

# BANCA D'ITALIA

ABRIDGED VERSION OF THE

## REPORT

FOR THE YEAR

# 1952

PRESENTED TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

*HELD IN ROME ON 30th MAY, 1953*

*Concluding Remarks*

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

1953



### *Concluding remarks*

The reaction which had set in during the second half of 1951 to the stormy developments following the Korean outburst, was still proceeding at the beginning of 1952. European countries continued to benefit from large exports, financed out of the foreign exchange holdings which the primary producers had accumulated during the previous boom. But it seemed certain that, once this state of affairs had come to an end, there was bound to be a marked slowing down in the upward movement of the indices of production. That is in fact what happened; and indeed during the early months of 1952 those indices remained almost everywhere at or about their 1951 average level.

The general tendency asserted itself in Italy. The Italian index of industrial production during the first quarter of 1952 did not differ greatly from the average for 1951, which, on the basis of 1938 equals 100, was about 138; and the decline in Italian wholesale prices exactly reflected the international trends.

In a country where for several decades the position of the textile industry had supplied the yardstick of the state of the economy, the textile crisis engendered waves of pessimism, which were reinforced by the fall in wholesale prices, the high bank liquidity and the weak demand for credit.

At last year's meeting we were conscious that the progress achieved in 1951 was exceptional in that output of industry rose by 14.0 per cent, while exports increased by 6.6 per cent in terms of volume. However we also felt sure that there were many good reasons which made it unlikely that the country's economy would remain for long without advancing, or would suffer a recession; and we therefore said that there was no reason to feel discouraged. We further remarked that it is normal for periods of rapidly rising output to be followed by phases of adjustment and respite, which are needed to gather strength before starting to climb again. The past period of prosperity, we said, was due to the stimulus of inflation, which had affected all countries to a greater or lesser extent, Italy being among those which best controlled the rise in prices. Being due to inflation, that prosperity was bound to come to an end. Inflation, as we pointed out, can stimulate production, but it cannot long sustain it because of the distortions which it causes, and because it is impossible or at least inequitable to impose on the working classes long periods of forced savings, which mean impoverishment to them.

We were not agreed with those people who were foretelling a period of stagnation and depression. We did not venture however to forecast how long would last the phase of adjustment and respite that we expected, although we thought it no reason for pessimism.

We are now in a position to assess correctly the events which in fact followed. They stand to prove that, even at the time of our last meeting, or very soon afterwards, the period of adjustment and respite could be said to have ended. Recovery was occurring in almost every branch of production as a result of a sustained demand, so that the year taken as a whole, while unfavourable in its foreign trade results, showed satisfactory production levels which in many cases were quite as high as those reached in 1951. In many branches of activity indeed, and certainly in all of them together, the percentage increase of Italian output during 1952 was greater than that in many other European countries.

The overall result is shown in the fact that our gross national income rose by 3 per cent in real terms. The output of industry, including building, was up by 6 per cent; and that of farms, in spite of unfavourable weather, was maintained at a level about equal to that of the previous year, which was exceptionally good.

A few basic figures about production in 1952, compared with similar figures for 1951, will be helpful in assessing the extent of the progress made during 1952 after the short initial period of re-adjustment.

The main mineral productions were on the increase. Output of pyrites reached 1,141,000 tons in 1952 as against 898,000 in 1951; in iron ore the increase was from 553,000 to 790,000 tons. Output of non-ferrous ores was also considerably larger than in 1951.

Power production rose above the high levels previously attained. The output of electric power was Kwh 30.9 milliard as compared with 29.2 milliard in 1951.

The amount of crude petroleum treated in Italian refineries rose from 7.4 million to 9.8 million tons, while the output of methane gas increased from 977 million to 1,435 million cubic metres.

In metalworking the output of non-ferrous metals showed an increase of 5.9 per cent while in ironworking the increase was 12.6 per cent. Steel production reached a new record at 3,535,000 tons, as compared with 3,063,000 tons in 1951, and production of cast iron rose from 953,000 to 1,102,000 tons.

In engineering the average output in 1952 was 9.2 per cent greater than in 1951. The production of automobiles, at 114,000, was only slightly below that of 119,000 in 1951. That of trucks rose from 11,547 to 12,042, and that of tractors was up by 27.4 per cent. Machine tools were produced to an extent greater by 20.2 per cent than in 1951. The tonnage of shipping launched in 1952, at 137,000, was substantially greater than the 100,000 tons launched in 1951; and at the end of 1952 the tonnage under

construction was 222,000, as compared with 144,000 at the end of the previous year. The output of precision instruments during 1952 also showed a further increase of 11.8 per cent.

Cement was produced in 1952 to the extent of 6.9 million tons, this being well above the 1951 total of 5.7 million tons. The output of bricks rose from 1,700 million to 2,000 million.

