

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)

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

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ANNUAL REPORT
OF THE
GOVERNOR OF THE BANCA D'ITALIA
TO THE

Shareholders of the Bank, at the Ordinary General
Meeting held in Rome on March 31st, 1947, on the Bank's
Activity for the year 1946. ⁽¹⁾

Gentlemen,

A survey of the economic conditions in Italy during the year 1946 gives the impression of an uneven improvement reached, with great difficulty, in spite of marked contrasts as to the way production should be organized and the social product distributed, which contrasts have not prevented, however, the full life of the single initiatives and have not hindered their creative power.

But this survey also shows that the monetary uncertainty has penetrated, as a disturbing element, or as a risk—to be neutralized and used as a source of profit—into the consumer's and the producer's calculations with the result that the production and the exchanges received disorderly stimuli and shocks, while the salary problems got confused and dangerous self-amplifying processes took place.

It is a duty both for you and myself to find out on the present occasion, through an examination of the Bank's balance-sheet, what the origin of such a situation is and to be guided accordingly in the future.

(1) Abridged translation of the Italian text.

But allow me first to briefly report on the administration of our Institution.

I — The Offices of the Bank

The Head Office

Regarding the deposits of sums and valuables existing in the name of German Authorities and official organisations, which were confiscated by the Allied Financial Agency, the Italian Ministry of Foreign Affairs has informed the Bank on November 9th, 1946, that according to information received from our Ambassador in London, the British Foreign Office would instruct the Allied Forces Headquarters to return to the Italian Treasury the sums and valuables belonging to it. As the matter has up to the present date not been taken care of, it is to be presumed that the sums and valuables involved are those mentioned in last year's report, in which it was stated that, subject to further verification, they amounted to 15,951 million lire, of which 12,865 pertaining to the Banca d'Italia and 3,086 to other banks, and that the current account balances were not assets of Germans, although they were found nominally standing to the credit of the latter, but Italian assets which were saved from utilization on the part of the German military forces.

The sum of 12,865 millions is a part of the 13,729 millions—consisting of deposits with Banca d'Italia, notes and other valuables confiscated and carried away—the loss of which our Institution has already in due course claimed. According to what has been subsequently ascertained, from this amount of 13,729 millions are now to be deducted 24 millions which originally appeared to have been asported by the Germans upon the closure of the Lubiana branch, but which were later paid in to the Verona office; whereas 5 millions are to be added for a further asportation—which became known only in 1946—effected in Trieste at the end of April, 1945, by Slav partisans.

We must furthermore indicate a loss of 10 million lire suffered by the Bank as the result of the sinking in October, 1944, of a German boat by which the Fiume branch had shipped—for account of the Trieste office and through the medium of the Reichskreditkasse—a like amount in new notes to the Zara branch. The Ministry of the Treasury, whom this Bank approached for a replacement of said notes with others of the same kind, replied that the authorization thereto could not be granted inasmuch as, although the sinking of the ship was proved, a chance of recovering the shipment may still exist.

The Representative Offices abroad

The activity of the Bank's representative offices abroad, which in the previous year, owing to Italy's scarce participation in international economic life, was still limited and confined to certain markets only, has gradually spread out and is now fully developing with regard to both their task in the interest of the Bank and the services entrusted to them by the Italian Exchange Office.

The Paris, Zurich, Buenos Aires and Lisbon offices have continued to operate regularly, some of them, like Paris and Zurich, showing a steady increase in the efficiency of their services. The Lisbon office acted during the war as an economic observation point, which line of activity was automatically reduced as the international economic and financial information services returned to normalcy.

The Brussels office, with a joint representative in The Hague, and the New York and London offices were subsequently reopened too.

In Brussels, the representative had the opportunity of operating with excellent results especially regarding the relations with the Belgian-Luxemburguese Exchange Institute and the « Tripartite Commission for the restitution of monetary gold ».

The reopening of the New York office met with hearty favor on the part of the Treasury Department and of the American economic and banking leaders and has proved very useful, both in connection with the admittance of Italy to the International Monetary Fund and to the International Bank for Reconstruction and Development, and on the occasion of the Italian Premier's visit to the United States, besides its usual activity aiming at the resumption of an efficient cooperation with the banks of the Federal Reserve System and the other American banking institutions.

The London office, which has been reopened a few weeks ago, has set out for a similar activity.

All offices have continued to maintain excellent relations with the Italian diplomatic representatives abroad, who apply always more frequently to their cooperation and advice in the handling of problems of a particularly technical nature.

The Ministry of Foreign Affairs, together with its appreciation for the collaboration received on the part of the Banca d'Italia representatives, has

recently decided to give an official recognition to such cooperation, granting to our representatives the capacity of Financial Advisers to the Italian diplomatic agents.

II — **The Italian Economy**

The economic clauses of the Peace Treaty

The document bearing the name of peace treaty between Italy and the victors of the second World War, a document which the Italian Government signed in Paris on February 10th of this year subject to ratification on the part of the Constituent Assembly, is not as definitive as it is considered. In fact, our Minister of Foreign Affairs immediately presented his formal protest and, on the other hand, various nations supported Italy's claims, thus giving a proof of the reaction in our favor on the part of world public opinion.

The experience acquired after the first World War proved how perishable certain terms are although they had been solemnly included in the treaties signed at that time. The names of Versailles, St. Germain, Neuilly, Trianon and Sèvres are there to remind us of the modifications that were subsequently made, of the heavy clauses that remained unapplied and of the arbitrary systems that had to be abandoned, like for instance the idea that the economy of a beaten nation should follow the imposed obligations, instead of the latter being fixed according to the country's economic possibilities.

To-day we see the repetition of incongruities which should have been left historically alone, and others added.

For better judging the former and the latter, it is essential to bear in mind Italy's special position with respect to the nations with which she has been at war and with regard to Germany itself.

