul	4,217	7,037	1,116	4,170	16,540	100	100
Aug	4,441	7,121	1,672	4,861	18,095	104	109
Sept	3,465	8,056	2,096	4,870	18,487	113	112
Oct	3,961	11,377	2,178	5,047	22,563	119	136
Nov	3,626	13,439	2,773	5,467	25,305	126	153
Dec	3,691	11,956	3,108	5,770	24,525	138	148
1947							
Jan	5,127	12,047	2,728	5,755	25,657	140	155
Feb	6,487	11,764	2,630	5,375	26,265	146	159
Mar	5,619	12,283	3,538	5,897	27,337	155	165
Apr	6,603	13,947	5,082	6,854	32,486	170	196
May	5,747	16,360	7,038	7,701	36,906	195	223
Jun	(6,453						
	(8,164(a)	17,348	8,435	7,658	48,058	199	291
Jul	(11,700						
	(7,182(a)	19,288	8,871	7,208	54,249		327

(a) Capital levy.

The expenditures, revenues and deficits examined above refer to allocations of expenditures and assessments of revenues, but not all are converted into actual outlays and collections. ^{1/} The discrepancy is particularly evident in abnormal periods or under emergency conditions. Therefore, for war-time and postwar years, which for Italy have certainly not been normal years, the budget deficit as shown by the Exchequer account (Bilancio di cassa) reflects more exactly the financial situation of each fiscal year. This deficit is much lower than the one based on allocations and assessments, showing that the difference between theoretical and actual figures is much greater for expenditures than for revenues. The following table shows the amount of the public debt issued each year to meet the deficit plus advances of the Bank of Italy to the Treasury:

	<u>Changes in Cash Deficits and Principal Means to Meet Them</u>				
	(billions of current lire)				Bank of
	Cash	Short-term	Middle-term	Long-term	Italy
	<u>Deficit</u>	<u>Debt</u>	<u>Debt</u>	<u>Debt</u>	<u>Advances</u>
1939-40	20.3	-5.1	23.0	-1.3	6.0
1940-41	62.2	30.6	15.2	-0.5	16.0
1941-42	73.7	19.0	46.0	1.5	10.0
1942-43	83.7	26.4	30.1	14.8	-
1943-44	82.9	12.3	-1.6	-0.4	19.0
1944-45	308.0	129.4	30.6	-0.3	250.8
1945-46	257.9	133.9	72.7	-0.4	-
1946-47 (additional month not included)	280.4	70.1	-76.2	-76.2	224.9

Note: All figures represent increases except those preceded by the sign (-).

The public debt situation at the end of each fiscal year, as officially computed by the Italian Government, is summarized in the table which follows.

^{1/} The difference between expenditures and revenues considered here is not identical with the deficits indicated earlier, as some minor revenue items have been omitted.

11. Money and Credit Developments

From 1938 to June 1947, currency circulation increased about 28 times. After the large increases due to the war financing, there was a temporary slowdown in 1945 but the rate of currency inflation accelerated in 1946 and 1947. During the first eight months of 1947, the circulation increased by 26 per cent, at an annual rate of 200 billion lire.

Lack of adequate bank deposit statistics makes it impossible to trace the movement of other forms of currency since 1938. Since the end of 1945, the variations of deposits parallel very closely those of the note circulation.

Notes in Circulation

<u>Year</u>	<u>Millions of lire</u>	<u>Index 1938 = 100</u>	<u>Increases in absolute figures</u>
1940	35,405	157	6,860
1941	54,924	244	19,519
1942	79,166	352	24,242
1943	181,234	806	102,068
1944	319,234	1,419	138,000
1945	389,810	1,733	70,576
1946	512,711	2,279	122,901
1947 (Aug.)	647,173	2,877	134,462

Note circulation

This enormous increase resulted primarily from credits extended to the Government under various forms by the Bank of Italy. Since mid-1946, increasing loans to the public and to Banks have also affected the note circulation.

