

BANCA D'ITALIA

ANNUAL REPORT

OF THE

GOVERNOR

TO THE

GENERAL MEETING OF THE SHAREHOLDERS

HELD IN ROME ON MARCH 31st, 1947

Year 1946 (LIII)

Final Considerations

ROME

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1947

IV — **Final Considerations**

This is the auditing analysis of the main items of the Bank's balance sheet. It is now essential to investigate the facts that have occurred, by way of what I shall call a «moral-economic» analysis.

How did it happen that the Governor of the Banca d'Italia watched, without reacting, the circulation rise between the end of May, 1946, and January 20th, 1947—at which date the subscriptions to the Reconstruction Loan were closed—by an amount of 103,817 million lire, which corresponds almost exactly, barring the 10 milliards subscribed by the «Institute of Deposits and Loans», to the 102 milliards subscribed in cash to the loan? The first impression these two figures give is that on one side the Italian Treasury had the opportunity to enrich its current account with the Banca d'Italia with 102 milliards, and that having the latter issued during the same period almost 104 milliards worth of additional notes, a 206 milliard lire fund was thus created and should be at the Treasury's disposal for the reconstruction. We already know that from an accounting viewpoint this did not happen.

Using for a while a language pertaining to the concepts of fault and of responsibility, we find:

1) That the State Treasury has no direct responsibility whatsoever for the increased circulation: the Treasury's debt towards the Bank—for various items including the ordinary and extraordinary advances, the former special transactions of the « Consorzio Valori » (which were a particular type of loan to the Treasury), the cover of AM lire issued (another form of loan to the State on the part of the Bank) and miscellaneous minor services—was 502,604 millions in May, 1946, and 503,401 millions on January 20th, 1947. The difference (of 797 millions as an absolute figure and of just slightly over 1‰ in relative proportion), is indeed too small and so easily explained by the intertwine of the enormous number of debit and credit entries between the State and the Banca d'Italia, for allowing a claim of responsibility to be brought against any Minister of the Treasury.

2) That the Banca d'Italia, as an institution operating, by its nature, the business of banking, has no responsibility either for the increased circulation. Between May, 1946, and January 20th, 1947, it received 11,327 millions more worth of deposits under various forms and employed out of that sum only 8,577 more, thus withdrawing 2,750 millions from circulation. The Governor of the Banca d'Italia is therefore at least as innocent as the Minister of the Treasury for the increase in the circulation.

Could the Banca d'Italia, first of all, refuse to supply the Allies with funds in notes, which they previously procured by issuing AM lire? Under the January 24th convention it was obliged to; and that convention seemed—and was indeed—advantageous for the country, as it enabled the Bank to control efficiently the circulation. Our Institution could certainly not refuse to furnish notes of its own, when the corresponding dollar credits in the United States are precisely subject to such a delivery. Between May, 1946, and January 20th, 1947, the deliveries have risen from 11,834 to 22,492 millions, with an increase of 10,658 million lire.

Could the Bank refuse to rediscount the bills pertaining to the compulsory pools of cereals and other products considered of prime necessity? The law appoints the Consortiums for operating such pools and imposes upon them to find the means for paying the price of the wheat to the farmers immediately through advances on the part of institutions authorized to finance such transactions. But as these institutions do not have sufficient funds, they are obliged to rediscount the bills with the Banca d'Italia. In the aforementioned period, the amount of rediscounts to the compulsory cereal pools (the rediscount of the voluntary deliveries of products, being an ordinary commercial transaction, was included among the usual banking transactions) increased of 31,377 million lire.

Could the Bank refuse to pay to the Italian Exchange Office the sums needed for purchasing from the Italian exporters the dollars, pounds, Swiss

francs, pesos and other first-class free currencies (at present 50 % of the amounts coming in to them) which the exporters are bound by the law to surrender to the Exchange Office at the official rates? It would be the same as saying that the exports are prohibited; because the Italian manufacturers, when exporting, need the lire equivalent of the exported goods for covering the cost of the raw material, the salaries, their general and sundry expenses. In the same aforesaid period—May, 1946, to January 20th, 1947,—27,607 million lire were thus paid out by the Bank. To suppose the Bank could act differently would mean that it was free to suspend the activity of the export industries, to leave hundreds of thousand workers jobless, to deprive the country of most important credits in foreign currencies, which are essential for our economic life.

Furthermore, could the Bank, the depositary by law of large deposits from the banking institutions, refuse to reimburse the latter when they in their turn had to face withdrawals on the part of their customers? Just to mention a typical example, how could the owners of savings accounts subscribe to the Reconstruction Loan if not by withdrawing a part of them? Between May, 1946, and January 20th, 1947, the deposit accounts of the banking institutions decreased from 125,447 to 90,986 million lire, with a reduction of 34,461 millions.

Finally, could the Banca d'Italia, as the State's Treasurer, refuse to pay to the State the sums standing to the latter's credit in its current account with the Bank? The Bank, which on May 31st, 1946, had a balance of 45,598 millions to the credit of the Treasury, paid out to the latter, or by its order, funds totalling 4,556 million lire, the balance being thus reduced to 41,042 millions.