Italy was not only a belligerent country with respect to the United Nations; she was:

- a) a cobelligerent country in the interests of the United Nations, already before October, 1943, and officially from October 13th of that year, upon the declaration of war with Germany on her part;
- b) transformed from a mere occupied country into a base for military operations of the United Nations, with the consequent heavy increase in destructions, requisitions, overflood of AM lire etc.;
- c) the investor of labor and capital in her colonies; of labor and

capital that her people was deprived of as they were employed in public works to the direct and lasting benefit of populations that have come into her sphere of influence and to the indirect benefit of other nations that were permitted to take advantage of them;

d) a nation which for a long time, through a strong emigration and the work and risks of her children abroad, has linked her name to the greatest marks of civilisation: land reclamation and clearing, construction of railways, canals etc., thus creating a network of enterprises which is profitable in itself but still more advantageous for the countries where it lies. And Italy would have done still more, were it not for the rigid immigration laws, high custom duties etc.

Were the scales just, when merits and demerits were weighed during the compilation of the peace treaty? Were they, after the promises of the Atlantic Chart and the many authoritative recognitions of the value of our cobelligerence?

A perusal of the terms imposed upon us shows that the answer is no. I refer to the terms of the treaty itself, excluding the subsequent attitudes and facts of a Christian and gallant nature, especially on the part of the United States and of the large and small American nations, as well as of Switzerland and Ireland, to whom our hearty gratitude is due.

The territorial losses and the economic burdens compose a whole of offences which vary from a deep wound to a pin's puncture.

The chief economic clauses of the treaty concern: the reparations; the expropriation of Italian private property abroad; the indemnification on the part of the Italian Government for damages suffered in Italy by the property of the United Nations or their subjects, without distinguishing between the damages caused by German military operations and those caused, after September 8th, 1943, by the Allied Forces.

A heavy addition to these clauses are the damages suffered by our citizens through requisitions, accidents etc. caused by acts of the Allied Forces also aside from the state of war. The indemnification of such damages is charged, for reasons unknown, to the Italian Government.

The reparations due to certain ex-enemy nations have been fixed in 360 million dollars, which at the present rate of exchange represent not less than 130,000 million lire, to be settled in deliveries of specified goods. Needless to say, the amounts originally claimed were immensely higher and showed the *animus* of the claimants in the peace phase. The compilers of the treaty had in conscience to reduce the claims at a rate of something

like 50 or 40 to 1, and of this we must take due notice, as of a protection of our interests. In short, it was like in the first war. At that time, too, with beautiful statistical synopses, impossible, crushing reparations were claimed from Germany, but afterwards fell into oblivion.

Our case to-day, however, is still harder, because all the betterments brought by the Italian administration to the occupied countries were taken into no consideration whatsoever, although such betterments are normally reckoned in private law.

Both in the form of public works, roads, buildings, travel organisations etc. and in industrial and commercial enterprises, Italy as a state and Italian citizens as private parties, have spent ten times as many million dollars in the metropolitan or colonial territories that have now been given away. It is like a password: no assets for us, only liabilities. Cobelligence: a clearance transaction.

If we revert now to the reparations to other nations, besides those I have just now referred to, the principle adopted of seizing the private property abroad of Italian citizens is really the extreme that can be arrived at in thinking up a revenge against a former enemy who has yet become, as soon as it was possible, a cobelligent. It is a deplorable regress in juridical science, which is a high expression of civilisation in the moral field, like in the physical field are the discoveries and inventions that brought about revolutions in man's life. From Vattel, the great Swiss scholar of international law, of the beginning of the 18th century, unto the most modern experts, it has been a *point d'honneur* to exclude the confiscation of the private property of an enemy's subject, the sequestration of which was however admitted, but naturally only for the duration of the war. The praxis complied with the new ideas: a codification followed in the precise enactments of the Hague conferences of 1899 (art. 46) and 1907 (art. 23). To-day we make a jump of several centuries backwards.

It is to be hoped that this regulation will fall through, either owing to the insufficient interest certain nations would have in applying it, or as a result of negotiations that may lead other countries to a renounce against a lump compensation on the part of the Italian Government. Hence on September 10th, 1946, an agreement was signed in Paris with Egypt for the release of the private property of our large colony in that country; also in Paris the foundation was laid of a similar agreement with France, which, however, is not to include the property of Italian subjects in Tunisia.

In the meantime Italy, a land of workers, finds itself short of her last resources of raw materials and a part of the population lives from hand to

mouth. In the building field two million rooms destroyed by the war and five million more or less heavily damaged ones give an idea of the urgent needs of reconstruction. The railways, which have lost half their rolling stock and almost two fifths of their fixed equipment, and the merchant marine, which has shrunk to 1/10 of its pre-war size, give it in other fields. And I could go on mentioning the industrial plants, whose machineries were carried away; the agricultural resources, especially the live stock, which has diminished, and so forth. It will suffice to know that the expenses foreseen for the indispensable reconstructions amount to 3,000 milliard lire, which, even if scaled out over a period of 15 or 20 years, will present a heavy burden for the State. It is to be remarked that two thirds of the damages have originated after September 8th, 1943, when Italy became the theater of military operations.

What a heritage left to the present and to the future generations!

The finances of the State and of the municipalities in a persistent deficit and the public debt, accordingly, on a steady rise; the paper circulation inflated to over 500,000 millions; the balance of the foreign accounts a liability; a part of the future exports reserved for the payment of indemnities and therefore deprived of their counterpart in imports necessary for us; and besides and above all this, territorial losses which affect our morale and dispossess us of precious resources.

I do not mean to imply that our catastrophic conditions depend solely on the war with the United Nations; for already before that we had chosen by ourselves a path leading to perilous adventures. But the punishment, intended for a regime existing to-day no more, has overstepped its target: it is the Italian people, a cobelligerent nation which has arisen to a new life on democratic principles, that is the victim of hard sanctions.

In the midst of so much bitterness, it is comforting to think that the altruistic spirit is not extinguished in the world. Positive signs already appear.