The first group of operations includes:

- (a) Extraordinary advances of the Bank of Italy to the Treasury to meet, together with loans of various kinds, the annual budget deficit. These advances are considered as part of the public debt. They amounted to 2 billion lire in December 1938, and in June 1947 had reached 343 billion lire. The bulk of the increase took place in 1944 and 1945, under the German occupation.
- (b) Issue of Allied Military Government notes. The issue took place actually from the summer of 1943 on and stopped in February 1946. At that time, following an agreement between the Allied Authorities and the Italian Government, the entire 114 billion lire of A.M.G. notes then in circulation was placed under the control of the Bank of Italy.
- (c) Issue of national notes to the Allied Forces. It amounted to 22 billion lire in December 1946 and had increased to 30 billion lire in June 1947.

A part of these issues both of A.M.G. and of national notes was reimbursed by the Allied Governments in terms of accounts open to Italy in U.S. dollars or sterling. However, the Treasury has not yet in its turn reimbursed the Bank of Italy.

(d) Rediscount of bills issued in connection with the compulsory collection of grain. The price of cereals delivered is advanced to farmers by a number of Banks before the cereals are resold to the millers. Farmers in turn issue to the Banks bills which are rediscounted with the Bank of Italy. At the moment the millers pay for the cereals, the banks in turn reimburse the Bank of Italy. From the summer of 1946 on prices paid to farmers rose sharply, while prices paid by millers remained unchanged in order not to change the bread and "pasta" prices, which became "political" prices. The difference was to be paid by the State, but in fact the advances made by the Bank of Italy through rediscount of such "amassi" bills have not been paid off by the Treasury. The total of domestic bill holdings was 6 billion lire at the end of 1938, 10 billion lire at the end of 1945, 46 at the end of 1946, and 67 at the end of June 1947.

The second group of transactions which determined an increase in circulation arises from the revival of business activity and private credit expansion, since the beginning of 1946. The banks could previously find no other use for their swelling deposits than investing in Treasury paper and accumulating large deposits with the Bank of Italy. Since the middle of 1946, commercial loans began to replace these assets, thus adding new impetus to the inflationary pressure resulting from the budget deficit. These trends will be described in more detail, after a brief expose of the Italian bank control system.

Banking System and Credit Control

Until 1926 banks and other credit institutions were practically subject only to the very limited controls applied to all commercial or industrial enterprises. In such a situation the sudden development in all economic activities, including merely speculation, which followed to the end of the World War, caused an excessive expansion of the credit system whose main purpose was to collect deposits to be utilized in investments which were often unsound. The first symptoms of the economic depression, and especially the bankruptcy of some important banks, which inflicted serious losses on depositors, convinced the government of the necessity for measures of credit control. According to two decrees enforced in 1926, all banks had to be registered by the Ministry of Finance, while any deposits exceeding 20 times the amount of capital plus reserves were to be invested in government bonds or government-guaranteed bonds. The new legislation also determined the minimum capital required to open a new bank and compelled all banks to set aside 10 per cent of their annual profits until a reserve equal to 40 per cent of the capital had been formed. The control of the bank system was actually operated by the Bank of Italy through its field organization.

These provisions were maintained and new ones added by a decree of March 12, 1936, with the purpose of tightening government control of credit. The new regulations, based on the principle that credit was a function of public interest, created a restricted committee of Ministers to coordinate and control all banking activities, and whose directives were to be carried

out by the newly created Inspectorate of Saving and Credit. This inspectorate was authorized to control through the Bank of Italy and its branches all commercial bank activity. In the meantime the Bank of Italy had become a banker's bank as direct discounting was no longer permitted

In order to assure their liquidity commercial banks were permitted to grant only short-term credits, while medium and long-term credits were placed within the jurisdiction of governmental agencies. Medium-term credit (up to five years) was confined to the Consorzio Sovvenzioni Industriali, which had been in operation since 1914. Its financial resources were represented mainly by capital subscribed by various banks but chiefly by the Banks of issue (of which at that time there were three in Italy), by issues of bonds and by acceptances rediscounted by the Banks of Issue and by the Bank of International Settlements. Long-term credit (from more than 5 to 20 years) was confined to the I.M.I. (Istituto Mobiliare Italiano) created in 1931 to meet the great demand for long-term credit resulting from the world economic depression. Its financial resources were represented mainly by capital subscribed by the same banks which supplied the capital to the Consorzio mentioned above and by issues of bonds. Other institutions also entitled to grant medium and long-term credit under more restricted conditions were the Consorzio di credito per opere pubbliche (credit for public works) and the Cassa Depositi e Prestiti.