In the consumers' goods industries, those producing food-stuffs and the like increased their output by 5.0 per cent. In chemicals there was a slight decline of 3.9 per cent which is however smaller than would have resulted from the effect of falling demand from the textile industry alone.

About 770,000 rooms of all kinds were built during the year, this being 30 per cent more than in the year before. The activity in public works, if measured in terms of the man-days worked, also increased between 1951 and 1952 by 37.2 per cent (1).

The overall index of output of capital goods for the year 1952 was higher than that for 1951 by 17 per cent. These very large increases in output are partly offset by the decline in textile production, which suffered from the serious fall in exports. However, the woollen industry did very well in the second half of the year, with a rise of 16 per cent in output; and the textile industry in general was well supported by the domestic market, which took 11.7 per cent more cotton fabrics on the year. The fall of 8 per cent in the production index for the whole textile industry is less than that which occurred in the United Kingdom, the Netherlands, France and Belgium, in spite of the fact that textile exports of those countries dropped less than in the case of Italy.

The index of industrial production in Europe rose by 9.6 per cent in 1951, as compared with 1950; but this tendency almost ceased in 1952, when the rise was less than 1 per cent. It is therefore significant that the rise in industrial output in 1952 in Italy amounted to 3.6 per cent, the figures in each case excluding building.

(1) This percentage excludes houses built through the Housing Section of the National Insurance Institute (Istituto nazionale di assicurazione, sezione « Ina-casa »).

The Research Department of the Bank of Italy has adjusted the monthly indices of industrial production so as to represent the output in months having an equal number of days, and with the seasonal fluctuations eliminated. On that basis it is found that the whole of the increase in output during 1952 was concentrated in the second half of the year. In the first half-year the index remained quite steady, at a level only slightly above the average for 1951. This would appear to be specially important, since it does show that the improvement during the year was due to the resumption of an orderly and steady process of growth after the hesitation of the opening months. It is also specially notable that it took place notwithstanding the crisis in the textile industries which in the past used to have a dominating effect on the general state of business. The new turn of events is due to the increasing importance of other lines of production.

The index of production of capital goods during 1952 rose by 17 per cent, i.e. by about the same percentage as it did in 1951. This substantial growth in output was associated with a large increase in the proportion of the national product which went into capital investment in fixed assets. There was no increase in 1952 in the stocks of raw materials and finished products as compared with the amount of those stocks at the end of 1951. This is the opposite of what took place in the latter year. Thus, while the gross amount of capital investment appeared to be stable in the two years, in reality 1952 witnessed an increase of investment in fixed assets.

Consumption also increased in the course of 1952. In the Report for last year we felt bound to warn that the increase which took place during 1951 in the production and distribution of goods was almost certainly due to a wave of abrupt price increases of an inflationary kind which occurred throughout the world, and which entailed a slight fall in real wages. The result was to increase the share of output going to profits. Since the war it had been labour's share that tended to rise, especially owing to the large upward movement that occurred in real wages following the stabilisation of the currency.

In 1952, apart from a few exceptions, there was again a shift in favour of the share going to labour. That share not only returned to its 1950 level, but even rose well above it. The effect was to cause an appreciable growth in consumption.

In terms of quantity the consumption of foodstuffs grew during 1952 by 2 per cent. There was also a rise of 9.4 per cent in the output of textile fabrics for the Italian market; and there was an increase in various forms of consumption, not of prime necessity, which point at a general improvement in the standard of living. For instance, the movement of tourists within the country was up by 18.1 per cent; the consumption of electric current for lighting purposes by 6.6 per cent; and the expenditure on public entertainments and tobacco by 10.6 per cent and 8.0 per cent respectively.

Increases in production such as those we have so far described required additional finance to an extent which became very considerable in the second half of the year.

In point of fact the loans of the Banks, and of their Central Institutions, expanded during the year by more than L. 500 milliard. That total exceeds by L. 200 milliard the large figure of L. 300 milliard which was reached in 1951. The expansion occurred in the second, third and fourth quarters of the year. In the first quarter loans were down by L. 45 milliard with respect to the corresponding quarter of 1951; in the second quarter they showed an increase of L. 50 milliard as compared with the corresponding quarter a year before, and in the third and fourth quarters there were increases of L. 100 and L. 95 milliard respectively.