A while ago I have mentioned Vattel, as the first man to combat the idea of using for war damages the private property of an enemy's subjects. But he was also the promoter of the mutual assistance between the peoples claiming to be civilized; and his voice was duly heard by the sponsors of the Red Cross for the assistance to the war wounded (1863) and of the League of Nations (1919). An Italian, Senator Ciruolo, submitted to two international conferences and to the counsel of the League of Nations a definite plan of mutual assistance in case of great calamities, earthquakes, floods, epidemics, devastations by locusts; and a great number of members of Par-

liament, jurists, philanthropists of various nations soon subscribed to the principle of an obligation, at least a moral one, on the part of the peoples towards the distressed ones.

The great wars are a bigger calamity than the seismic convulsions, the floods, the locusts put together. And here is the new sphere of mutual assistance. All this has been well understood by the United Nations, who organised the beneficent institution called UNRRA, which makes no discrimination between friends or enemies when its relief services are needed. Italy already owes UNRRA so much that she must write this name in letters of gold and is almost able to forget, during the long struggle for her reconstruction, a part of her griefs. A part—for it is impossible to forget Trieste and other lands of Italian spirit and language, which have been torn off from the Fatherland.

The Trieste Free Territory

The constituting of Trieste as a Free Territory originates particularly difficult problems.

The statute given to the Territory prohibits any union or association of an exclusive character with any other State, contemplates for the Free Territory a monetary system of its own and creates in Trieste a free port under the control of a commission formed by the representatives of the four major Powers and of the hinterland States, including Italy and Yugoslavia.

Until an autonomous monetary system is introduced, the Italian lira will continue to be the territory's legal currency and the Italian Government is to supply the necessary notes and foreign currency at not less favorable terms as in Italy.

The possibilities of an independent economic life for the Free Territory are restricted by the fact that the means of existence of the town of Trieste are its port and the big industries depending on Italy or on other foreign countries for all the raw materials needed, and because it lacks enough hinterland for covering a consistent part of the city's requirements in food supplies.

The plants, docks and factories existing in the present Free Territory and which give work to 35 % of the entire active population have developed and existed as a part of the Italian industrial and economic system and only as such can they continue to live and thrive.

The ILVA foundries and steel plants at Servola purchase in Italy not less than three quarters of the material they need and did so even when Trieste was included in the Austro-Hungarian empire, and have always sold on the Italian market the cast-iron and steel produced. The Trieste docks have always bought in Italy the major part of the finished and partially finished goods they require, also certain raw materials needed and have been building chiefly in order to meet the Italian demand. The arsenal usually imports from Italy 90 % of the necessary materials.

Regarding the loss for our economic power, it will be sufficient to point out the importance of the ILVA plant, which has at Servola 3 iron foundries out of the total 15 of Italy's siderurgical system only six of which are at present in a position to work (the 3 at Servola and 3 others), and the signification of the Trieste docks, which some time ago have been enlarged to the detriment of other Italian docks and represent over 20 % of our productive strength. These docks furthermore are complementary to those at Monfalcone, which the treaty leaves to Italy. For example, the electrical machineries are made only at Monfalcone, whereas the St. Andrea plant, supplying the large motors to the Monfalcone and other Italian docks, is in Trieste.

All the other main Trieste industries are in a similar situation: mineral oils refining, the production and refining of vegetable oils, the manufacture of cigarette paper and playing cards, varnishes and colors, macaroni, liqueur, canned food, as well as the timber industry and the hemp spinning mills.

The industries established or developed in Trieste since the town returned to Italy come under a rational distribution of the Italian production centers in connection with the configuration of our peninsula. The siderurgical center corresponds to those at Genoa for North-Western Italy, at Piombino for central Italy and at Bagnoli for the South; similarly the main docks are at Genoa, Leghorn, Spezia and Naples; the vegetable oil refining plants correspond to the Ligurian and to the Southern industries; Leghorn and Bari are the corresponding centers for the refining of mineral oils; and all these other centers have in North-Eastern Italy their natural outlets.

Italy needs the Trieste products, without which she would be compelled to create similar industries on her own territory. At the same time the Trieste industry finds in Italy its natural source of supplies and its regular sales market.

Besides these natural and indissoluble links pertaining to the exchanges, are the financial ones, of not smaller importance. The Trieste industry is

chiefly the creation of Italian financial capital, so that the Italian investor is directly interested in Trieste's welfare. On the other hand the city finds in the Italian banking network a valid help for developing its economic activity and an access to the financial market of other countries.

To similar conclusions we arrive also when examining the commercial and steamship fields.

In order that Trieste's economy may exist, it is therefore indispensable that its natural relations with Italy be not interrupted or diminished through the introduction into the Free Territory of a legislation setting up barriers between the two economies or causing the interest for Trieste to cease on the part of the Italian manufacturer or investor.

It will be enough to mention the customs and monetary systems.

To instaurate in the Free Territory a customs system substantially different from the Italian one or, as many plans suggest, to abolish all custom duties, would oblige the Italian Government to raise strong customs barriers between Trieste and remaining Italy. In that case the inconvenience for Trieste's industry is obvious, but a further one would be caused to the town's life itself, owing to the fact that the city's purchasing markets for all its food supplies are the Veneto and Emilia regions, whereas all other products are bought all over Italy. In its turn, the frontier traffic, which in this case is nothing but the natural trade any town carries with the countryside surrounding it and with the nearest towns, would heavily suffer too.

Similar considerations may also be made with regard to the eventuality of introducing in Trieste a currency whose rates of exchange with respect to the lira may at a future time vary. The Trieste industry would have to deal in its estimates with a great factor of uncertainty and the prices in Trieste of almost all commodities would be affected by any fluctuation of the rate of exchange to the lira.

Until an independent monetary system is introduced in Trieste, Italy, as I mentioned before, will supply the notes and the foreign currency needed for the Free Territory's requirements.

It is imperative therefore that the Free Territory be not permitted to become the channel through which irregular foreign money transactions relating to Italy, which the parties involved are unable to carry out in our country thanks to the regulations protecting it, could be successfully operated. We may add that it will prove very useful for the Free Territory

if regulations similar to ours will be applied in it as well, so as to secure the foreign currency return for the exports and for the services supplied to foreign countries.