Adding up:

Supply of funds to Allies	10,658	million lire
Rediscount to compulsory pools	31,377	» »
Purchase of foreign currency	27,607	» »
Deposit accounts reimbursed	34,461	» »
Diminution in Treasury's c/a	4,556	» »

Together: 108,659 million lire

which figure of the total amount of outgoing notes explains more than amply the increase of 103,817 millions in the circulation.

Transactions of the Banca d'Italia

a) Investment and deposit commercial transactions

(millions of lire)

DATE (end of month)	INVESTMENT TRANSACTIONS						DEPOSIT TRANSACTIONS						Excess of the deposit transactions over the investments
	Discount portfolio (compulsory pools not included)	Advances against securities and merchandise	Deferred payments at clearing Houses	TOTAL			Drafts and cheques	Current Accounts	Deposit Accounts	TOTAL			
				Absolute values		Index numbers of amount				Absolute values		Index numbers of amount	
				Amount	Changes as compared with May					Amount	Changes as compared with May		
1	2	3	4	5 = 2 + 3 + 4	6	7	8	9	10	11 = 8 + 9 + 10	12	13	14 = 11 - 5
1946 - May	4,275	6,341	318	10,934		100	12,108	46,785	1,765	60,658		100	49,724
» - June	4,772	7,455	573	12,800	+ 1,866	117.1	13,808	49,021	4,078	66,907	+ 6,249	110.3	54,107
» - July	4,474	6,422	120	11,016	+ 82	100.7	15,651	51,102	2,072	68,825	+ 8,167	113.5	57,809
» - August	7,227	6,669	115	14,011	+ 3,077	128.1	14,083	50,034	1,889	66,006	+ 5,348	108.8	51,995
» - September	8,495	7,984	338	16,817	+ 5,883	153.8	14,469	49,308	2,158	65,935	+ 5,277	108.7	49,118
» - October	8,422	8,633	453	17,508	+ 6,574	160.1	15,094	49,160	2,227	66,481	+ 5,823	109.6	48,973
» - November	6,690	10,393	448	17,531	+ 6,597	160.3	14,783	51,199	2,409	68,391	+ 7,733	112.7	50,860
» - December	7,084	13,084	1,270	21,438	+ 10,504	196.1	15,098	59,119	4,841	79,058	+ 18,400	130.3	57,620
1947 - January 20th	7,590	10,505	1,416	19,511	+ 8,577	178.4	15,195	54,296	2,494	71,985	+ 11,327	118.7	52,474
» - » 31st	7,590	10,265	1,352	19,207	+ 8,273	175.7	15,084	54,595	2,109	71,788	+ 11,130	118.3	52,581

b-1) Investment transactions of a general interest

(millions of lire)

DATE (end of month)	Government securities owned	Special transactions of the «Consortium for subventions against industr. valuables»	TOTAL	Ordinary and extraordinary advances to the Treasury	State Treasury counter-items of issue of AM lire	Miscellaneous services for a/c of the State (1)	T O T A L		
							ABSOLUTE VALUES		Index numbers of amount
							Amount	Changes as compared with May	
15	16	17	18=16+17	19	20	21	22=18+19+20+21	23	24
1946 - May	886	40,280	41,166	343,697	114,585	3,105	502,553		100
» - June	14,935	25,988	40,923	343,697	114,454	5,059	504,133	+ 1,580	100.3
» - July	14,813	25,039	39,852	343,697	114,453	4,519	502,521	- 32	100.0
» - August	14,813	24,634	39,447	343,697	114,453	4,212	501,809	- 744	99.9
» - September	14,811	24,529	39,340	343,697	114,453	4,736	502,226	- 327	99.9
» - October	14,810	24,183	38,993	343,697	114,453	3,769	500,912	- 1,641	99.7
» - November	14,810	24,154	38,964	343,697	114,453	2,177	499,291	- 3,262	99.3
» - December	37,760	491	38,251	343,697	114,453	6,667	503,068	+ 515	100.1
1947 - January 20th	37,634	491	38,125	343,697	113,896	7,683	503,401	+ 848	100.2
» - » 31st	37,634	491	38,125	343,697	113,896	7,472	503,190	+ 637	100.1

(1) After deduction of cost of notes.

b-2) Other investment transactions of a general interest

(millions of lire)

DATE (end of month)	Funds supplied to the Allies	Rediscount to compulsory pools	PURCHASES OF FOREIGN CURRENCY				TOTAL		
			Current account with Italian Exchange Office	Balances abroad	Italian Exchange Office additional exchange rate account	TOTAL	ABSOLUTE VALUES		Index numbers of amount
							Amount	Changes as compared with May	
25	26	27	28	29	30	31 = 28 + 29 + 30	32 = 26 + 27 + 31	33	34
1946 - May	11,834	5,097	1,874	5,351	2,093	9,318	26,249		100
» - June	12,207	5,332	2,336	5,654	3,570	11,560	29,099	+ 2,850	110.9
» - July	14,616	12,064	3,539	5,991	5,468	14,998	41,678	+ 15,429	158.8
» - August	17,448	19,022	4,587	6,354	7,918	18,859	55,329	+ 29,080	210.8
» - September	19,846	23,494	4,871	8,170	11,115	24,156	67,496	+ 41,247	257.1
» - October	19,846	24,994	8,244	8,586	12,912	29,742	74,582	+ 48,333	284.1
» - November	21,166	25,711	8,637	8,224	16,820	33,681	80,558	+ 54,309	306.9
» - December	22,198	33,229	8,097	8,689	18,818	35,604	91,031	+ 64,782	346.8
1947 - January 20th	22,492	36,474	10,260	8,874	17,791	36,925	95,891	+ 69,642	365.3
» - » 31st	23,048	36,474	7,875	8,995	19,280	36,150	95,672	+ 69,423	364.5

c) Deposit transactions of a general interest

(millions of lire)