The addition to loans during 1952 may be put at 25 per cent of the total outstanding at the end of 1951. Besides this considerable lending by the banks there was also a good deal by what are called the Special Credit Institutions; that is to say, those which specialise in loans to business and industry, loans against real estate, for building purposes and for farming. These institutions expanded their loans by approximately L. 180 milliard. That total is about the same as for 1951; but it becomes parti-

cularly significant if one bears in mind that the part of that expansion which was financed out of the E.R.P. fund and the sterling fund for purchases of equipment abroad fell from L. 79 milliard in 1951 to L. 42 milliard in 1952. The overall results is that Banks and Special Credit Institutions taken together expanded their loans in 1952 by L. 680 milliard, as against L. 480 milliard in 1951. Finally there was an increase in the loans of the Institute for Industrial Reconstruction and of the Central Post-Office Savings Fund, which were L. 155 milliard in 1952 as against L. 95 milliard in 1951. Altogether the flow of money which was channelled last year into the country's economy through Credit Institutions of both public and private character, amounted to L. 835 milliard. This compares with L. 575 milliard in 1951, the total having risen by L. 260 milliard, or more than 45 per cent.

The amount of money which found its way into the various economic activities through capital issues was also greater in 1952, at L. 107 milliard, than in 1951, when it stood at L. 81 milliard. The issue of bonds by Corporations in 1952 (excluding those of the Institute for Industrial Reconstruction) were no more than L. 15.2 milliard, as compared with L. 7.4 milliard in 1951. Thus the grand total of the funds which were supplied to the private sector by the capital market and by Credit Institutions was near L. 960 milliard in 1952 as compared with L. 660 milliard in 1951.

The increased recourse to borrowed funds followed upon the expansion in production and the fact that smaller amounts could be derived from self-financing. The Reports for 1951 and 1952 have shown that, whereas in 1951 both profits and self-financing were large, they grew smaller in 1952 following in each case the trend of prices. While the producer's profits and the general liquidity position benefit from price increases, when the turn in prices comes about there is a shift in the income and finance position to the advantage of traders and consumers. The finance surpluses emerging in such sectors are returned in part through the Banks and the capital market to producers, in such a way as to make up for the decline in the resources avai-

lable for self-financing. There is in addition much evidence to show that a great or even the greatest part of the large amount of credit distributed in 1952 went to medium-sized and small borrowers.

The deposit and current accounts at the Banks alone increased during 1952 by more than L. 648 milliard, of which L. 325 milliard were time deposits and L. 323 milliard current accounts. Both these categories increased in amount by about 24 per cent as compared with the total outstanding at the end of 1951. In that year on the contrary, while current accounts rose by 25 per cent, time deposits showed an increase of only 16 per cent, because of the abnormal extent to which householders hoarded goods owing to the widespread fears caused by the war in Korea. When those fears passed away, the hoards were run down, with the result that the percentage rise in time and savings deposits became greater in 1952.

According to the figures as of 31st December, 1952 the Banks then held time deposits to the extent of L. 1,688 milliard, or 44 times as much as in 1938. At the same date deposits on current account of their customers amounted to L. 1,647 milliard, or 94 times the 1938 total; time deposits and current accounts were thus L. 3.335 milliard altogether, or 60 times the 1938 figure. In the case of the postal savings deposits and interest-bearing bonds the total amount at the end of 1952 was L. 963 milliard, the ratio to the 1938 total being 33 to 1; or, if the money on postal current accounts is also included, the total becomes L. 1,160 milliard, and the ratio 38 to 1. Summing up the money held on all forms of deposits by the Banks and the Postal Savings Banks at the end of 1952 amounted to L. 4,500 milliard, or 52 times as much as in 1938. It thus appears that the amount of savings reaching the Banks and the Postal Administration in the form of time and savings deposits, or deposits on savings books and in interest-bearing bonds, is not yet up to the 1938 level. On the other hand the total amount of funds deposited with these institutions has almost regained the 1938 level in terms of real value, although it still has to go some way to regain that level completely

if allowance is made for the increase which has taken place in the national income.

It was shown in a previous section of the Report that the total flow of savings through the banking system and the capital market (together with the increase in demand deposits) reached in 1952 the very substantial total of L. 1,175 milliard, which exceeded by 304 milliard the corresponding total for 1951.

About 24 per cent of the total, i.e. 280 milliards, flowed to the Treasury through voluntary subscriptions by the Banks and other investors to Treasury bills and Treasury bonds as well as through the investment of a fraction of the mandatory bank reserves and the deposit with the Treasury of a part of the postal savings. The proportion of 24 per cent in 1952 is the lowest in the three years, the proportions in the other two having been 27 per cent in 1951 and 40 per cent in 1950.

The fraction of total savings and deposit creation actually used by the Treasury goes up when the proceeds of the railway loan issued by the Credit Consortium for Public Works is added to the previous figures. The total which was either actually used by the Treasury or available to it in the first instance includes, together with the flows mentioned so far, that part of postal savings which was lent out to local Authorities or otherwise. It reached L. 416 milliard in 1952, i.e. 35 per cent of the total, as against 33 per cent in 1951 and 46 per cent in 1950.