These concrete facts, these close economic links between Trieste and Italy, this complementary nature of the two economies cannot be overlooked in the decisions to be taken by the international organs who are planning Trieste's economic future, if they are really concerned about the Free Territory's welfare. Nor is there any danger of a conflict with the conceit of the sovereignty of the State, because in the economic field this sovereignty has never been considered as a necessity to maintain with all the other States relations of a perfectly equal intensity.

The restitution of the monetary gold recovered in Germany

Among the various subjects raised in the diplomatic activity conducted at present for obtaining the revision of the hardest clauses of our peace treaty, the point that mostly interests our Institution is the effort which is being made for securing the restitution of the Italian monetary gold asported to Germany.

Ever since June, 1945, the Banca d'Italia has applied to the Allied Commission asking for assistance in obtaining the return of 71,098 kilograms of monetary gold, of which 69,320.7 belonging to the Bank and 1,777.3 the property of the former « Istituto Nazionale per i Cambi con l'Estero », which the Germans transferred from Fortezza to Berlin in February and October 1944, and which, it was announced with certainty, has been found in Germany in its integrity by the American Forces.

When a Tripartite Commission having been specially appointed for studying the restitution of monetary gold, the Allied Commission was no more qualified for handling the matter, our Foreign Office, through our diplomatic agents abroad, conducted an intense activity for obtaining:

a) the total restitution of our gold, considering especially the scarcity of our gold reserve and in analogy with the way a similar matter was handled with respect to the Hungarian National Bank, which in 1946 obtained from the Allied military authorities in Austria the complete restitution of a large quantity of gold bars previously transferred from Budapest to Vienna.

b) subject to the above, the admission of Italy to the monetary gold pool contemplated in the Paris agreement of January 14th, 1946, with the same rights as the other nations included. Such claims, which were also

the subject of conversations of our Premier in the United States and of those subsequently held in London by the mission placed under the presidency of our General Manager, have just in these last days received a first important recognition, our Government having received the official invitation from the Brussels « Tripartite Commission for the restitution of monetary gold » to supply the data relating to the loss of monetary gold suffered from the Germans and to answer to that effect the questions contained in a special form, sent out simultaneously to all Governments concerned.

This is only a preliminary phase inasmuch as the actual distribution of the gold available, as far as our country is concerned, is subject to the decisions to be taken by the Allied Governments involved; but the assurance we got more than once from their representatives allows us to hope that, although considerable difficulties are still to be overcome, the legitimacy of our rights will not be denied.

Italy in the Bretton Woods agreements

The admission of our country to the Bretton Woods institutions, approved by the Boards of Governors of the Fund and of the Bank on October 2nd, 1946, is a first important step towards the inclusion of Italy into the new organisms which aim, in the various fields of economics, at the development of international cooperation.

Italy's share of participation in the Bretton Woods institutions, 180 million dollars, is much lower than the figure our country was anxious to obtain and which was legitimately to be expected. As already stated in last year's report, our share, in proportion to those allotted other countries, should be at least 250 million dollars. If it is much lower, this may be due to the fact that our present economic situation, being so strongly affected by the consequences of the war, has been particularly considered. But bearing in mind that the abnormal nature of our situation is temporary, the country presenting favorable conditions for its rehabilitation, we have the right to question such consideration. Anyway, we must hope that within a near future the authorities of the Monetary Fund will feel that the Italian economic reality justifies an increase to be allowed, like in the case of other countries, in our share, according to our actual needs and to our importance among the nations.

Joining the Bretton Woods institutions means for Italy an engagement to coordinate her own economic policy with the international one, but involves at the same time the possibility to secure for the materialisation of such

plan the cooperation and assistance, within certain limits, of the Fund and of the Bank.

It is however to be remarked that by participating in the Monetary Fund Italy faces problems of a considerable importance for her at a time when her balance of trade shows a deficit as a result of the war and cannot be consistently relieved by applying to the Fund.

The participation in the Bank affords in this connection more prospects of help, inasmuch as the Bank can assist the associated nations with long-term loans and with guarantees. However also in this case there may be difficulties in meeting an Italian request of a loan—although the size of the latter is not dependent, like in the relations with the Fund, on the amount of the subscribed share—owing to the fact that the sums available at the Bank are lower than the total amount of the requests coming from all the participating countries.

We may therefore conclude that after all Italy is joining the Bretton Woods system more on moral grounds, in order to show her full agreement with its ideals of international cooperation, than in view of any direct and immediate advantage.

The engagements deriving from the participation in the Bretton Woods system are however moderated by the Fund's statute itself in order to adjust them to the present situation of the countries. The agreement grants in fact that, for the first years of the Fund's operation, the countries occupied by the enemy—among which is Italy—can maintain and, if necessary, introduce discriminative foreign exchange regulations, as well as limitations regarding payments and transfers, also for current international transactions. To follow a winding route which lengthens the progress but facilitates the climb may be the only way for us to reach a hard goal. By insisting more strongly on the necessity to maintain the unity of the rates of exchange, results contrary to the desired ones might originate, causing the need to introduce or maintain in the participating countries monopolistic organs for the centralization and allotment of foreign currencies, whereas a total elimination of the foreign exchange control might produce a complete instability of the rates of exchange.

The moderating rules allow the weak nations to join the system without having a bad conscience for taking engagements they shall not be able to meet or the keeping of which would involve deflation and consequently depression and unemployment. Economically strong countries, instead, may refrain from participating, for considerations of a totally different sort: they have reasons for fearing that their participation might on one side

cause a strong flow of gold into the country, with the resulting inflationistic effects, and on the other side, that it may compel them to suffer the restrictions deriving from the scarce currency clause without the possibility to protect their rights on a par, especially if such negative facts are not even balanced by reasons of a political prestige and by the chance of exercising an actual control, through the right of vote, within the two institutions.

A confirmation of the relatively elastic nature of the ideas governing the application of the rules fixed by the Bretton Woods agreements can be found in the recent acceptance on the part of the Fund of the monetary parities submitted by the participating countries.