DATE (end of month)	TREASURY'S CURRENT ACCOUNT			BANKS' DEPOSIT ACCOUNTS			Foreign currency owned by Treasury	T O T A L		
	Balance	Funds supplied to Allies charged to Treasury's account (*)	Balance, funds supplied to Allies deducted	Amount	Investments in securities (Treasury bills) for account of Treasury	Net amount		ABSOLUTE VALUES		Index numbers of amount
								Amount	Changes as compared with May	
35	36	37	38 = 36 + 37	39	40	41 = 39 - 40	42	43 = 38 + 41 + 42	44	45
1946 - May	33,764	11,834	45,598	125,447	68,000	57,447	—	103,045		100
» - June	25,106	12,207	37,313	126,326	68,000	58,326	—	95,639	— 7,406	92.8
» - July	18,526	14,616	33,142	129,586	68,000	61,586	—	94,728	— 8,317	91.9
» - August	15,106	17,448	32,554	135,304	68,000	67,304	—	99,858	— 3,187	96.9
» - September	2,658	19,846	22,504	141,499	68,000	73,499	—	96,003	— 7,042	93.2
» - October	D 2,992	19,846	16,854	140,942	68,000	72,942	1,537	91,333	— 11,712	88.6
» - November	D 8,419	21,166	12,747	137,363	68,000	69,363	793	82,903	— 20,142	80.5
» - December	10,096	—	10,096	101,158	68,000	33,158	794	44,048	— 58,997	42.7
1947 - January 20th	41,042	—	41,042	90,986	68,000	22,986	796	64,824	— 38,221	62.9
» - » 31st	32,035	—	32,035	94,376	68,000	26,376	796	59,207	— 43,838	57.5

(*) For the months from March to November the funds supplied to the Allies were charged to the Treasury and are therefore to be reversed, and entered in column 26, as from December.

d) Comparison of circulation with the transactions of a general interest

(millions of lire)

DATE (end of month)	EXCESS OF THE TOTAL OF (b 1) + (b 2) over (c)			DIFFERENCE BETWEEN (b 2) ONLY AND (c)		C I R C U L A T I O N				
	Absolute values	Changes as compared with May	Index numbers of absolute values	Value of the difference	Change thereof as compared with May	Banca d' Italia notes	AM lire notes	Total	Increase as compared with May	Index numbers of total circula- tion
46	47=(22+32)-43	48	49	50 = 32 - 43	51	52	53	54 = 52 + 53	55	56
1946 - May	425,757		100	- 76,796		293,593	91,981	385,574		100
» June	437,593	+ 11,836	102.8	- 66,540	10,256	300,369	94,333	394,702	+ 9,128	102.4
» July	449,471	+ 23,714	105.6	- 53,050	23,746	311,125	96,373	407,498	+ 21,924	105.7
» August	457,280	+ 31,523	107.4	- 44,529	32,267	324,826	92,885	417,711	+ 32,137	108.3
» September	473,719	+ 47,962	111.3	- 28,507	48,289	341,164	90,796	431,960	+ 46,386	112.0
» October	484,161	+ 58,404	113.7	- 16,751	60,045	357,885	87,634	445,519	+ 59,945	115.5
» November	496,946	+ 71,189	116.7	- 2,345	74,451	371,863	86,067	457,930	+ 72,356	118.8
» December	550,051	+ 124,294	129.2	46,983	123,779	417,230	87,822	505,052	+ 119,478	131.0
1947 - January 20th	534,468	+ 108,711	125.5	31,067	107,863	406,067	83,324	489,391	+ 103,817	126.9
» » 31st	539,655	+ 113,898	126.7	36,465	113,261	412,068	83,875	495,943	+ 110,369	128.6

Remarks: (b 1) are the investments of a general interest (Government securities; special transactions of the « Consortium for subscriptions against industrial valuables »; advances to the Treasury; cover of AM lire issued, charged to the Treasury; miscellaneous services for account of the State).

(b 2) are the other investments of a general interest (funds supplied to the Allies; rediscounts to compulsory pools; purchases of foreign currency).

(c) are the deposit transactions of a general interest (balance of Treasury current account; banks' deposit accounts; foreign currency owned by the Treasury).

We must go on in our analysis and find out what caused the condition of necessity the Bank found itself in of issuing in seven months and twenty days 104 milliard lire of additional notes.