The experience of recent years bears witness to the fact that the flow of funds to the Treasury is largely dependent upon the state of the private demand for credit, which the banks and the capital market have to provide for.

More specially during the last quarter of 1952, a lively demand for credit from the private sector caused the Banks to draw L. 118 milliard from the Central Bank through discounts, advances and reduction of deposit balances, and at the same time to cut by L. 35 milliard their Treasury Bill portfolio.

Taking round figures it may be stated that during the last three years the amount of finance which was made available

to the Treasury through the various channels (including bank reserves) varied annually between L. 300 and L. 400 milliard.

As we have seen the funds which found their way into the Treasury in 1952 amounted to L. 280 milliard. This compared with an actual need for L. 346 milliard, representing the difference between disbursements of L. 2,241 milliard and collections of L. 1,895 milliard. In order to bridge the gap of L. 67 milliard the Treasury drew on its existing balances at the Central Bank.

The Minister of the Treasury and the Government certainly had those facts in mind, when the 9-year Treasury bonds due in 1962 were issued and the budget estimates for the financial year were drawn up. They took then two wise decisions. First they laid down that the proceeds of the new issue must not be made the basis for fresh expenditure, or for increasing the expenditure under heads already voted. Secondly they recognised that, if the Treasury deficit continued on the same scale as in 1952/53, it could not be met out of such amounts as the Treasury had any real chance of borrowing. They consequently limited the estimated deficit for the financial year 1953/54 to L. 417 milliard, of which L. 366 milliard were on the « Effective Category » and L. 51 milliard on the « Movements of Capital ». We must express the hope that further efforts to keep the deficit within bounds will not be neglected. If they were, a deterioration in the position of the currency would tend to set in and would only be avoided at the cost of a drastic reduction, below the actual volume of savings, in the volume of credit flowing to the private sector of the economy, where the progress of production would be impeded.

The balancing figure in the analysis of monetary flows during 1952, which we have been following so far through its main results, is the increase of about L. 107 milliard in the combined note circulation of the Bank of Italy and the Government.

If one compares the increase in the note issue with that in the volume of business which is normally transacted through the use of notes, and if one allows for the effect of the rise in prices, especially retail prices and the cost of living in general, then

one may say that the growth in the note issue has been consistent with those movements. However, the development of the currency circulation during 1952 and in the opening months of 1953 did not follow closely the normal seasonal pattern. A hump in the summer months was followed by a return to the trend line later on. In fact, the increase over the same month of the previous year reached a peak value of L. 154 milliard in August 1952; it came down to L. 107 milliard in December 1952 and to about L. 90 milliard in the first months of 1953.

However, the continuation of an increasing trend was associated, during 1952, with price developments which may perhaps be said to reveal a certain strain in the country's economy, following the imposing productive effort and the accompanying financial developments. The strain appears equally in the foreign payments position. Both aspects have been made the object of detailed chapters in the Report. We shall draw from them a few figures and conclusions, in the expectation that they will show the lines from which future policy should not depart for the development of production to continue in an orderly way.

In 1951, Italy was able to contain the domestic effects of inflationary impulses coming from abroad in such a way as to maintain internal price developments on a line with those in a few countries which best succeeded in defending the stability of their currencies.

The experience of the previous year could justify the expectation that in the conditions of 1952 Italy would, as some other countries did, maintain stability of prices and the cost of living. In fact, Italy parted company with them, since over the year she allowed an increase of 3.6 per cent to take place in the cost of living. Though nothing really serious happened we must confess to ourselves that full stability would have been more deserving.

A rise in the cost of living may of course result from a substantial increase in the prices of imports, and it probably will when, as in the case of Italy, imports are especially large; or it may result from a purely domestic imbalance of supply and demand.

During 1952, the intense demand for capital goods in Italy kept up their prices; and the only reason why those prices did not rise was that raw materials on the whole became cheaper on the world market. The prices of consumers' goods were affected by an increase in the demand both for foodstuffs and for textiles. The reason was that there were some large additions to the purchasing power in the market. For example, nominal wages were raised during the year by about 8 per cent. Certain arrears of salaries were paid over short periods of time; in the case of officials in the service of the Government and other public bodies about L. 75 milliard were paid in a little over two months. Farmers had larger cash receipts, also concentrated in a few months, arising in particular from the higher price of grain as well as from the greater quantities sold; as compared with 1951 their receipts were up by some L. 80 milliard, of which L. 9 milliard came through the grain collecting agencies alone. Finally, pensions were increased, the addition which was made in April to those paid through the National Institute for Social Insurance being at the rate of L. 70 milliard per annum. All these things happened at a time when greater amounts of labour were being employed in the projects financed by the Southern Italy Development Fund, in building and in public works in general, in such a way that the total wage-bill for the year increased by approximately 10 per cent. The result was a much higher demand for capital and consumers' goods. A pointer to the state of the market is given by the volume of sales of the large department stores which in the second quarter of 1952 exceeded by 48 per cent those of the same months in 1951 (when, it should be mentioned, sales were rather low as a reaction to the previous buying spree). The combined effect of these facts, and of others which need not be stated in detail, was that during the second half of 1952 wholesale prices in Italy rose by 1 or 2 per cent, while in most countries with which we drew comparisons last year they remained stable or even kept declining, and, what is more important, that the cost of living showed an upward movement from as early as the first few months of the year. The seasonal reaction which usually takes place in the summer, when the index is influenced by a more abundant supply of fruits