These regulations remained in force until 1944. During the whole period covered by them (1926-1944), the total of deposits increased almost continuously, from 69 billion lire at the end of 1927 to 331 billion lire at the end of 1944 (inclusive of postal savings). Until 1939 there was no sharp change in the ratio of deposits to circulation. From a volume of deposits equal to 3.49 times the circulation in 1927 the ratio rose to 5.08 in 1934 and then fell to 3.45 in 1939, thus following fluctuations in monetary stability during these years. The increase was, however, much more evident in the saving banks, postal saving banks, and people's co-operative banks, while commercial banks on a percentage basis reduced their deposits. This was due to the increasingly effective credit control, which applied particularly to banks of a more speculative nature. The changes in the investments of the commercial banks and the over-all reduction in the volume of their operations are shown clearly by the assets in a summary balance sheet for years 1929 through 1936. The total assets decreased from 45 to 36 billion lire, the reduction occurring mainly in the following items: bills discounted and bought--4.5 billion lire (the reduction was almost entirely in commercial bills); investments and securities--1.2 billion lire; participations--1 billion lire; loans and advances--3.3 billion lire. The main increases were reported in items which do not represent proper investments, i.e., cash and sight balances with other institutions.

Inflation began on the outbreak of war, the ratio of deposits to circulation fell sharply. It was 3.29 in 1940 and the bottom of the curve was reached in 1944 when the ratio was as low as 1.01.

In 1944 the credit control regulations were revised. The Committee of Ministers and the Inspectorate were abolished. The Ministry of the Treasury was formally charged with the control and the coordination of credit activity. The actual control of banks was, however, still operated by the Bank of Italy, and the regulations applied to their activities since 1926 were not modified.

After the end of 1944 there was a rapid increase of bank deposits, which rose from 260 billion lire at the end of 1944 to 767 billion lire at the end of 1946, while postal savings increased from 71 to 164 billion. Two periods can be distinguished. Until the end of 1945, time deposits increased more rapidly than current account deposits, due to the replenishment of the cash holdings of the public. After 1945, loan expansion induced a rise of current account deposits much more rapid than of time deposits.

During this time, the banks remained highly liquid, and followed a conservative lending policy. Until September 1946 most loans and investments still took the form of government securities, while in normal years these commitments represented only one-fourth of all investments.

Commitments of Private Banks

(in millions of lire)

		<u>To the State^{1/}</u>	<u>To private entities^{2/}</u>
1938	December	17,554	44,688
1939	"	18,959	47,459
1940	"	27,293	52,349
1941	"	37,769	66,476
1942	"	56,809	80,499
1943	"	94,628	68,394
1944	"	192,753	78,384
1945	"	293,894	165,967
1946	March	330,803	192,161
	June	366,870	233,222
	September	403,777	333,880
	December	362,749	445,052

^{1/} State securities held by credit institutes. Balances of the total of current accounts with the Treasury and Bank of Italy belonging to Banks.

^{2/} Bills discounted, advances, current accounts, investments, etc.

It was only after September 1946 that, as shown by the table above, the greatest percentage of commitments was again to private concerns. In December 1946 commitments to the State had decreased both absolutely and relatively, being only 45 per cent of the total.

Although no figures are presently available since December 1946 and entirely comparable with the table above, it is generally admitted that the banks have further reduced their investments in government securities. It is the case, however, that balances of banks with the Bank of Italy and the Treasury have decreased from 197 billion lire in October 1946 to 116 billion lire in June 1947. This trend illustrates the tendency to replace public assets by more profitable investments. This progressive disinvestment from the Bank of Italy and Treasury from September 1946 to summer 1947 compares with a still increasing amount of deposits. During 1946 total commercial credits more than doubled, rising from 152.3 to 340.4 billion lire. The bank statistics are not available for 1947, but it is known that the credit expansion continued at a rapid rate until strict restrictive measures were applied in July.

Anti-inflationary policy and credit control

The measures recently taken by the government to stop inflation attacked its two sources: government spending and credit expansion.

During June a Minister of Budget was appointed, whose approval is required for all State expenditures above one billion lire. The purpose is to avoid all State expenditure which is not strictly necessary. It is of great significance that the Minister of Budget is also Governor of the Bank of Italy and, therefore, controls the Governmental agency which in order to face new budgetary deficits would have to issue new notes.