Let us take an example: the compulsory wheat pools. Out of 31.4 milliard lire of extra bills pertaining to the compulsory agricultural pools, not less than 28.7 originated from rediscounts covering the wheat pools. Adding the rediscounts already made on May 31st and still existing on January 20th, 1947, the rediscount to the wheat pools amounted to 32.9 milliards for Banca d'Italia alone. Further 30 milliards must be added for wheat pools bills discounted by banks and not presented yet for rediscount to Banca d'Italia. Altogether, at the abovementioned date of January 20th, 1947, over 60 milliards have been advanced by the Italian banking system and not returned to it so as to allow the regular transfer of the wheat from the farmers to the consumers. To whom was the sum of over 60 milliards advanced? It is to be noted that in the 1946/47 campaign the mills are paying the wheat to the pools at a rate of 900 lire per quintal; and as the pools are operated in the interest of the State, all the latter gets back for the sale of wheat are these 900 lire a quintal, just a little more than what is needed to cover the cost of operating the pools (240 lire), the expenses of the U.N.S.E.A. (National Statistical Economic Office for Agriculture) (175 lire), plus transportation (400 lire). If we add the cost of grinding and baking, we may say that the State does not even get back the actual cost of the transformation and distribution of wheat, so that the average price of 2,700 per quintal paid to the producer remains entirely at the government's charge.

What do these figures mean from the banking angle?

We must consider two elements: the « compulsory pools » and the « political price of bread ».

The former element, if not combined with the latter, would only mean more work, with interest and commissions artfully credited, by law, to the banks. When the pools did not exist, the transfer of wheat from the producer to the consumer was taken care of directly by the farmers, the millers and the bakers. The farmer gradually sold his stocks and, instead of an interest in their value, enjoyed a psychological benefit, originating from the contemplation of the wheat stored in his barns and from the feeling of security given by such food supplies, as well as another benefit, of a pecuniary nature, consisting in the hope for a rise in prices. The compulsory pools replaced such forms of compensation with the security for

the farmer to get the proceeds immediately; whereas the banks earn interest and commissions on the handling of the corresponding money.

But the second element, the « political price of bread », has added to the first one further aspects which are to be carefully considered.

Be the price of bread the economic or the political one, the entire amount paid by the State and by the consumer to the parties involved in the production of bread (the 2,700 lire given to the farmers, the 2,300 and more lire per quintal paid for transportation, for operating the pools, for grinding, for baking) is being spent by the farmers, the millers, the bakers, the employees of the various offices and administrations concerned, for purchasing consumption goods and instrumental goods. The entire sum of say 5,000 lire per quintal is thus placed again in circulation, except those very small quantities which the peasants are again hoarding, as they used to before the years 1944-1945; and once such sums are placed again in circulation they have an influence on the prices.

What influence? Here arises the difference between the economic price and the political price systems.

When the price of bread is the economic one the entire sum of about 5,000 lire per quintal of wheat turned into bread and macaroni would be reimbursed by the consumers and, after deduction of the portions due to the intermediate stages of production, would go back to the bakers, the mills, the carriers, the pool organisations; from here, reduced to the 2,700 lire originally paid to the farmers, it would return to the financing institutions and, with respect to the rediscounted bills, to the Banca d'Italia. In connection with the economic price system, the circulation reaches therefore its yearly minimum towards the end of the wheat campaign. In the 1940-1941 campaign the rediscounts to the wheat pools started in August with 901 millions, reached a maximum of 1,603 millions in October and gradually came down to 82 millions in June 1941; in the 1941-1942 campaign the respective figures are 496, 1,296 and 218 millions; similarly in the 1942-1943 campaign, such rediscounts started with 1,067 millions in August, went up to 1,768 millions in October and down again to 410 millions in next June. It was a regular cyclic motion, which allowed to make anticipations.

In 1945-1946, as a consequence at first of an accumulation of arrears and then owing to the sudden return of the political price of bread—which system the late Minister of the Treasury Soleri in vain tried, for a second time in his life, to abolish—the minimum is 2,701 millions in May, 1945, and the year's maximum is 6,054 in November, then decreasing very slowly. In May, 1946, for wheat alone we have only come down to 4,220 millions.

After that it is a non-stop *crescendo*. The rediscounts to the compulsory pools, existing with Banca d' Italia, totalled:

5,097 millions	at the end of May	1946
5,332	»	» » » »	June »
12,064	»	» » » »	July »
19,022	»	» » » »	August »
23,494	»	» » » »	September »
24,994	»	» » » »	October »
25,711	»	» » » »	November »
33,229	»	» » » »	December »
36,474	»	» » » »	January 1947

What has happened is clear enough. Out of the sum of about 5,000 lire per quintal of wheat paid to the various parties involved in the production, perhaps only one half is paid by the purchasers of the bread and, owing to the various expenses to be covered, fails to go back as far as the banking institutions which advanced the cost of the wheat. The 2,700 lire remain a debt on the part of the State. The notes do not come back. Supposing, but hoping for the contrary, that the political price system should still be maintained in our country, the present debt of the State towards the Banca d'Italia and the other banks, which is 63 milliard lire (33 + 30), would increase every year. Circulation would only augment in connection with every wheat campaign, without ever decreasing.

The notes that would thus be put in circulation without coming back would inevitably affect the prices and give an impulse to the devaluation of money. It is therefore imperative that the intentions on the part of the present Government to put an end to the political price system and to do so radically without leaving a chance for a relapse and without making any exception for one class of people or another—which exception would soon become the rule—be realized promptly. *Periculum est in mora*.