According to official declarations on the part of the Fund, in many cases such monetary parities are not to be considered as corresponding to the economic parities.

The various reasons given by the Fund organisation for justifying such an attitude represent a further proof of the fact that the Fund does not feel practically bound by a rigidly pre-established scheme. In particular, the statement made to the effect that the organisation is concerned not to endanger the efforts of many nations which are at present busy fighting inflation and trying to bring their domestic prices to the international level, proves that some of the now accepted parities are, especially for the European countries devastated by the war, too high with respect to the dollar. Such a situation will have to be borne in mind when fixing the Italian lira's parity and adopting an appropriate foreign exchange policy, because we must avoid that the possible acceptance of an economic parity with the dollar should imply as a necessary consequence the undervaluation of the lira with respect to the European currencies.

The Balance of Trade

The hard political and economic conditions of the years after 1930 have disturbed the difficult equilibrium which the balance of trade of a country like ours—overpopulated and lacking raw materials—used once to attain thanks to the exports, which in our case covered about 60-70 % of the imports, and to such invisible items as the emigrants' remittances, the freights, the tourist trade.

The war, having damaged the productive apparatus, has caused an increase in our requirements of supplies and a diminution in the possibilities of paying for them.

In November, 1945, the Italian Government made an estimate, at the current prices, of the imports we needed for 1946. The figure was approximately 1,250 million dollars, and including transportation, 1,650 millions.

The value of the products needed, including those needed for the reexportation of manufactured goods, was the following:

Food supplies	365	million dollars
Fuel, solid and liquid	121	» »
Pharmaceutical and sanitary products .	10	» »
Raw materials for the industry . . .	514	» »
Machinery	115	» »
Reserve for unforeseen requirements . .	125	» »
	<hr/>	
Together	1,250	million dollars

The estimate was made in connection with a plan to secure:

a) the distribution of food supplies (bread, macaroni and rice, fats, sugar, meat, dry vegetables) to the holders of food cards, for 1,500 calories a day, so that with the addition of the supplies available on the free market a total of about 2,000 calories daily would be reached;

b) the maximum utilization of labor, by resuming the industrial activity for about 70-75 % of its pre-war volume, which is the maximum the conditions of transportation allowed;

c) the most essential supplies for transportation (coal) and agriculture (fertilizers, cattle, machinery etc.).

On the other hand, with the exception of certain agricultural products, there did not seem to be any chance of a speedy resumption of the exports, the latter being subject to the quantity of raw material available, to the difficulties in production, to transportation shortage as well as to the general conditions of international trade. Nor, except the emigrants' remittances, was there anything of any consequence in view among the invisible items referred to before. Owing to the heavy losses in the merchant marine, the freights had become a liability. And general difficulties had restricted to a trifle the foreign currency income deriving from the tourist business.

Under such circumstances, the current assets were estimated at 220 million dollars only.

About 280 million dollars could be added, being the balances still available of credits granted by the United States as against the Troop Pay Fund and of the Foreign Economic Administration Fund, plus the post-liberation accounts.

The situation improved considerably during the year we are surveying, thanks to both an increase in exports and to the assistance of the Allied nations, especially the United States. The greatest of all was the help received from UNRRA since the inclusion of Italy among the countries covered by its care.

As a matter of fact UNRRA had already in 1945 commenced its assistance according to a plan that contemplated for that same year the introduction into our country of goods for 50 million dollars. Such plan had not been fully realised yet when the new programme for 1946 was made, covering reconstruction besides assistance.

It contemplated supplies for a total of 425 million dollars (freight not included), comprehensive of the value of the materials already delivered during the previous year.

Various difficulties, mostly caused by the strikes in North America, have prevented the materialisation of the importation plan, so that only a part of it, although the largest, has been carried out within the foreseen time.

Neglecting the 1945 imports which represent a very small part (a little over 4 %), the c.i.f. value of the imports attained, in 1946, 380 million dollars i.e. over 71 % of the plan's total.

Further 131 million dollars remain available for 1947 and will be used mostly for food supplies (66 %) and products for the industry (29 %).

But besides the large funds supplied by UNRRA for our reconstruction and rehabilitation, our country had the privilege of availing itself, for the purchases abroad, also of other sources, among which:

— The U. S. Government's additional credits for 18.7 million dollars in the Troop Pay Fund, bringing said account to a total of 145 millions.

— The 25 million dollars credit granted by the Export-Import Bank for the importation of cotton into Italy where it is to be manufactured and reexported to countries outside the dollar area.

Also regarding current assets there has been a notable progress. This is to be observed especially in the exports, which besides the resumption of private exchanges with foreign countries, have largely taken advantage of the facilities introduced by the new regulation that leaves at the disposal of the Italian exporter 50 % of the foreign currency coming in for shippings to countries with which we have no « Clearing » arrangements.

Although statistical figures permitting to know exactly the volume and the value of the 1946 exports are not available yet, it is possible to make an estimate of their value by reckoning the foreign exchange transactions passed through the Italian Exchange Office.

Considering the global amount of transactions of all kinds (including the « reciprocity transactions », the « private compensations » and the « à façon » manufacturing deals) effected both with countries with which Italy has no agreements and with those with which there exist payment or compensation conventions, the value of the exports handled by the Italian Exchange Office arrives at an amount of 376 million dollars.

The provisory data of that office consider:

— exports handled in compliance with the decree of March 26th, 1946, n. 139, including the « à façon » manufacturing deals	278.8	million	dollars
— proceeds of exports settled by way of general compensation agreements	45.5	»	»
— « reciprocity transactions »	3.8	»	»
— « private compensations »	35.8	»	»
— exports through « National Institute for the Foreign Trade » (I.C.E.)	10.1	»	»
— exports effected directly by UNRRA for the realisation of the plans for reconstruction and assistance in other European countries	1.8	»	»
Total	375.8	million	dollars

This total—which does not include the « à façon » manufacturing deals settled by payment in raw materials (estimable at 40 million dollars)—is about the double of the amount foreseen in November, 1945, and indicates the reconstruction impulse of which the country is capable, provided it may apply the labor power which it is largely endowed with.

