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Concluding Remarks

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XII. *Concluding Remarks*

The International Economy in 1953

International price trends in 1953 were characterized to a large extent by the stabilization of raw materials prices achieved after the pronounced fluctuations of the post-Korean cycle. This is confirmed by well-known international price-indexes, compiled both here and abroad. The series elaborated in «Der Volkswirt», a German review, which is one of the most comprehensive, shows a rise in the price-index from 100 to 130 during the second half of 1950 and to 146 by March 1951; subsequently, there was a drop to about 113 in August and some stability through December. Contrary to expectations such stability was not maintained in 1952 and the index showed a further continuous decline to about 100 in December.

In contrast, the fluctuations in this index during 1953 were kept within a narrow margin of 3 points, the difference between the March peak and the October low. At the close of the year the index stood at practically the same level as in December 1952. For about a year, therefore, the world economy has not been subjected to the impact of sharp fluctuations in prices.

As a result of the achievement of price stability the levels of production have followed more closely the trends in consumers' demand: whenever inventories built up after the Korean war proved excessive, producers gradually worked them off; if they needed to replenish their inventories, they did so in a manner avoiding too strong an impact on demand. The credit policies pursued by various countries, in some cases liberal and in other cases somewhat restrictive, were, certainly, an important factor in bringing about these developments.

It is a fact that industrial production in Western Europe quickly resumed its expansion in 1953 after the 1952 period of stagnation which, at least in part, resulted from the fears arou-

sed by the continuous drop in raw material prices. The overall expansion was 1 per cent in 1952 and 5 per cent in 1953.

The United States, instead, continued to experience high levels of production in 1952 (3 per cent over 1951) also due to the impact of the massive war expenditures; the peak was reached in the first half of 1953. A comparison of the United States advance with the European stand-still resulted, up to about a year ago, in the criticism frequently leveled at Europeans for their lack of initiative or, in the economic jargon of the day, of aggressiveness. But even the United States experienced a fall in industrial production beginning from the second half of 1953, probably resulting from the slackened pace of war production, from the downward adjustments of inventories and from a drop in foreign demand for her exports. However, by the end of 1953 the recession in the United States had not attained alarming proportions while production in Europe had expanded to such an extent as to make of 1953 one of the best years this part of the world ever experienced, with international trade at peak levels and with a \$ 2.4 billion expansion in gold and foreign exchange reserves, the prerequisite to freedom of international trade and payments. This should not, however, lead to the hasty conclusion that the «dollar gap» is closed or that Europe can now stand on her own feet. To this it has already been replied in authoritative circles that such a conclusion is at least premature; that Europe had received in 1953 dollar aid of a total of around two billions in the form of troop expenditures, offshore purchases etc.; that European countries had experienced exceptional levels of agricultural production, enjoyed very favorable terms of trade, and that they had worked off a surplus of industrial inventories.

Much of the credit for the recovery and the progress of Western Europe is certainly due to the wise and generous policy of the United States of America in making available to Western Europe a part of their income as economic aid. A tribute is also due to the tireless and alert action of the Organization for European Economic Cooperation (OEEC). The merits of this institution must be objectively recognized, with no need of sharing the exaggerated enthusiasm of those who saw European

unification in its establishment or the skepticism of those who consider it a superstructure needlessly stifling traditional diplomatic action. It must be recognized that double-pricing practices are on the way to extinction; that many foreign trade quotas have been transformed from bilateral to global and later liberalized or eliminated; that the level of the tariff has been kept unchanged for many commodities; that multiple exchange practices have been discontinued; that much progress has been made in devising credit policies which are neither too restrictive nor too liberal; that in other words, Europe is producing and trading more and that a great number of restrictions on the development of our economic activity have been removed. All these achievements are not due solely to United States assistance and to our own efforts: they are also due to the work of this organization which binds our action but at the same time reduces, through its guidance, the possibility of error.

We are aware of the fact that our progress in part originated, like a flower blooming in poor soil, from the grave anxiety over another world war, which induces the nations of Western Europe to be as close together as possible in facing the common danger.