After what I have said about the rediscount to the compulsory agricultural pools there is no need to comment extensively on the other two causes of the issue of notes: the supply of funds to the Allies (balance on January 20th, 1947, 22,492 million lire, including the amount existing in May, 1946, plus the subsequent additions) and the purchase of foreign currency (36,925 millions on even date). The notes stagnate and accumulate, the Treasury being unable, like in the case of the wheat pools, to collect either through taxation or from the monetary market (long and short-term loans) the funds it needs for covering the cost of the foreign currency purchased from the Italian exporters and at present also the expenditures made in the country by the Allies with notes furnished by us.

The considerations we made regarding the rediscount to the pools stand good also for these other causes of money issue, with the difference that here we can say there is a collateral. Against the Treasury's 63 milliards for the wheat pools, in fact, there is nothing, the bread having already been consumed and the consumers having paid the price charged them; whereas against the lire furnished to the Allies and to the exporters of Italian goods stands the first-class foreign currency credited to us. The difference is a fundamental one; but in order that circulation may derive from it a beneficial effect, the foreign currency secured should be exchanged for essential goods so that the proceeds of the latter could then be used for reimbursing the lire advances received from the bank of issue. Even if the reimbursement took place with some delay and even if the stagnating of notes in the circulation produced its usual bad effect, the damage would not be permanent and the prices, after temporary fluctuations, would tend to return to the old level.

There are however two risks in the return process which takes the form: lire—foreign currency—foreign goods—lire realized by selling those goods.

The first one is that the foreign goods, purchased with the foreign currency secured, be sold not at the economic but at the political prices, the exchange being figured not at the rates corresponding to the reality of the moment when the foreign goods are sold in Italy, but at historical rates, for example, with respect to the dollar, at 100 or 225 instead of 400. In this way the Treasury does not collect lire suitable for paying salaries and supplies at the rates of the day or for covering the cost at that time of new Italian exports. The result is a loss for the public treasury or for the domestic economy, which somebody will have to bear.

The second risk is that the lire collected by selling the foreign goods be used not for reimbursing the bank of issue, which advanced the Italian money, but for covering current expenditures. If this happens, the originally temporary issue of lire becomes a permanent one and, as a dead weight, definitively causes prices to go up.

Last year, after going through the survey for 1945, the prospects were brighter. It is true that the circulation of Banca d'Italia notes and AM lire had increased from the 312,485.1 millions total at the 1944 year end to 382,049.9 millions at the end of 1945 with a difference of 69,564.8 millions. But we could state, with pride, that for the major part of the increase were to be blamed the Germans, the neo-fascists and the expenditures not reimbursed yet at that time by the Allies. The responsibility for the increase on the part of the free legitimate Italian Government was so small that it

could be neglected. To-day we cannot feel so bright. Until all public expenditures, including those appearing as investments, are not covered without making recourse to the issue of notes, the ghost of inflation will not be driven away.

The means for driving it away are well-known. In the matter of finance there are no new miraculous remedies. By performing little tricks on paper, by changing the name of things and bits of paper no substantial results are attained. Substance has only two names: taxation and loans. Real taxation, not a deceptive one. Loans coming from the nation's savings, and not as a result of book-keeping manipulations. If the State and the minor administrations need 800 milliard lire a year, the citizens must give the State 800 milliards a year out of their income, that is out of the yearly gross earnings of their labor, their industries and their capital. The name given to the different types of taxation makes no difference, whether it is a tax on the income, on the capital or on consumption; to-day even the form of the loans is irrelevant, whether they are perpetual or redeemable or with a fixed term, long or short. What counts is that the Italians be giving the needed milliards, through taxation or loans, by drawing on their current income. The survey we are making is not the proper occasion for discussing the right proportion between taxes and loans. The ideal would be to take care of the current expenses with the taxes and to use the loans for expenditures apt to yield directly or indirectly the means for the services involved; but even if the ideal proportion could not be maintained in our disturbed days, the damage would not be a very great one. The main thing is to keep to the principle that fresh domestic earnings are alone to be used.

As far as taxes are concerned, the prospects are good:

(millions of lire)

	Actual Receipts	INDEX NUMBERS	
		of actual receipts	of wholesale prices
Monthly average of first half-year	14,267	100	100
July	4,655	33	103
August	20,527	144	108
September	16,866	118	117
October	26,660	187	124
November	23,940	168	131
December	30,869	216	142

We gather from these figures that the tax receipts have increased not only as absolute quantities, the rapidity of their increase being even greater than that of the price rise. The increase is a considerable one in the nominal yield, but there also is a substantial rise in the quantity of goods and services which can be purchased with that yield.