Owing to the fact that instead of the 1,650 million dollars worth of goods foreseen in November, 1945, only a little over half that value has been imported last year, the rehabilitation of the industrial activity was a restricted, scanty and irregular one; it proved much slower than in the other European countries and badly affected labor conditions. The lack of coal was particularly felt and was made worse by the crisis in the hydroelectrical industry. Public services (transportation, gas etc.) had to be preferred in the allotments, so that the industries were left only 35-40 % of their pre-war needs.

As for 1947, the Ministerial Committee for Reconstruction has recently made a revision of the estimate submitted by the Italian Government to the 5th General Counsel of the UNRRA held at Geneva in August, 1946: the new figures indicate a total of imports needed of around 1,873 million dollars, of which 1,313 for raw material and products for the industry and for transportation, 460 for food supplies and products for agriculture, 100 for miscellaneous imports.

To these figures are to be added other liabilities such as: the expenses for our diplomatic agents abroad, the interests on the payment of American surplus, the interests and amortization on the Liberty ships, estimated at about 20 million dollars.

The volume of the imports during the first months of the year was much smaller than the amount necessary for allowing us to surmise that such estimated yearly total will be reached. On the other hand, any reduction in the imports has a more than proportionate effect on the exporting power: the domestic consumption cannot go down beyond certain limits so that a diminution in the imports mostly affects the stock of goods available for exportation abroad.

In this connection the Ministerial Committee for Reconstruction, foreseeing the difficulties in obtaining the supplies needed, has contemplated the case that some of the purchases included in the estimate should be restricted (reductions of 1,5-1,2 million tons in the imports of coal, of 400,000 tons in the iron materials, of 700,000 in timber etc.). In that case, while the imports would be exposed to go down to about 1,700 million dollars, the exports would amount to about 600 million dollars, leaving a deficit of about 900 million dollars.

It will be possible to cover a part of the deficit with the balance of the UNRRA plan (131 million dollars); with the post UNRRA assistance; with the new credits granted by the United States at the beginning of this year

as against the AM lire issued for objects other than the Troop Pay (101 million dollars) and with those which may follow for the same objects; with the Export-Import Bank loan discussed during Premier De Gasperi's visit to the United States (probably 100 million dollars); with the credit opened by the Canadian Government (3.9 million dollars) for AM lire issued for its troops; finally with the further funds in dollars that will become available according to last February's agreement with the United States Treasury.

III — The Bank's Budget

The budget on December 31st, 1946

The *reserves*, consisting of gold in hand, amounted on December 31st, 1946, to 523.2 million lire, showing an increase of 60.2 millions with respect to the previous year.

Recently, as a result of negotiations conducted on the occasion of our Premier's trip to Washington, we have purchased from the Bank of Canada, of Ottawa, with the friendly assistance of the Federal Reserve Bank of New York, about 26,6 tons of fine gold in bars, at the price of 35 dollars per ounce, for an amount of around 30 million U. S. dollars. The deal was completed in February and payment made with our free dollar funds existing in New York.

The purchased gold is now deposited in the name of the Banca d'Italia in the Federal Reserve Bank in New York.

The *inland bills* amounted to 44,029.4 million lire, with an increase of 34,283.5 millions as compared with the previous year's figure, 9,745.9.

On December 20th, 1946, the sum was 40,335.1 millions, consisting of 39,312.4 millions bills rediscounted, 81.0 millions balances of bills discounted, 11.7 millions mortgage bonds discounted and 930.0 millions Treasury Bills discounted.

The named bills rediscounted consisted for 33,229.4 millions of bills relating to the « compulsory agricultural pools » (30,572.4 wheat and 2,657.0

other products), 3,402.3 rediscounts to the « Consortium for subventions against industrial valuables » and 2,680.7 rediscounts to other institutions and banks.

As compared with 1945, the amount of the inland bills on December 20th showed an increase of 30,627.4 millions due to an augmentation of 1,631.2 in the rediscounts to said Consortium, of 1,828.5 in the ordinary rediscount, and of 26,293.1 in the rediscounts of bills relating to the agricultural pools. There has been an increase also in the discount of Treasury Bills (867.2 millions) and of finance notes and mortgage bonds (7.4 millions).

The *advances* amounted to 13,084.1 millions with an increase of 7,641.0 millions as compared with December 31st, 1945.

The balances of the *temporary* and of the *special advances to the Treasury* were at the end of 1946 the same as in 1945, 1,000 and 342,697 millions respectively.

The *notes issued by the Allied Forces or for their account* represent the amount of 136,651.1 million lire debited to the State Treasury for the military lire issued in Italy by the Allied authorities and for the funds supplied to the latter by the Bank in Italian currency.

It has been possible to settle the circulation of the AM lire notes, originated by the occupation of the Italian territory by the Allied Forces, only by the January 24th, 1946, convention between the Italian Government and the Allies, on the strength of which the issue of the military lire was taken care of, as from February 1st, by the Banca d'Italia.

In compliance with the convention, the Government had to see to it that the metropolitan notes and the credits necessary for the requirements of the Allied Forces in Italy, including Julian Venetia, be supplied by the Bank.

On February 1st 1946, according to a declaration made by the Allied authorities, the military lire put in circulation amounted to 195,671.6 millions. This amount included the military lire existing with the Banca d'Italia as cash in hand for a totale of 20,568.4 millions.

To the aforementioned figure of 105,671.6 millions 8,913.6 millions are to be added for military lire subsequently withdrawn by the Allies from the

deposits with the Bank, as specified hereafter, and 132.1 millions deducted for AM lire paid in by the Allies to such deposits.