We are also aware of the criticism that has been directed at the European Payments Union, the executive instrument of the OEEC and a temporary organization which must sooner or later come to an end. We realize the fallacy of searching within EPU for balance-of-payments equilibrium of member-countries; some countries are structurally intended, even in the case of overall equilibrium, to be debtors or creditors of the EPU, their deficits and surpluses being offset by their positions vis-a-vis areas outside the EPU. We are also aware that the creation or strengthening of regional discriminations conflicts with the principal objective of currency convertibility, just as the requirement of fixed parities conflicts with the concept of flexibility and of constant adjustment of the exchange rate to the relative purchasing power of the currency.

Nevertheless, the process of reciprocal re-adjustment of the various European economies, including the sterling and French

franc areas, met with great difficulties in the past, for the solution of at least some of which any instrument, however imperfect, was required. The point has not been reached where balance-of-payments fluctuations can be expected to be, in the long run, of very small magnitude and easily met with the use of monetary reserves which, however, do not appear adequate even for that purpose. For these reasons the EPU was recently renewed for another year; during this period there may still be changes in the monthly positions of each participant, both in their magnitude and direction, without calling reserves into play for the entire amounts involved; moreover, restrictions on purchases from the dollar area can continue to be relaxed, so that the transition from intra-European clearing to convertibility will be less abrupt and its consequences, both real and psychological, less severe.

Currency Convertibility

Convertibility is a very strong drug that cannot be taken safely by all patients. Fortunately, the trend in responsible international circles is towards establishing for convertibility, within the framework of the International Monetary Fund's regulations, rules that would allow for small exchange rate fluctuations indicative of trends and obligations which would apply only to current international transactions and not to capital movements.

Furthermore, attention should be called to the intention generally manifested by leaders of European countries to preserve and develop OEEC practices even when EPU is discontinued.

Without underestimating the merits of convertibility there still remains a cause for concern: by stressing the autonomy of the economic and financial policies of individual states it may loosen the ties of international cooperation that have thus far produced good results particularly with respect to the weak economies, which are more likely to deviate from the right path

and would be in greater need of the assistance rendered through cordial cooperation.

This concern can be mitigated by the consideration that convertibility may lead to the expectation of larger monetary assistance to Europe by the International Monetary Fund, which so far restricted its operations with Europe, in view of the other forms of assistance the latter was temporarily receiving. Moreover, the hopes of reviving the flow of international investment, and the well-known fact that there are European regions in need of development, warrant the belief that the already notable aid supplied to Europe by the International Bank for Reconstruction and Development will be supplemented by further substantial contributions.

Conditions in Southern Europe

A review of developments in the fields of production and of income in 1953, characterized by price stability, has brought to light the existence of structural regional differences — as always occurs when there is a return to normality and the factors that disturb the regular behavior of economic phenomena are eliminated. Side by side with countries that have re-established equilibrium, and thereby achieved capacity for orderly progress, there are others which, by contrast, see their old difficulties and structural defects re-appear. The same handicaps which, for decades, have slowed down their development and kept the level of their per-capita income far below that of some other countries which are part of the same geographical and, to a certain extent, political area, and which follow the same road in searching for political unity.

Among these we should mention, first, Italy; at a time when other European countries are returning to a more stable equilibrium, Italy is in the midst of a process of development and of reconstruction destined to produce plentiful results over a number of years as well as to change the very face of her economy, provided it can be successfully pursued for several years to come without interruptions, delays or retrogressions.

Conditions prevailing in those Western European countries, which should be regarded altogether or largely as underdeveloped areas, have been recently studied by the Economic Commission for Europe (ECE) and international attention, based on active collaboration, has been directed to them .

Italy's Agricultural and Industrial Production

Agricultural and industrial production during 1953 have been good in Western Europe as a whole, and excellent in Italy.

Because of unfavorable weather conditions, production in the 1951/52 agricultural years was about the same as in 1950/51; the index of agricultural production was 106 (1938 = 100) during both those years, while it rose to around 117 for the year 1952/53.

The index of industrial production rose by 14 per cent in 1951 (an exceptional year for all countries) to 138 (1938 = 100); contrary to trends prevailing in other European countries it further rose in 1952 to 142; in 1953 it showed a 10 per cent rise to a level of 156.

On a per capita basis the index of agricultural production is now 106, compared with 100 in 1938 and that of industrial production 142.