Such is not the case regarding the loans' yield, meaning by loans everything the monetary market has furnished to the Treasury at a long or short term. In the second half year of 1946 we see in fact a marked decline in the yield of the means put at the Treasury's disposal by the money-savers of their free will:

(in milliards of lire)

	First half-year 1946	Second half-year 1946
— Actual cash yield of the Reconstruction Loan from November 20th to December 31st, 1946	—	56
— Proceeds of Treasury Bills paid in as subscriptions to the Reconstruction Loan	—	10
— Treasury Bills	61	15
— Increase in balance of c/a with Treasury of the « Cassa Depositi e Prestiti » and of the Social Security institutions . . .	34	27
— Increase in balance of c/a with Treasury of the Banco di Napoli and other banking institutions	22	— 13
— Increase of banking institutions' deposit accounts with Banca d'Italia	6	— 25
— Subventions to Treasury by the Institutions authorized to finance the agricultural pools	—	30
	123	100

(Naturally, the reconciliation does not include the Reconstruction Loan's further yield in the first part of January, 1947). Within the given period, the synopsis proves that the monetary market presents a unity; and that

the so-called « loans » have not and cannot have the object of giving the Treasury financial means it would be unable to secure through other channels; but that they have another equally important object, of consolidating the placement of funds which would be made all the same but in a precarious and insecure way. The subscribers who from November 20th to December 31st gave the Treasury the Loan's 56 milliards cash have not actually given fresh or new money. They drew on their banks and the banks in order to comply with the customers' orders had to reduce by 38 milliards (13 + 25) the balances of their current accounts with the Treasury itself and with Banca d'Italia. What counts is the total amount of funds placed at the Treasury's disposal: 123 milliards in the first half-year of 1946 and 100 in the second one.

This fact is explained by the great change that occurred in 1946 in the consideration the money-savers have for public investments, as compared with their attitude in the years 1940-1943, which was partially maintained until 1945.

During the « fascist » war the so-called « capitals circuit policy » prohibited or strongly limited all investments in real estate, in shares, in new industrial enterprises, compelling the savings to converge to the Treasury Bills or to bank deposits. On the other hand it was very difficult to secure commodities and instrumental goods either abroad or in Italy. The government loans were therefore contributed to by the proceeds of the sale of merchandise stocks or by funds reserved for the amortization or upkeep or repair of property and which could not be invested in industrial, agricultural or commercial enterprises. Not to refill the stocks of merchandise, not to replace or repair machinery, not to take care of the upkeep of the houses does not mean to be saving, but to turn the invested capital into liquid funds; it means not to reinvest that part of the product which should be used for securing the preservation of the existing capital. And if that money, through the Treasury Bills or the bank deposits, goes to the State and is used for the war, the preexisting capital lessens, without being reconstituted, for a like amount. In substance, the country is being impoverished; but the impoverishment assumes the appearance of a more abundant yield of the monetary market in favor of the public Treasury. The question so frequently put: how is it that the Treasury, which spent so lavishly during the war, suddenly becomes unable to provide for the most moderate reconstruction expenditures in peace times? is answered: yes, to go on in the same way could be possible, but it would be a Sisyphus' job: on one side it would mean consuming a part of the existing and invested private capital and on the other there would be the attempt to reconstruct another private or public capital. 100 would be destroyed for reconstructing 50 or 20 or even less; because what is lost by destroying is often worth more than what

is recovered by reconstructing. Yes, if only it were possible to indefinitely abstain from replacing and repairing machinery, from rebuilding the houses, from refilling the exhausted stocks. But as all this does not belong to the world of possible things, it is clear that once the moment is over of the capital's consumption on account of the war, it is a matter of necessity to expect the new savings to become the source of the State's extraordinary expenditures as well as of private investments. Once the dimensions of the fund are reduced and the private investments make their reappearance, competing with the State, it is obvious that there comes a moment, which for us was the year 1946, when the monetary market's contribution to the Treasury must suffer a decline.

The Treasury's temporary enrichment during the war times and immediately after was helped also by the rationing and the impossibility to spend money. The black-outs, the air raids, the evacuations imposed a secluded and frugal life. As it was impossible or useless to spend the income's excess over the cost of the rations, that excess found its forced outlet in the bank deposits and in short-term government securities. In all parts of the world the year 1946 marked a revival of money-spending, which was a crazy one in some countries but was not unknown in ours as well. The rising receipts of the cinemas and of the entertainment and gambling places show the decrease in saving and consequently in the voluntary flow of money to the Treasury.

Another factor has contributed, more obscurely but perhaps more powerfully, to the formation of available funds: the slow, gradual swell of circulation. Profits, as a marginal element in the distribution of the income deriving from enterprises, are the first to take advantage of the introduction on the market of a new purchasing power, which, instead, causes the labor income to suffer temporarily—as the latter can adjust itself to it only with a certain delay—and permanently affects the income of the big and the many small creditors of fixed monetary amounts. Among the parties thus affected are the State, as a creditor of taxes, the public and semi-public administrations, the companies operating public services, all of them, owing to their nature or to the controls they are subject to, being slow in registering changes in their receipts.

Within the limits in which such a redistribution brings an advantage to the financial situation of private concerns, or provides with extra funds the classes that are more inclined to save, or lightens the taxation burden, it may be the source of more money available for investment in public loans.

The very effort made by the creditors of fixed sums to reconstitute their property's real value, which is corroded by inflation, may work in the same

direction; at the same time when that erosion makes saving easy for their debtors.

But like a curve flattening as it approaches its asymptote, this sequence of effects gradually exhausts itself. The advantage which the debtors of taxes and of fixed sums may derive from a protracted inflation, declines proportionally to the reduction the real value of their debts underwent as a result of the previous inflation. The debtor of 100 lire has a profit of 50 if the purchasing power of the 100 lire goes down to 50 %; but if through further devaluation that original power declines to 25, 10, 5, 3 per cent, his profit will only be 25, 15, 5, 2.