and vegetables, was presented by the larger purchasing power flowing to the market through the income streams. One more factor which tended to prevent the index from falling is to be found in the wage increases under the sliding scale arrangements, which tend to consolidate increases in the cost of living by following immediately upon them. The consequence was that the cost of living index rose from 54 at the end of 1951 to about 56 in the first half of 1952, and maintained that level in the second half of that year. No further increase has taken place during the first few months of 1953, so that it may be hoped that the abnormal movements were confined to 1952.

These events show how every excess has to be paid for. The rise in the cost of living index partly cancels the effect of the increases granted to those who receive salaries and wages. Its effect on the balance of foreign trade also deserves special attention. Although the increase in imports and the decrease in exports which it is apt to bring about tends automatically to keep down the rise in prices by bringing in a greater quantity of competing foreign goods, it remains true that in the case of Italy this happened at a time when the balance of payments was already feeling the strain of a large volume of investments. A high cost of living has a specifically negative effect on earnings of foreign exchange from tourist traffic.

There is one essential lesson to be drawn from the events just described, namely that when a country is making great efforts, as Italy is now doing, to achieve the desirable end of curing serious unemployment, this makes it all the more essential for all concerned to act wisely, whether they be employers, trade unions, public authorities or producers. The money incomes of individuals should be increased by gradual steps properly distributed over time so as to make sure that the increases will be real ones, and also to prevent costs of production from being raised above internationally competitive levels.

It may be that credit, being in ample supply during 1952, did not act as a brake on the development of the processes leading

to price increases. If so, there is a lesson of greater vigilance in the future to be drawn for ourselves from the events of the year.

The chief effects of the effort which was made during 1952 to increase productive capacity was reflected in the balance of payments through a large decline of exports. Mention was made before of the drop in exports of textiles, more particularly towards the Sterling Area and France. The result was that Italy's balance of trade in textiles, which in 1950 and 1951 showed a surplus of L. 57 and L. 72 milliard respectively, became adverse to the extent of L. 92 milliard in 1952. Thus the position in 1952 was worse than in 1951 by fully L. 164 milliard, or \$ 260 million.

For the year 1952, there was a deficit of \$ 530 million on current trade and services, excluding American grants-in-aid and capital movements. That deficit was greater by \$ 300 million than in 1951, and greater by \$ 480 million than in 1950. The deterioration in 1952 as compared with both these years was entirely due to the change in the balance of trade. By way of contrast, the net receipts from invisible items in 1952 were \$ 87 million larger than in 1950, and \$ 146 million larger than in 1951, so that the increased receipts under this head partly offset the trade deficit.

If the 1952 trade deficit is taken on the basis of the difference between the f.o.b. value of imports and the value of exports, it was roughly \$ 450 million larger than in 1951, and \$ 570 million larger than in 1950. It must be remembered that the position in 1950, when the deficit on current items was only \$ 47 million, was greatly helped by the fact that the trade deficit was kept down to only about \$ 158 million through non-recurrent factors, some of which were connected with the Korean conflict that broke out at the middle of that year.

In particular finished products exported in the second half of 1950 were largely taken from stocks in hand from the production of the summer months; and they greatly increased owing to the sudden growth in world demand. On the other hand,

Italy's grain imports in 1950 were well below the post-war average. (On the other side, the deficit was increased to the extent of \$ 40 million by the import of equipment financed out of E.R.P. funds as provided by special regulations).

Had it not been for the favourable circumstances just pointed out, 1950 would no doubt have ended up with a larger deficit than was actually recorded (\$ 47 million) though certainly not greater than \$ 150 million.

A deficit contained within such limits was in line with the plans of the Italian authorities for a gradual progress of the Italian balance of payments towards a position which would make it possible, by the end of the Marshall plan, to provide for any residual gap with an expected moderate inflow of foreign private capital, and for possible swings in its magnitude by the use of the foreign exchange reserves accumulated in previous years. It really seemed at that time that the difficult problem of the Italian balance of payments was within reach of final solution.