If the 1936-39 period, fairly representative of prewar agricultural production, is compared with 1952 and 1953, it appears that there was a 6 per cent reduction in the area under cereals. But production was 2 per cent higher in 1952 and 16 per cent higher in 1953, owing to an 8 per cent increase in yield in 1952 and a 23 per cent increase in 1953. If the average for the two years, one with unfavorable and the other with favorable weather conditions, is taken, there appears to have been a 16 per cent increase in productivity from prewar.

Sugar beet production in 1951/52 was 80 per cent higher than before the war (1936/39) and in 1952/53 92 per cent higher; the increase was 12 and 25 per cent, respectively, for grapes,

22 and 35 per cent, respectively, for potatoes and other vegetable produce and 69 and 67 per cent, respectively, for fruit crops.

Such an increase in yield was to be expected, considering the increase in consumption of nitrogenous fertilizers, from an average of 1,119 thousand quintals in 1936-39 to 1,613 thousand in 1951/52, to 1,813 thousand in 1952/53, or by 44 and 62 per cent, respectively; and considering the increase in the number of tractors on farms from an average of 36 thousand in 1936-39 to 81 thousand in 1952 and 101 thousand in 1953.

The higher degree of mechanization and the technological improvement explain the paradox of higher farm production not only without any increase in employment but, on the contrary, with a fall of 11 per cent in the agricultural population from 1936 to 1953.

These trends, undoubtedly a sign of progress, must be borne in mind when discussing the problem of unemployment and the difficulties of solving it in a country where population continues to grow.

Developments in the field of industrial production are marked by a 12 per cent rise in the index of foodstuff production (from 134 in 1950 to 150 in 1953), by an increase of 8 per cent in the index of production of other consumer goods (from 105 in 1950 to 113 in 1953, a smaller increase owing to the fall in production of textiles), and finally, by a striking rise of 53 per cent (from 117 in 1950 to 179 in 1953) in the index of capital goods production.

The index of cement production, which was 125 in 1950 (1938 = 100), reflecting the extensive reconstruction effort then under way, rose to 189 by 1953, a level almost twice as high as in the prewar period. In 1953 the chemical and related industries more than doubled their 1938 output.

Production of automotive vehicles, aggregating 59 and 101 thousand units in 1938 and 1950, respectively, reached almost 143 thousand units in 1953; production of industrial automotive vehicles rose, in the same periods, from less than 12 thousand

units to 26.5 and 31.5 thousand; finally, the production of agricultural tractors in 1953 was seven times that of 1938.

In summary, in only three years industrial production increased by more than 34 per cent, if construction is included, and by 29 per cent, if it is excluded. What is more important is that the index of capital goods production has shown an almost rectilinear rise of 53 per cent, without interruption or noticeable slowdowns, which proves that the impulse to higher investments rather than being of a cyclical nature, was well within the framework of a substantial and orderly increase in national income. The expansion of industrial production has continued in the early months of 1954; the index of industrial production rose by 12 per cent in the first quarter of 1954 over the same period of the previous year and there was not a single main sector showing a decline. Even steel production experienced a vigorous recovery after the temporary reduction of activities on the eve of the creation of the Coal and Steel Pool.

Among the countries of Western Europe only the Netherlands has shown an increase in industrial production in 1953 higher than Italy's; in respect to prewar, the index of per capita production in Italy is slightly exceeded only by that of some Scandinavian countries.

Industrial employment is not below prewar; on the contrary it rose by more than one million, or by 21 per cent from 1936 to 1953, a much lower percentage than that reflecting the increase in industrial production in the same period of 76 per cent.

In both agriculture and industry, therefore, the present stage of Italy's productive development is characterized by a redoubled need for capital investments to increase productivity and provide the new installations which must absorb the growth in the available labor force resulting not only from natural factors but also from the modernization of plants and the progress in methods of cultivation which release a considerable number of workers.

The need of our economy for investment is made apparent not only by the expanding domestic production of capital goods,

but also by the large importation of machinery, with a total value of 220 billion lire, made possible in recent years by special financing granted by the Government to productive enterprises and originating from ERP funds or from sterling balances accumulated in excess of Italian requirements for raw materials and consumer goods.

The Italian economy, therefore, is characterized by the need for a substantial amount of investments, a need which, however, appears of a temporary nature and is likely to lose intensity together with the two factors that now support it, i.e. the basic changes in the productive structure and the rate of population growth.