On December 31st, 1946, the situation of the Allied Military lire was the following:

Notes in circulation	87,822.3	millions
Notes with Banca d'Italia as cash in hand	26,630.8	»
	<hr/>	
	114,453.1	millions
Notes existing with Banca d'Italia in deposits for a/c of the Allies	26,934.2	»
	<hr/>	
	141,387.3	millions

The sum of 114,453.1 millions, which in the Bank's balance sheet is charged to the Treasury as «AM lire issued directly by the Allied Forces» is therefore formed by the military lire in circulation and by the lire with the Banca d'Italia as cash in hand. The 26,934.2 millions deposited with the Bank's Head Office and with the Bari, Florence, Milan and Naples branches are not included, inasmuch as in compliance with the aforementioned convention they are a reserve held at the disposal of the Allied Financial Agency with the understanding that it be used only in the case the Italian Government should be unable to supply the metropolitan lire needed.

As against the «AM lire issued directly by the Allied Forces» the liabilities show the amount of military lire actually in circulation, from which are deducted the balances existing with the Banca d'Italia.

In compliance with the convention, on February 1st commenced the deliveries of funds to the Allied authorities. The first supplies, which cover the period February 1st-March 15th, 1946, totalling 8,913,664,000 lire, were withdrawn from the aforesaid deposits, although the Bank had declared that it was in a condition to supply notes of its own. The further supplies of funds were made in metropolitan notes and the Bank received from the Treasury the corresponding monthly covers.

On December 31st however, the amount of the metropolitan notes supplied, totalling 22,198.0 millions, was returned to the Treasury and charged to the same as «Funds in domestic currency supplied to the Allied Forces».

The *special transactions* rediscounted by the Bank to the «Consortium for subventions against industrial valuables» amounted on December 31st,

1946, to 491.4 millions, as compared with 40,752.6 millions of the previous year.

Such transactions, made in the interest of the State or with its guarantee, were performed by the Consortium—which applied to the Banca d'Italia for the respective rediscounts—in the following ways:

a) by provisorily taking over—through the payment thereof at par—the 30 years 5% certificates originally issued by the State Treasury to cover land reclamation and afterwards chiefly used for miscellaneous expenditures;

b) by making contributions to contractors for sums due them by Government administrations;

c) by financing public works of a particular description or of special importance.

On December 31st, 1946, the total of such transactions of the Consortium was 6,543.7 million lire, including those not covered by the respective rediscounts, with a diminution of 38,495.4 millions as compared with the previous year's figure of 45,039.1 millions.

Correlatively there has been a reduction from 40,752.6 to 491.4 millions in the « special transactions » rediscounted by the Banca d'Italia. This notable diminution is chiefly due to: the collection of the amortization instalments and the placement with various institutions of the 30 years 5% certificates; the taking-over of such certificates by the Banca d'Italia; the settlement with securities of the recent Redeemable 3.50% Loan—as per art. 11 of the decree of the 26th October, 1946—of the contributions made by the Consortium to the aforementioned contractors.

The *securities owned by the Bank*, which on December 31st, 1945, amounted to 888.8 millions, increased to 37,760.1 millions, with a difference of 36,871.3 millions due to the aforesaid settlement of the sums paid to contractors (23,652.6 millions), to the previously rediscounted 30 years 5% certificates taken over and to the diminution in the government securities held in portfolio.

The *circulation* of the Bank's notes and of AM lire amounted at the end of the year to 505,051.9 millions, showing an increase of 123,002.0 millions as compared with the 1945 total of 382,049.9 millions. (For the analysis of

(in millions of lire)

	1945		1946		CHANGES IN CIRCULATION	
	Sub - Items	Budget Items	Sub - Items	Budget Items	INCREASE	DIMINUTION
A S S E T S						
Gold in hand		463.0		523.2	60.2	—
Gold deposited abroad due by the State		1,772.8		1,772.8	—	—
Inland bills		9,745.9		44,029.4	34,283.5	
Bills received for collection		10.1		5.9	—	4.2
Advances against securities and merchandise		5,443.1		13,084.1	7,641.0	—
Deferred payments at clearing Houses		240.7		1,270.3	1,029.6	—
Investments (Government and Government guaranteed securities owned by the Bank)		888.8		37,760.1	36,871.3	—
Special transactions of « Consortium for subventions against industrial valuables »		40,752.6		491.4	—	40,261.2
Premises		55.5		22.0	—	33.5
Credit with Institute for Industrial Reconstruction		4,708.1		4,708.1	—	—
Advances to the Treasury — Temporary		1,000.0		1,000.0	—	—
Advances to the Treasury — Extraordinary		342,697.0		342,697.0	—	—
Investments in securities for a/c of Treasury		68,000.0		68,000.0	—	—
Italian Exchange Office. Partial financing of foreign currency administered				18,810.0	18,810.0	—
Sundry accounts:						
— Balances abroad	4,863.8	12,397.2		8,689.4	3,825.6	
— Miscellaneous services for a/c of the State	4,425.9			6,666.6	2,240.7	
— Ordinary c/a with Italian Exchange Office	14.4		8,097.1	18,110.9	8,111.5	
— Other assets	3,121.9		10,013.8		6,891.9	
Cash in hand { AM lire in hand	16,820.7	18,430.9		1,132.1		478.1
{ Other valuables	1,610.2					
Notes issued by or for a/c of Allied Forces:						
AM lire issued by the Allied Forces:						
— in circulation 86,028.9	102,849.6		87,822.3	114,453.1	11,603.5	
— in hand Banca d'Italia 16,820.7			26,630.8			
Funds in domestic currency supplied to said Forces				22,198.0	22,198.0	

Banca d' Italia demand drafts and cheques outstanding . .		13,448.7		15,098.0		1,649.3
Current accounts		46,865.3		59,118.8		12,253.5
Deposit accounts	{					
Banking Institutions		120,174.8	101,158.3			
Others		3,995.6	4,840.7	105,999.0	18,171.4	
Sundry accounts	{					
Treasury's foreign currency account			794.0	8,487.9		4,323.6
Other accounts		4,164.3	7,693.9			
Treasury current account		20,504.6		10,096.6	10,408.0	
I. R. I. sinking fund		478.7		541.6		62.9
Net profit		75.5		70.9	4.6	
Capital		300.0		300.0	—	—
Statutory reserve		331.7		378.7	—	47.0
Extraordinary reserve		245.5		281.0	—	35.5
					182,150.8	59,148.8
					59,148.8	
					123,002.0	

December 31st, 1945: Banca d'Italia notes 296,021.0
AM lire 86,028.9
382,049.9

December 31st, 1946: Banca d'Italia notes 417,229.6
AM lire 87,822.3
505,051.9

Increase in circulation 123,002.0

the changes in the corresponding items of the Bank's balance sheet see the synopsis in the following page).