The progress towards the goal of equilibrium was interrupted in the course of the two following years, when in fact the foreign trade deficit increased by 570 million dollars. The causes of the deterioration were partly of a transient, partly of a more lasting nature. They have been dealt with at length in the foreign trade chapter of this Report. It may be useful to restate them in brief.

The volume of imports was increased by large purchases of equipment in the dollar and the sterling areas. They were financed to the extent of 80 million dollars partly out of ERP funds, partly out of sterling balances which Italy had accumulated through previous export surpluses and which exceeded her current import needs from the sterling area.

A second and more important adverse factor was the deterioration in the terms of trade which followed the Korean outbreak and was still serious in 1952, mainly owing to higher import prices. On the basis of f.o.b. prices and 1952 quantities, the cost to Italy of the change in the terms of trade since 1950

was equal for the year to some 190 million dollars, i.e. to the difference between a \$ 390 million increase in the cost of imports and a \$ 200 million increase in the proceeds of exports. The fall in the prices of industrial raw materials during 1952 and its continuation in the early months of the current year will in all probability reduce in the near future and to a considerable extent the burden of the adverse terms of trade, without perhaps entirely eliminating it, since the prices of some raw materials, more specially in the capital goods lines, are still notably higher than in June 1950. An estimate of the probable effect of all these factors has been made on the basis of quantities and prices recorded by the Customs in February of this year. It suggests that the adverse effect of the terms of trade may be less by about \$ 100 million this year than last.

Net of the two factors now listed, there remains a deterioration of some 300 million dollars, which is due to an increase of 280 million dollars in the volume of imports (other than specially financed equipment) and a decrease of 30 millions in the volume of exports.

The actual value of exports in 1952, exclusive of textiles, increased by a \$ 266 million; roughly one third of the increase being due to a growth of 10 per cent in the quantity of goods other than textiles exported in 1952 as compared with those exported in 1950. This fact, coupled with the fact already mentioned that 1950 was a rather good year for exports, makes it appear rather unlikely that the volume of exports other than textiles can be further substantially increased in the near future. It follows that special care should be devoted to the promotion of policies, both international and internal, intended to contain the action of the factors limiting the development of Italy's export trade.

In the international field the policies which the appropriate Government Departments have been resolutely following for some time past have already produced some definite success in this connection. For instance, Italy vigorously advocated within O.E.E.C. the resolutions which were adopted last March for

a greater degree of liberalisation on the part of some important countries.

Domestically, the specific measures which are being introduced by the Government need to be supplemented by general policies aimed at preventing increases in production costs. Failing this, the scope of the specific measures providing for aid and incentives to exports would have to be broadened more and more with serious consequences on the budget as well as in other respects.

In discussing the factors which caused the rise in the value of imports between 1950 and 1952, an attempt was made in this Report to assess the influence on the volume of imports of the liberalisation measures unilaterally adopted by Italy. The analysis was intended to help students of Italy's balance of payments to assign due weight to the various factors at play, and avoid their being deluded into proposing easy ways to the restoration of equilibrium.

In this investigation the first ten months of 1951 were compared with the corresponding period in 1952. It will be remembered that the voluntary liberalisation measures were taken at the end of October, 1951. At that time the exceptional rise in exports to the E.P.U. area had led Italy to exceed her creditor quota of 205 million E.P.U. units, and it was beginning to look as if even the additional quota of 100 million units might be exhausted. Had that happened, then either at the request of OEEC or of her own initiative Italy would have had to take drastic steps to limit her exports, which at the time were being admitted even too freely to France and the sterling area.

The increase which took place in the value of Italian imports of liberalised goods over ten months was equivalent to an annual rate of 100 million dollars. This increase was due in part to higher prices and to imports of equipment, specially financed out of sterling holdings, which in the absence of liberalisation would have equally taken place under import licenses. Once the effect of these two factors is eliminated, it appears that the additional imports of voluntarily liberalised goods accounted for not more

than \$ 50 to 60 million per annum out the \$ 280 million by which the imports in 1952 exceeded those of 1950; and it further appears that, of these \$ 50 to 60 million worth of goods, about three-quarters were intended for capital investment rather than for current production. During 1952, the upward pressure on prices in the domestic market was certainly greater for capital goods, since it is for them that the demand was specially intense. Under such circumstances, the increase in the volume of imports of equipment did not unduly depress the activity of the engineering industries; its main effect was to contribute in avoiding a rise in prices which would have jeopardised the continuance of the investment and development programs. Mention should also be made of the fact that imports of finished goods during 1952, including specially financed imports of equipment, did not exceed a proportion of 18 to 20 per cent of total imports, which is not above the pre-war levels.