This interpretation justifies the belief that, during this transitional stage, consumption should develop at a slower pace than apparently warranted by the increase in production, in order to devote the largest possible share of income to capital formation; on the other hand, it points to the need for a particularly strong appeal to international cooperation to help us in the achievement of our goals. Because the need is a temporary one so will be the foreign capital contributions required.

Such a profound and rapid process of reconstruction as that under way in Italy for several years, is necessarily based on large investments and could not be successful without energetic Governmental action. The latter helps to remove obstacles which slow down or increase the costs of the process and to provide for the financing — often, however, at the cost of budgetary deficits — of projects of general interest, essential for the stimulation of private initiative and of capital formation.

The reconstruction process is also furthered by an extraordinary expansion of credit to sustain the increase in production needed for the generation of additional income. Furthermore, the process often exerts strong pressure on the balance of payments which may result in a deficit or in an increase of the existing one; finally if this exceeds certain limits, it may lead to increases in prices which defeat the very purpose of the process and create distortions in the distribution of income.

The Treasury's Cash Position

Total Government cash expenditures amounted to 1,694 billion lire in 1950, 1,871 billion in 1951, 2,342 billion in 1952, and 2,548 billion in 1953. They expanded by 177 billion lire from 1950 to 1951, by 471 billion from 1951 to 1952, and by 206 billion from 1952 to 1953; from 1950 to 1953 they increased by 854 billion, or by 50 per cent.

There was, fortunately, a parallel increase in revenues including ERP counterpart funds, the flow of which has, however, gradually decreased since 1951, by approximately 50 billion per year.

Total revenues, net of borrowing from banks and from the public, amounted to 1,335 billion lire in 1950, 1,568 billion in 1951, 1,876 billion in 1952 and to 2,077 billion in 1953. Thus there was a healthy and steady increase, amounting to 742 billion, or 55 per cent, from 1950 to 1953.

Notwithstanding this remarkable increase in revenue, in both absolute and relative terms, the Treasury's need to borrow or to use funds previously accumulated at the Bank of Italy declined only slightly from 1950 (359 billion lire) to 1951 (303 billion) while it rose sharply from 1951 to 1952 (466 billion) and again, although to a smaller extent, in 1953 (471 billion).

However, because of the pressure of demand from the private sector, arising from the dynamic process of production, there was a decline from 1950 to 1953 in the flow of savings from institutions and individuals, excluding banks but including postal savings accounts, to the Government. This flow amounted to 287 billion lire in 1950, 194 billion in 1951, 239 billion in 1952, and 263 billion in 1953. The 1953 flow was 24 billion less than in 1950, when the private sector was exerting less pressure on savings.

Funds obtained by the Government from the capital market, i.e. subscriptions to Government securities by individuals for the direct investment of their savings, excluding bank subscrip-

tions, amounted to 96 billion lire in 1950, 80 billion in 1951, 61 billion in 1952, and 86 billion in 1953.

Owing to the inadequacy of the flow of savings the Government had to resort more heavily to bank loans and was forced to withdraw some of its deposits with the Bank of Italy. The amounts involved were 72 billion lire in 1950, 109 billion in 1951, 227 billion in 1952, and 208 billion in 1953.

Apart from any consideration, however significant, regarding the impact on the interest rate of the Government demand for loanable funds in competition with a lively demand from the private sector, it is important to call attention to the fact that the Treasury must bear for some time to come the burden arising from the old budget deficits of 1951/52 and 1952/53, which thus far have only partly affected its cash position.

The Finance of Production

It was to be expected that the rapid economic expansion of the recent years promoted and sustained by a rise in Government expenditures of 850 billion lire from 1950 to 1953, should require the contribution of large sums of savings for the renewal and expansion of equipment and for the financing of a higher level of production. Private enterprises have floated directly on the capital market (banks excluded) shares and securities in the amount of 125 billion lire in 1950, 127 billion in 1951, 166 billion in 1952 and 265 billion in 1953.

The volume of savings channeled to economic activities by banks, savings banks and by specialized medium and long-term credit institutions, amounted to 369 billion lire in 1950, 347 billion in 1951, 603 billion in 1952 and 601 billion in 1953.

Thus, the total contribution of savings to the process of economic development aggregated around 500 billion lire in 1950 and 870 billion in 1953, with an increase of 370 billion, or around 75 per cent. If credit granted by the « Cassa DD.PP. » is added, the 1953 total exceeds 950 billion, not including expenditures from the Government budget.