Another decision limited the maximum deficit in the Treasury's current account with the Bank of Italy to 5 per cent of the total of the State Budget. The withdrawal by the Treasury of funds from this account above that limit requires a special law, thus permitting a greater control of the currency and giving full publicity to the operation.

In order to avoid an excessive rediscount with the Bank of Italy of bills arising from compulsory collection of cereals, other Banks have also been authorized to discount these bills, utilizing the greater resources available to them through the increase in deposits.

Finally the official rate of discount was raised from 4 to 5-1/2 per cent, so as to discourage commercial Banks from an excess of rediscount and to reduce the volume of their investments.

The first provision taken to strengthen credit control was the appointment by decree dated July 17, 1947, of an Interministerial Committee for Credit and Saving, whose members are the economic Ministers and the Governor of the Bank of Italy. In the meantime the Bank of Italy received greater powers of intervention in the activity of Commercial Banks, being responsible for the execution of the decisions to be taken by the Committee.

The main decision taken by this Committee soon after its appointment was an increase of the percentage of deposits to be invested in State securities.

20 per cent of all deposits on September 30, 1947 exceeding 10 times the amount of each bank's capital and reserves, have to be invested in State or State-guaranteed securities or paid into a special interest-bearing controlled account at the Bank of Issue or the Treasury. This special reserve shall not exceed in any case 15 per cent of all deposits.

After September 30, 1947, 40 per cent of the increase in deposits above the total as of September 30 is to be invested as above. The special reserve shall not exceed in this instance 25 per cent of all deposits.

The purpose of this provision is to supply the Committee and the Bank of Italy with a flexible instrument for the regulation of the credit, preserving bank liquidity, keeping the expansion of credit within the limits permitted by the formation of saving, and directing the excess of deposits, through banking channels, to the Treasury.

The main purposes of these measures are essentially three. It had been first of all found that under present circumstances, the Bank of Issue had to be given a power to control the volume of credit and, indirectly and to a certain extent also the quality of credit, greater than was derived from the traditional system of variations in the rate of discount. This has been done mainly by giving to the Bank of Issue the power of modifying the percentage of deposits which have to be invested in State bonds or State-guaranteed bonds. These percentages can always be revised either way, if the Interministerial Committee, in the light of changing circumstances, so decides. Such a tightening of credit control may also be maintained even when the Italian economy becomes more normal.

The new powers given to the Bank of Issue are being utilized to direct a greater volume of deposits toward investments with the State, either Bank of Issue or Treasury, and this, it has been thought, means that a larger share of the money accumulation will finance the State budget, a trend in harmony with the tendency in all countries for the State to intervene more and more in economic life. Besides, Italy's state budget for the forthcoming years, as for 1946-47, contemplates considerable expenditure for purposes which represent a direct contribution to the reconstruction and the development of the national economy, such as repairs of war damage, construction of new railroads, and of other public works, etc. These works, which in other countries or under different circumstances in Italy would have been carried out, at least partially, by private enterprises, require an adequate quota of the national money accumulation.

Finally, the consequences of such a policy for commercial banks and private economic activities have also to be taken into consideration. Undoubtedly during the last 12 months there has been an increasing flow of money to finance private enterprises. But as an offset against the abundance of money which created a great demand for means of production, there was an increasing scarcity of raw materials. Such lack of equilibrium between money capital and raw materials has aggravated one of the main inflationary factors. And once this inflationary process had started, private individuals had no difficulty in starting new enterprises, for the rising prices of raw materials would have been offset by the still higher prices of finished products.

The first consequences of the measures taken to reduce the flow of credit have already been noticed in Italy. There has been a rapid liquidation of all stocks of commodities to meet claims for wages and taxes. These stocks would otherwise have been sold later, at higher prices. Legal or illegal funds in foreign currencies deposited abroad are also being liquidated. According to newspaper reports, the immediate consequences have been a decrease in prices and in the black market quotations of foreign currencies and a slowing down of production.

It is too early to know the consequences for public finances, although a smaller increase in circulation may be anticipated. The repercussions of a contraction of economic activities on taxation yields, and especially on the yields of indirect taxes, and on employment remain in doubt. Very probably the critical point will be passed if greater quantities of raw materials are soon made available to Italy.