It must thus be recognised that the additional imports in 1952 as compared with those in 1950, even as regards liberalised goods, mainly consisted of raw materials and other goods required for economic development. They were chiefly due to the policy of expanding public and private investment on which Italy embarked some years ago, prompted by her needs and by encouragement of qualified international opinion.

While a part of the resources going into a greater volume of investments can be drawn from increased production at home, an important contribution is also by necessity drawn from increased imports. The link between the volume of investments and the volume of imports is specially strong when, as is the case in Italy, a large proportion of investments takes place along lines (such as land improvement and public works) which only after a period of several years will appreciably improve the country's ability to export and to earn foreign exchange.

It follows that, without the steady friendly aid of America, such a policy of development could not have been consistently followed. It would have equally run into difficulties if Italy had not previously rebuilt her foreign exchange reserve, as was done

in 1949 and 1950, with the help of a sound fiscal and monetary policy and of certain transitory factors (such as the bottlenecks which the development of investment activity faces in the early stages of the reconstruction process). The increased imports of 1952 have been financed, to the extent of some \$ 90 million, out of foreign exchange holdings. One half of this amount consisted of dollars which were paid to Italy by E.P.U., while the remainder took the form of a reduction in Italy's credit balance with E.P.U.

It also follows that investments in Italy, as well as any future rise in the level of consumption, are closely dependent on the possibility of improving the balance of payments during the next few years. The deficit must in fact be brought down within limits which can be covered by the various forms of American aid, in particular by American off shore purchases from Italian industries, since the exchange reserves cannot stand for long drawings on the recent scale.

Viewed from a central bank angle, recent developments bear out the need for a vigilant and severe monetary and credit policy. We do not spare ourselves a reproach for the credit expansion which was allowed to proceed perhaps too freely towards the end of 1951 and in the course of 1952. We thought it to be a necessary part of the process of readjustment in the financial arrangements of manufacturers, wholesalers and retailers, and in the relations between these groups, which was taking place on the way to normalcy after the perturbation following the Korean outbreak.

We must recognise a truth which has been more and more confirmed during the last few years by the measures taken in many countries that formerly adhered to an easy money policy. Such policy is appropriate in countries experiencing a surplus in foreign payments either because of the strength of their economies or as a reflection of external influences. Failing that condition, an easy money policy by leading to an excess of liquidity and by making borrowing too easy for less essential investments or for consumption will cause imports to increase and exports to contract. It will often lead to a rise in the price

level, and especially in the cost of living, thereby reducing a country's competitive power in foreign markets, and causing a further fall in exports. Ample evidence is provided by Italy's experience during the years after the lira was stabilised; by the more recent experience of certain European countries such as the Netherlands and Germany; by the still more recent events in Great Britain; or indeed by opposite experiences in certain other countries. In all these cases, a large part of the success which has been achieved by economic policies directed to keeping down balance of payments deficits must be ascribed to a sound fiscal and credit policy. Conversely it is clear that even though quantitative restrictions on imports, or the granting of special export premiums, may become unavoidable as a method of dealing with troubles which cannot be cured by other means, they do nevertheless disturb the natural equilibrium of production and trade. They tend in some cases unduly to enrich the few at the cost of the community, and to build up an inflationary potential which must sooner or later lead to open inflation. It appears from the foregoing that the consolidation of the results Italy has achieved so far and her further progress will be decided by the accomplishment of certain fundamental tasks during the next few years. The attainment of a better balance in the budget and in the foreign payments are among them. This means that careful consideration must be given to the problem of the extent to which further increases in the level of consumption are compatible with an intense application to the development of productive capacity. Within the field of special interest to the Central Bank there is a need for maintaining credit policy in line with the pace of development that the country's economy can really sustain.

There will be no lack of difficulties, and the process of decision taking will not be exempt from conflicts, both theoretical and practical. However, the achievements of the country in the years since the war provide reasons for confidence. Some pride may in fact be taken in the figures set out in this Report, which show that Italy has not lagged behind the other major western countries.