A 50 per cent increase over a period of three years in Government expenditures was bound to create difficulties for the Treasury; similarly, the more pronounced increase of 75 per cent in the volume of funds supplied to business and individuals by the capital market and the banking system necessarily created difficulties in monetary management, which were not overcome until 1953.

For a better understanding of this phenomenon it may be useful to consider the lags that have occurred in past years between inflows and outflows of money to and from the banking system; the existence of such lags proves that the equality between inflows (deposits) and outflows (loans) which is true in the long run may not exist over short periods, often lasting longer than a few months. At times, a low volume of loans is accompanied by an abundant inflow of deposits while at other times a slow increase of deposits is accompanied by a heavy need for loans, a situation which can only be met by tapping sources outside the ordinary credit system, particularly the Central Bank.

While in the latter case the Central Bank, especially under the Italian system, can exercise its controls over the volume of credit granted by commercial banks, in the former case any control is largely out of its hands.

The increase in banks' deposit liabilities during the first nine months of 1950, net of those absorbed in meeting legal reserve requirements, aggregated 130 billion lire; the expansion of banks' loans to business and individuals amounted, during the same period, to only 90 billion; if minor operations are disregarded we notice that there was during the same period an increase of around 70 billion in banks' investments in Government securities, excluding those needed to meet reserve requirements.

In the following nine months, from October 1950 to June 1951, when prices were rising both at home and abroad, banks' deposit liabilities, net of reserve requirements, increased only 118 billion lire at a time when bank loans were expanded by 266 billion; the difference of roughly 140 billion was financed by the liquidation of ordinary Treasury bills, the withdrawal

of funds deposited with the Treasury and the Bank of Italy and especially by resort to rediscounts and advances from the latter.

These two phases were, therefore, of entirely opposite character; only in the second one was the Bank of Italy in a position to exercise effective controls over the banking system.

A cyclical phase of great liquidity followed, roughly from July 1951 to September 1952, i.e. a few months after the economic revival; during this period the net inflow of deposits aggregated more than 655 billion lire while bank loans scarcely exceeded 400 billion.

The banking system remained highly liquid even after repayment to the Bank of Italy of rediscounts and of advances; the excess funds were used to build up deposit balances with the Bank of Italy or to finance the purchase from the Government of ordinary Treasury bills, for 80 billion lire, and of long-term securities, for 30 billion; moreover, a total of about 40 billion of other securities were purchased directly from the public. It was during this period that the Bank of Italy had to supply to the Italian Exchange Office upwards of 250 billion lire to finance an export surplus.

The accumulation of liquidity coincided with an expansion in the cash deficit of the Government which was not entirely covered by banks' investments in Government securities. It became necessary to increase the Treasury's indebtedness with the Bank of Italy by a total of 138 billion; by contrast, during the preceding fifteen months the Treasury had built up its credit balances with the Central Bank by 36 billion Lire.

This period of liquidity was also characterized by an expansion of consumers' purchasing power resulting from large increases in wages and salaries in some cases made retroactive and entailing the payment of large sums, and from an increase in benefits of the Social Insurance Fund (also involving the payment of arrears) which, in the fields of old age insurance, dis-

ability insurance and family allowances alone, rose from 270 billion lire in 1951 to around 400 billion in 1952.

Obviously an expanding economy must avoid a development of demand so rapid as to cause inflation or a contraction of expenditure so rapid as to cause deflation; it must be admitted that in the period under consideration we had difficulties in attaining these objectives.

Extraordinary measures might have been implemented such as the «freezing» of some proportion of the local currency proceeds from the large exports of the period, a device to which some foreign countries have resorted under similar circumstances. It would have been rather difficult, however, to avoid the discrimination implied between enterprises engaged principally in exports and those producing for the domestic market or, within the export sector, between exporters to different currency areas.

During the following fifteen months, from October 1952 to the end of 1953, a better equilibrium prevailed in all fields; it was characterized by a return to a normal relationship of trends in the fields of money and credit and of production, the latter of which experienced a lively expansion.

Banks' deposit liabilities, net of reserve requirements, increased more than 680 billion lire in this period, an increase almost equal to that recorded in the preceding fifteen months while the expansion in loans was 760 billion as compared with 400 billion in the preceding period.