Regarding equipment and stocks, there comes at a certain point the problem of replacing and refilling them. The working classes' forced saving has a limit in life's minimum needs. And on top of all this, the signs of inflation come to the attention of the union leaders and of the heads of enterprises, so that through the application of the sliding scale or otherwise, the adjustment of salaries to the devaluation of money takes place immediately and sometimes, in the beginning, manages even to improve the real value of the workers' pay. Finally, should the inflation be perceived also by the public, people will avoid holding money or credits in money. If the malady's spread is not promptly stopped, this is the beginning of the end.

But we know that the end of the lira must *not* come. We know it because the data of the problems we have examined lead us to the logical conclusion that there is a possibility—and therefore a duty—to put a stop to inflation. Let us summarize these data.

The first element is the ratio between the increase in the circulation and the increase in the yield of taxation (actual receipts). In the second half-year of 1946 circulation rose by 28 % as compared with the end of the first half-year; but the actual receipts were in December 116 % higher than the first half-year's average.

If we see to it that also in the future the increase in the tax yield exceed the swell of notes, an efficient barrier will be put against the spread of inflation.

But taxation is not enough. For a good many years to come the yield of taxation will obviously be insufficient for covering the total amount of the expenditures. A part of it, which we may call extraordinary, will still have to be covered by debts. But here we face the contrary fact: the sums furnished the Treasury by the monetary market, i.e. the fresh savings, are

declining. Some of the reasons are advantageous for the collective interest: the end of the consumption of the existing capitals and the revival of the industrial, agricultural and commercial enterprises; others are not, and for these, inflation itself is responsible. In the long run, the inflation that already took place destroys the propensity to save. Why save if the product of saving volatilizes as far as purchasing power is concerned? I am positively skeptical about the concrete value of the modern theories which lead one to surmise there are countries and circumstances where saving may prove harmful, for I believe that the essence of truth contained in those doctrines is nothing else but the old and fully accepted theory relating to the expedience of looking for the best proportion between consumption and saving. But in Italy to-day there is a probably unanimous opinion that the proportion between consumption and savings, between the production of consumer's and of instrumental goods, must now be modified in favor of the saving and the instrumental goods.

The need of reconstruction is so strong that money-saving, that is the production of instrumental goods, is to be favored, subject, of course, to the requirements of physical health and moral life.

But saving is a function of the confidence in monetary unity. The monetary market will give the Treasury the sums needed for filling the void between the taxation yield and the total government expenditures only if the production of savings—which is a production like any other, being the result of man's voluntary acts—will be considered by the money-savers as a proposition interesting enough for their feeling induced to manufacture savings in quantities sufficient for the private and public investments. Normally these people perform the voluntary act of saving only if they expect to derive from it some sort of moral or economic satisfaction. They might be content—and they usually are—with an interest of 0, of 2, or 3 per cent, but it is doubtful whether they are greatly stimulated to save money by threats of expropriation, by abuse and by prospects of facing a firing-squad. Regarding currency they are positively discouraged by the fear of devaluation and they identify devaluation with excessive public expenses, which excess causes a further issue of money. The examination of the Bank's balance-sheet has proved that the identification is correct: during the period from May, 1946, to January 20th, 1947, there was a 104 milliard lire increase in the circulation against 108 milliards worth of notes issued in connection with public expenditures (supply of funds to the Allies, rediscount to agricultural pools, purchase of foreign currency, reduction in the banks' deposit accounts and in the Treasury's current account).

But the concern on the part of the money-saver has proved correct also under another respect. If we consider the increase in the direct and indirect

payments by the Treasury during the first and the second half-year of 1946 we obtain the following results:

(in milliards of lire)

	First half-year	Second half-year
Direct payments for actual expenses	207	244
Indirect payments:		
For discounts to agricultural pools	—	60
For purchase of foreign currency	7	24
	214	328

These are actual payments on account for engagements taken as against the year's operation and against the carry-overs of the previous years, as well as, with respect to the indirect payments, on account of extra-budget expenditures. And in fact, as far as prices are concerned, the actual expenditures are of greater importance than the engagements, the effect of which is to be noticed only in the future. The index numbers of the examined facts are the following, taking as a basis the first half-year of 1946:

	First half-year 1946	Second half-year 1946	December 1946
Indirect payments	100	118	144
Total of direct and indirect payments	100	153	
Actual receipts	100	144	216
Means furnished by monetary market	100	81	
Circulation	100	116	132
Wholesale prices	100	121	142

The fate of the lira depends on the respective speed of the various competitors in the race: on one side the public expenditure, which from one half-year to another rises from 100 to 153 and is stimulated to a wild race by the rapid growth of the allotments of funds, luckily not always followed by an actual disbursement; on the other side the receipts, some of which, those coming from the monetary market (loans and current accounts), show signs of weariness by coming down from 100 to 81, whereas the actual receipts rise from 100 to 144 and show an increasing speed reaching 216 in December.

But at the point we have reached, it is no use hoping only in the increased zeal on the part of the public in paying the taxes due. It is im-

perative to take at the same time an action for stopping the ascending rush of the expenditures.

It is not the Bank of Issue's job to suggest how to increase taxation and to reduce expenditures. The choice of the taxes to be augmented and of the expenditures to be reduced belongs to the politician.