In terms of real value national income improved between 1948 and 1952 by 23 to 25 per cent; an increase which was exceeded only in Western Germany, is about equal to that achieved in France, and is definitely better than in the United Kingdom, the Netherlands, Sweden and even the United States. If comparison is made with 1938, then Italy comes after the United States and the Netherlands, but stands on the same footing with the United Kingdom and France, and is ahead of Western Germany and the fact must not be overlooked that in 1938 production in France was especially low. The rise of industrial production in Italy in 1952 as compared with 1938 is about equal to that in Germany, France and the Netherlands, and definitely exceeds that in the United Kingdom, falling short only of the increase in Sweden and in the United States. If on the other hand the production of industry in each country is compared with the peak prewar year, then Italy falls behind the United States and Sweden, but breaks even with Germany and the Netherlands, and is clearly ahead of the United Kingdom, and still more of France. The ratio of fixed investment to GNP in 1952 was 21 per cent in Italy, as compared with a little over 20 per cent in Germany, 14 per cent in the United States, and about 13 per cent in the United Kingdom. Such ranking was the same in 1951, except that Germany then came first with a little over 20 per cent, while Italy was second with just over 19 per cent. These figures become the more significant if one bears in mind that Italy is on a low level of income, which is normally associated with a high propensity to consume. The full extent of the effort put forth by Italy can be measured by the fact that between 1948 and 1952 the proportion of the gross national product which went into fixed investments rose from 16.7 per cent to 21 per cent; and further that the total amount invested in this way increased by 75.2 per cent in terms of current prices, and by 52 per cent in real value.

The greatest increase took place in public works and in building, where the value of the capital projects carried out in 1952 was 2 1/2 times that in 1948. Investments in agriculture,

as well as those in industry, increased over the same period by about 70 per cent.

The increased importance of investment activity may be viewed from another angle through the movement in the ratio between the added value of production in the capital goods industries and the similar value in the consumption goods industries, from 0.76 before the war (1938) to slightly over 1.00 in 1952.

In the last few months, Italy's industrial production has advanced further. During the first quarter of 1953, production levels exceeded by 7 per cent those for the first quarter of 1952. Italy's advance thus comes near to that of the United States (8 per cent), at a time when the other major countries have experienced declines (as in the case of the United Kingdom, France and Belgium) or smaller increases (6.5 per cent in Western Germany, 3.5 per cent in the Netherlands).

The association of monetary stability with the advance in production has been repeatedly stressed in this Report. However, it belongs to this conclusion to point out that the experience made in Italy in recent years covers by now a fairly long period, over which that association holds better than for short spans of time covering a single phase in the fluctuation of business activity. Thus later developments gave reason for consolation to those who regretted the recession in the early months of 1948, which followed upon the stabilisation of the currency and the previous phase of booming activity and inflation, when demand was swollen by the speculative accumulation of inventories.

The measures of monetary stability attained can be assessed by looking at price developments since the Korean outbreak, as well as since the Autumn of 1947 when inflation was stopped.

Between June, 1950 and December, 1952 wholesale prices in Italy rose by 13.2 per cent; a lower increase than took place in several major countries, such as France, Germany, the Nether-

lands, Sweden, the United Kingdom where increases ranged from 22 to 36 per cent, and a higher increase than those of 10 per cent in the United States and Switzerland and of 6 per cent in Canada.

Between 1948 and December, 1952 Italian prices declined by 2.9 per cent. Over the same period, prices were stable in Switzerland; they increased by 5 per cent in the United States, 14 per cent in Canada, 20 per cent in Germany, 39 per cent in the Netherlands, 43 per cent in Sweden, 49 per cent in the United Kingdom, and 57 per cent in France.

The same five year period is a proper basis for assessing the combined effect of increasing production and stable money on real wages. Again the figures will reveal the effect to have been a favourable one.

During the acutely inflationary phase which preceded the credit regulation measures of September, 1947, the increase of monetary wages hardly exceeded the depreciation of the currency, in spite of the fact that the volume of production was developing fast. The index of real wages, on the basis of 1938 equals 100, stood in April, 1947 at 84.2; and in September of that year it was only slightly higher at 87.6. This contrasts with the period from October onwards, when the cost of living was falling. Then, in the short period of four months from October 1947 to February 1948, real wages rose by no less than 14 per cent, almost solely as the result of the drop in the cost of living, since nominal wages had in the meantime been raised only to the small extent of 2.5 per cent.

On a comparison between yearly averages for 1947 and 1948, real wages rose by 24 per cent. Between 1948 and 1952 they rose by a further 15 per cent, so that there has been a total 43 per cent rise between 1947 and the present time. Thus the experience in Italy shows that real wages do best when the currency is stable.

As we look forward to the future, the anxiety to achieve an ever greater measure of progress sometimes obscures the full appreciation of that which has already been made, and often we are dismayed by the difficulties of the task that still lies before us.

The document which we present to this annual meeting is intended to give an objective view of what has already been done, of the difficulties that have been overcome, and of the positive results that have been achieved, joined, however, with a full recognition of the serious problems that remain unsolved. As such it will, we trust, be of help to all those who wish to devote themselves to the study of the tasks that still await us.

In their own particular sphere, the aim of the Directors of this Bank to contribute to the utmost of their ability to the maintenance of monetary stability, while at the same time discharging their technical duties, is inspired, as we have sought to show, by the desire to serve a vital and fundamental national interest.

THE GOVERNOR  
DONATO MENICHELLA