Under a policy designed to convert short-term debts into longer-term securities, in November 1952 and November 1953 public offers were made of 80 billion lire of twenty-year bonds of the Credit Institute for Public Works intended to benefit the State Railways. In order to stimulate the flow of investment to medium-term securities, in May 1952 the interest rate for ordinary Treasury bills was reduced by .50 per cent; in January 1953, the rates on several classes of bank accounts at the Treasury and at the Bank of Italy were reduced and some of these deposit accounts eliminated.

The banking system, in addition to expanding its loans by 760 billion lire, invested during the period under consideration more than 150 billion in long-term Treasury bonds and in other securities. The liquidation of ordinary Treasury bills, upon maturity, of around 100 billion, was not enough to meet the need for funds and the banking system had to draw on its deposit balances with the Bank of Italy and resort to that institution for rediscounts and advances amounting to around 130 billion.

The deficit in the balance of payments led to a 90 billion lire reduction in the indebtedness of the Italian Exchange Office to the Bank of Italy which offset the expansion in currency issue originating from the financing of the budgetary deficit (95 billion lire) net of borrowing from the capital market. By the end of the year the liquidity of banks had returned to normal proportions and the Central Bank had re-established fully its control over the banking system.

Because of the difficulties we meet in the implementation of a flexible monetary policy, we are impressed by the action of the American authorities who succeeded in changing twice their monetary policies in the course of a single year. When production was expanding and inflationary symptoms were appearing, they did not hesitate to reduce the liquidity of the market by all available means in order to check the expansionary outburst; when, on the other hand, there were clear indications of a fall in production, they promptly reversed their policy and supplied the market with new funds, employing inter alia open market operations with the objective of stimulating production or, at least, of slowing down its decline.

Balance of Payments, Production Costs and Consumption Trends

Two years ago, in this same room and on this same day, we had to draw attention to our balance-of-payments problem and to the difficulties which lay ahead. This caused some surprise and incredulity, as we were then emerging from a period characterized by large exports to the sterling and French franc areas and as our stockholders had been convened to review trends in

1951, a year that saw Italy's foreign exchange holdings increase by the large amount of 155 million dollars.

In accord with our pessimistic expectations there was, unfortunately, a large expansion of our trade deficit from 275 million dollars in 1951 to 728 million in 1952 and a no less alarming expansion of the deficit on goods and services (excluding U.S. aid) from 236 million dollars in 1951 to 579 million in 1952.

In 1953, according to final balance of payments estimates, which are substantially different from the preliminary estimates heretofore published, there was a trade deficit of 718 million dollars as compared with 728 million in 1952, and a deficit on goods and services account of 429 million dollars as compared with 579 million in 1952.

There was, therefore, an improvement in our current account position — which is what counts regardless of trade trends — of 150 million dollars, almost exclusively resulting, however, from an increase of 140 million dollars, or 94 per cent in new receipts on invisibles account (excluding American aid and offshore purchases) from 149 million dollars in 1952 to 289 million in 1953.

The 1953 improvement of the trade balance was slight but still important having been accompanied by a 12 per cent expansion in both the volume of exports and of imports. Moreover, while the increase in the volume of imports occurred chiefly in the first quarter of the year, as a projection of the 1952 expansion, exports started to expand in March and continued to rise for the rest of the year.

Also, in this field, therefore, as in that of public finances and of monetary management, the phase of maximum strain, which has accompanied our growth in the recent years, can be considered as overcome. Both the customs returns and the records of exchange movements show that the improvement continued during the first quarter of 1954.

If American aid and defense expenditure, in the amount of 240 million dollars in 1952 and 233 million dollars in 1953, are

deducted from the current account deficit we obtain a net deficit of 339 million dollars in 1952 and of 195 million dollars in 1953, largely met by using foreign balances or lines of credit of Italian exporters and importers. In fact, the records of the Italian Exchange Office, which cover only cash movements, EPU and clearings balances, show only a moderate decline in official reserves of 93 million dollars in 1952 and of 57 million dollars in 1953.