It will suffice to remark here that, by going on with inflation, the State annuls its efforts to augment the real weight of the taxes and that there can come a moment when the increase in the circulation causes a more than proportionate increase in prices, so that the more the State spends, the less it gets. It is the beginning of the precipice; of what is called to-day a « nose-dive ». The State is taken in the coils of money's declining purchasing power and anxiously tries to avoid a catastrophe by way of new issues of money. And the more monetary units are issued, the lower is their purchasing power. The moment comes when unpronounceable totals of the circulating monetary units have an infinitely small, almost null, purchasing power.

In Italy we are to-day still far from the moment of indifference, as may be called that moment when all new monetary issues are useless and give no more advantages to the public Treasury. But we are at a cross-roads. There is a hard road leading up and another easy and flat one leading down to the precipice. The top and the abyss are not visible yet but we feel them. The choice of the road to follow is up to us. Nothing except our own will prevents us from choosing the hard road leading up. The country is working and producing, the manufacturers are brightly reviving their initiatives, the middle and the rural classes have not completely lost the habit of saving, the workers are asking for work and, well organised, are ready to cooperate in the common toil. The effort we are to make is not even a material, substantial one: what we must do is to waive all unnecessary expenses, all delayable disbursements, all expenditures coming last in the order of urgency and productivity.

It is imperative that a stop be put to the request for funds coming in to the public Treasury from regional and municipal administrations and from groups anxious to be first or afraid to be second in the assault on public money. It is imperative that the manufacturers stop applying to the government, under the pretext of the danger of unemployment, asking for subsidies and loans which, as they very well know, are useless, being granted in the form of paper money. It is imperative that the union leaders perceive the danger arising for all classes, especially for the workers, from the recourse to an increase of the circulation. It is imperative that our vision of reality be not disturbed by premises not corresponding to the truth. In the matter of salaries a point is reached where every nominal increase causes a dimin-

ution of their real value. If the flow of the actual products does not grow, the rise in salaries, as a result for instance of the automatic application of the sliding scale, has no other effect than to augment the misery of the more unfortunate, who live on a fixed income or whose earnings increase at a lower rate than the average rise provided for by the sliding scale. Under such conditions, the sliding scale is an instrument of privilege for a minority and of impoverishment for the majority. The union leaders, misled by a mirage, are under the illusion of promoting everybody's welfare and instead they actually cause social injustice to be emphasized. They commit again the error which, after the glorious period of the last decade of the past century and of the first decade of ours, placed the labor organizations—which had such a great part in Italy's economic and social progress—under the power of the monopolists and of individuals whose practice is to assault public wealth or to produce a discord between regions or between South and North.

Until the danger is not over and a fairly long stretch of the steep road leading to safety and greatness is not covered, all classes must submit themselves to their common fate. Let the middle and the upper classes pay without complaining, along with the usual imposts, also the new tax on patrimony which has just now been announced; and let the workers and employees stop asking for raises which are bound to vanish before they are enjoyed.

At the end of the easy road which comfort and a desire for popularity invite us to follow, awaits the chasm of monetary unity's destruction and of social chaos. But no particular will-power is necessary to refrain from following such path which leads to the enchanted gardens of inflation. All we have to do is to repeat what the men of the past generation did in other times. Do you remember the figures of the deficits after the first World War? When you pronounce them they seem small: 23 milliards in 1918-1919, 11 in 1919-1920, 21 in 1920-1921, 17 in 1921-1922. Very small indeed if compared with the deficit our present Minister of Treasury, Mr. Campilli, announced for this year, 610 milliard lire.

But let us translate those sums into lire having the same purchasing power of the present lira, so that a comparison may be made: and we find out that the deficit was 784 milliards in 1918-1919, 331 in 1919-1920, 539 in 1920-1921 and 481 milliards in 1921-1922.

And yet a few years later, in 1924, the fascist government's Minister proudly announced that his government had again balanced the budget. That was a false boast, because, practically, the balance already existed on October 28th, 1922, when the new regime began. And it existed because the

governments that followed one another after the World War aimed at the liquidation of the inheritance the war left us and endeavoured to free the country's budget from all permanent burdens which would have also at that time driven the currency towards disaster.

Marcello Soleri, in Giolitti's government, was in 1921 successful in convincing Parliament to abolish the political price of bread and thus to lay the foundations for balancing the budget.

Gentlemen,

I believe and I have faith in free regimes, in which freedom of discussion plays a leading role. The Italians of to-day will tolerate no more that a new tyrant, availing himself of the result of their efforts, should boast about having again balanced the budget and saved the lira. The lira was saved by them, the Italians, in 1920-1922, and they will do the same to-day. They must not expect the lira to be saved by any Messiah nor by any would-be thaumaturgus, even if he were in charge of the management of money. They must not believe that salvation can come from anybody else but themselves. Salvation is certain and unfailing. All is needed is an act of will-power: the determination to waive all superfluous expenses, which means to-day all such new expenditures—already approved or to be suggested in the future—which do not prove absolutely, I could almost say physically necessary; and the determination to bear all the necessary tax burdens. I do not even want to put the question: «are we going to find that will-power?». I do not put it, because there is but one answer to duty's categorical imperative: «I obey!».