Between December, 1945, and May, 1946, the circulation showed an increase of 3,524.1 millions only, rising to 385,574,0 millions.

The strongest growth has therefore occurred between May and December, for reasons I shall analyse afterwards.

From the accounting angle, the increase is fully explained when we say that it is formed by: 28.1 milliards rediscounts to the compulsory pools, 10.4 milliards funds supplied to the Allies, 26.3 milliards foreign currency purchased, 24.3 milliards deposit accounts withdrawn by banking institutions, 35.5 milliards reduction in the balance of the Treasury account, 500 millions other transactions directly connected with the Treasury. On the other hand, notes totalling 7.8 milliards returned as a result of commercial transactions.

The monthly course of the main items affecting the circulation is shown in the five synopses at the beginning of the next chapter.

At the end of February 1st the circulation amounted to 504,350.5 millions, with a slight reduction of 701.4 millions with respect to two months before.

The current accounts on December 31st, 1946, amounted to 59,118.8 millions, with an increase of 12,253.5 millions as compared with 1945, and consisted of:

— Current accounts of banking institutions	20,052.9	millions
— Current accounts of moral bodies	1,996.4	»
— Current accounts of Allied Financial Agency, UNRRA and ICE (National Institute for the Foreign Trade)	32,612.7	»
— Other current accounts	4,456.8	»

Total: 59,118.8 millions

The *deposit accounts* amounted to 105,999.0 millions, showing a diminution of 18,171.4 millions as compared with 1945. The total consisted of

4,840.7 millions miscellaneous deposit accounts and 101,158.3 balances of deposit accounts of banking institutions, namely:

	1946	1945
	— (in millions) —	
— c/a with 8 days notice (2.50 %)	93.3	50.8
— c/a with 15 days notice (3 % and other 3 % accounts	14,556.1	20,928.3
— 4 months term accounts (3.50 %)	560.5	6,572.8
— 6 months term accounts (4 %)	85,948.4	92,622.9
	101,158.3	120,174.8

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	T O T A L			Drafts and cheques	Current Accounts	Deposit Accounts	T O T A L			
				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!».

BALANCE SHEET

AS AT DECEMBER 31st, 1946

and

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31st, 1946

TALIA

e 300,000,000

53rd Year

DECEMBER 31st, 1946

LIABILITIES

Notes in circulation	L.	417,229,583,950	00		
AM lire circulation:—					
AM lire issued	L.	114,453,153,370	00		
In hand and en route	»	26,630,815,355	00		
		87,822,338,015	00		
		Total circulation	L.	505,051,921,965	00
Banca d' Italia demand drafts and cheques outstanding	»			15,097,958,312	72
Current accounts	»			59,118,785,441	62
		Total sight liabilities	L.	579,268,665,719	34
Deposit accounts:					
Interest bearing (Banks)	L.	101,158,327,335	76		
Non interest bearing (Italy)	»	4,753,153,981	03		
Colonial and foreign	»	87,616,899	62		
				105,999,098,216	41
Sundry accounts	L.			8,487,854,752	12
Treasury current account	»			10,096,575,925	34
I. R. I. Sinking Fund	»			541,657,878	70
Net profit 1946	»			70,912,579	34
Capital	L.	300,000,000	00		
Statutory Reserve	»	378,757,210	77		
Extraordinary Reserve	»	280,951,090	52		
				959,708,301	29
			L.	705,424,473,372	54
Securities and other valuables deposited	»			1,571,631,283,434	82
			L.	2,277,055,756,807	36
Amounts written off in past years	»			90,743,464	54
		TOTAL	L.	2,277,146,500,271	90

LUIGI EINAUDI,

Governor.

PROFIT AND LOSS

YEAR

		Dr.					
EXPENDITURE	Expenses in respect of:	Administration	L.	2,624,111,503	86		
		Board of Directors, etc.	»	9,697,486	04		
		Transport of specie and other valuables	»	30,215,502	07		
		Printing of notes	»	1,225,417,220	10		
		House property account	»	28,104,932	18		
		Stamps and commissions on foreign business	»	434,734	90		
					3,917,981,379	15	
	Taxes	Circulation tax on notes and demand drafts	L.	72,324,332	00		
		Income tax	»	122,022	30		
		Income surtax	»	11,071,611	11		
		Real Estate tax	»	1,815,409	38		
		Bank shares Transfer tax	»	5,785,950	00		
		Stamp duties	»	2,939,173	76		
		Contribution for Governmental supervision	»	1,150,000	00		
		Other tributes	»	3,772,928	07		
				98,981,426	62		
				4,016,962,805	77		
Unpaid bills	L.		118,138	75			
Amounts written off	»		220,665,055	40			
Interests and annuities	»		65,045,191	38			
Charities and other contributions	»		2,675,496	85			
Contribution to Employees' Pension Fund	»		18,003,923	55			
Temporary Staff Pension Fund	»		15,000,000	00			
				L.	4,337,470,611	70	
Net profit to be divided	»		70,912,579	34			
					L.	4,309,382,191	04
				TOTAL			

APPROPRIATION OF

To statutory Reserve Fund	
To extraordinary Reserve Fund	
6% dividend to shareholders	
Annual contribution to the Reserve Fund of « Credito Fondiario	
To the Treasury	

TOTAL NET PROFIT

Audited and found correct on March 12th, 1947.

ALESSANDRO BACCAGLINI,
 RODOLFO BENINI,
 MARINO EMILIANI,
 GIUSEPPE GARIBOLDI FARINA,
 FELICE PAPPALARDO,

Auditors.

GUIDO PIERINI,

Chief Accountant.