The deficit with the convertible currency areas reached, in the period 1950-1953, a peak in 1951, with 321 million dollars, and a low in 1953 with 20 million dollars. The improvement of around 300 million dollars is in line with the general progress of Europe towards a reduction of its «dollar gap». The deterioration in the balance of payments position of Italy vis-a-vis EPU countries was, instead, very serious, as shown by a difference of 575 million dollars between the surplus of 263 million dollars during April 1951-March 1952, the best period, and a deficit of 311 million dollars during January-December 1953, the most unfavorable period.

It must be observed that the overall balance of payments results for 1953 already reflect the structure of international prices achieved after the end of the Korean cycle as well as the general process of inventory reduction. Should the recessive phase in the American economy rapidly come to an end as appears likely and a movement of recovery follow the present period of general caution, there might presumably ensue some rise in raw material prices which would turn the terms of trade (still somewhat better for manufacturing countries as compared with the pre-Korean situation), in favor of raw material producing countries. Some price increases have occurred in recent months, especially with respect to foodstuffs, copper, tin, lead, zinc and cotton. On the other hand, export prices for manufactures are falling to an increasing extent under the impact of the sharp competition waged by different countries, at times, through the use of special export incentives.

If the future course of international prices conforms to these forecasts, it is clear that some European countries would

suffer a reduction of the surplus in their balance of payments while we would face a deterioration of our deficit chiefly as a result of an increase in raw material prices. Furthermore, the process of trade liberalization within OEEC countries which is of vital importance for us, would suffer a set-back.

However, an improvement in the terms of trade of raw material producing countries may favorably affect our textile exports, which are extremely elastic to income fluctuation in underdeveloped countries.

A different aspect of our problem is that technical improvements in some sectors, such as the steel and part of the machine industry, may reduce our need to import special equipment not yet produced in Italy, but essential for technical progress and cost reduction. Other possible favorable factors are an increase in receipts from tourism, a reduction in grain imports, which should be at a very low level at least in 1954, and larger imports of certain bulk materials from countries willing to purchase more from us. One should not forget, however, that the continuation of our struggle against unemployment and for the improvement of the economic conditions of our lowest income groups implies the adoption of vast programs of public works, of land reclamation and industrial reconstruction and development, which may weaken our balance of payments position.

It would be a serious mistake to rely upon balance-of-payments forecasts limited to one or two years; it is possible that the disbursement, during such a period, of aid previously granted or the extraordinary payment for foreign military purchases may avert a deterioration in our foreign exchange position. Prompt action is necessary; otherwise we may be confronted with a difficult situation in a few years which may call for drastic measures, the adoption of which would obstruct the harvesting in the economic and social fields of the fruits of our present effort.

We must also warn against the illusion that equilibrium in the balance of payments can be re-established by the use of export subsidies, retention quotas, long-term credits to export

industries or of import restrictions through tariffs or through the extreme measure of the re-adoption of import quotas.

These remedies are inspired by a purely mechanical conception of the balance of payments and could not solve our basic problem, apart from their possible conflict with our international obligations and declarations. To deprive our economy of capital in order to grant long-term credits abroad can, in our case, be justified only by very special circumstances, no matter what the other countries do. Above all our industrial and agricultural development must occur within the framework of real international competition, and our market must be increasingly opened to foreign competitors.

The purpose of utilizing the large balances accumulated abroad in the period of export expansion was not the only reason for the return to such a large degree of trade freedom by Italy.

After sheltering our economy from international competition for a long period, after salvaging various enterprises by the establishment of unrealistically high prices or by Government absorption of a large share of their production, we indeed believed the moment had come to test the ability of private initiative to assert itself in an environment of general expansion promoted, or at least unhampered, by Government action. A unique chance to do so was our membership in a community of nations which stands as a clear demonstration that the ideals of cooperation and of mutual assistance are not mere words. These institutions have proved valid instruments for assisting less privileged countries to overcome their structural difficulties and to develop the latent forces of their economies.

We should now like to point to some circumstances of a general nature that may have contributed in recent years to obstructing the necessary expansion of our exports, even disregarding the impact of measures taken abroad to restrict imports or to promote exports through subsidization or credit facilities, measures against which we strongly complain. We wish rather to ascertain the impact of changes in our internal

prices on our international competitive position, disregarding for a moment important forces that affect it from within each enterprise.

Wholesale prices were stable and limited fluctuations were shown in 1953; the index for Italy moved similarly to the indices for other countries while in 1952 there had been price stability in Italy and some downward trend abroad.

Due to the declining trend shown by raw material prices on the international market during most of 1953, the producers of industry had some leeway — more or less adequate, according to the volume of production and to its destination for either the domestic or the international market — to meet service charges on their large capital investments as well as wage increases (which were particularly strong in the spring and summer of 1952).

As a whole, there was also an improvement in market conditions for agricultural production although this covers a variety of situations, some sectors showing an improvement, others a deterioration, others meeting with critical financial difficulties.

While prices of capital goods showed a declining trend, consumer goods prices moved upward. The decrease in capital goods prices is largely to be attributed to the trade liberalization and the opening of the European coal and steel market; the increase in consumer goods prices originated chiefly from the high level of demand sustained by Government spending and wage increases, but also from the rise in agricultural foodstuffs prices aggregating 10.4 per cent from June 1952 to June 1953 and 2.5 per cent through February 1954. This contrasts with the downward trend of prices during 1953, for similar commodities, in most foreign countries except the United Kingdom. The index of cost-of-living, so closely linked with wages, recorded a slight increase in Italy, while it remained stable or declined moderately in other countries.

Should our productive effort be continued — as it must — the demand for imports would inevitably rise. All efforts must be made to prevent this rise from being carried too far by a

rapid expansion of consumption; at the same time we must bring our prices down to a competitive level because an expansion of imports can only be sustained by a strong expansion of exports.

Substantial increases in wages, often involving the payment of arrears, were often granted during short periods, which resulted in price rises and were further spread by the sliding scale mechanism; these effects would not occur if wage adjustments were better distributed in respect to time.

From June 1950 to date the increase in real wages amounted to 11 per cent in Italy, 3 per cent in the Netherlands, 4 per cent in Belgium, 3 per cent in Denmark, 8 per cent in the United States, while there was no increase in the United Kingdom and Norway. Other countries with higher increases in real wages are all in a difficult foreign trade position, with the sole exception of Germany, where the level of real wages was initially rather low.

A very recent study jointly prepared by the Secretariats of ECE and FAO on the European agricultural problems deals with changes in per-capita consumption and in retail prices for principal foodstuffs from the pre-war period to 1950/51 in ten countries of Western Europe, including Italy. This investigation shows that the increase in per-capita real income in Italy was larger than the average increase for the group as a whole which includes Denmark, Norway, Sweden, the United Kingdom, the Netherlands, France, Western Germany, Switzerland and Austria; it also shows that the increase in food consumption was accompanied in Italy by a rise in food prices, which did not occur in the other countries.

It is not without concern that, bearing in mind our foreign trade disequilibrium, we read the recent annual report of ECE and particularly those sections which deal with the distribution of industrial production amongst private and public consumption, investment and exports. In all the four countries under study (Western Germany, the Netherlands, Sweden and the United Kingdom), the proportion devoted to private consumption was kept within limits, if not reduced, while the proportion for export was kept at a high level. In Italy instead, the increase

in home consumption was larger than the slight expansion in our exports.

While we warn against the adoption of measures leading to an excessive increase in consumption, especially with respect to employed workers who have improved their standard of living from pre-war, we do wish to emphasize our strong opposition to protection or subsidization as often requested by various sectors and even by various individual enterprises.

Tariff increases, adoption or strengthening of import restrictions, Government purchases in the market to support prices and related financing result in price rises, in added pressures for wage increases, and lead, directly or indirectly, to higher production costs and to falling exports.

The great test of our vitality and of our ability to abandon the production and trade schemes of the prewar years is the achievement of a sustained expansion of industrial and agricultural production at lower costs. Only in this way can we avoid the unhealthy conditions of low levels of production at high prices in which case even a devaluation would only be a means of reaching an ephemeral balance in our international accounts.

In the near future we may meet with greater difficulties in our international trade or may be confronted with problems for which new solutions must be devised, especially in view of the possible return to convertibility by one or more countries of Western Europe who are our important trading partners.

It is impossible today to visualize the exact nature of the decisions to come, the fields to which convertibility will apply, its geographical coverage, manner of implementation and acceptance in other countries. The prediction can be safely made that it will result in an increase of the severity of international competition and that it will be a great test for all.

We should be prepared to meet this decision with an unprejudiced mind for tomorrow, more than today, international trade will become the basic factor of our economic development.