ACC 10000/101/500

10000/101/500

FINANCE
JULY 1943 - FEB. 1944

UD ~~[illegible]~~ 92

Subject: Report on Activities of the Financial Division (10 July - [illegible] August 43)

[illegible]

AMGOT H.Q. SICILY

13 Sep 43.

To: [illegible]

[illegible]

1. The spearhead of the Finance Division into Sicily was represented by five officers, two with 8th Army and three with 7th Army. Through chronic shortage of personnel, the latter group were employed for some time as Civil Affairs Officers.

2. In initial stages, the instructions prepared at [illegible] for both [illegible]'s and C.A.O's worked adequately. On 20th July, a meeting was held at [illegible] to discuss current problems in the light of experience. This resulted in the issue of G.A.I. No. 14 laying down the method of treating State salaries, pensions, and military family allowances. Staff continued to arrive sporadically at different ends of the Island; and it was not until 9th August that the majority reported for duty. By the end of the month, 22 officers were assigned to the Provinces and 23 to Headquarters. This latter amount includes 13 Accountants and 5 on the staff of [illegible]; both of which sections must be centralised for reasons of efficiency.

3. I should like to take this opportunity of saying how tirelessly the staff have worked, from the jack-of-all-trades in the Province to the specialist at Headquarters.

[illegible]:

4. From the first day of occupation it was clear that the heaviest demands on [illegible] for advances would be for (a) normal recurrent expenditure, mainly salaries, (b) relief and (c) payments for grain. Together these still remain our principal expenditure which has increased considerably since the rise in the subsidy paid for grain under G.O. No. 3.

5. Budgets for Communes and Provinces were found to be available in great detail at the Provincial capitals. But no centralised records exist for State Expenditure as the civil services were paid direct from Rome. Since its arrival the Revenue Section has concentrated on obtaining information on the many and varied forms of State concerns, but it has not been found possible to centralise Island-wide activities in the Capital. Thus, when permission was granted by the C.C.A. to pay Army and Civil Service pensions, instructions were issued on a provincial level to make the necessary payments and book against State expenditure. Through lack of records, communications and transport, it has been impossible and probably not wise, to centralise in Palermo, the work previously done in Rome.

6. Italian Revenue offices are re-assembling their dispersed personnel and records; and are being re-housed where necessary. The staffs of the monopolies, Customs and Lotteries are largely idle, but the Intendente has been instructed to use them to replace staff shortages and to deal with arrears of work in other revenue sections. Fairly large stocks of tobacco belonging to monopolies are

Affairs Officers.

2. In initial stages, the instructions prepared at AMGHQ for both F.O's and C.A.O's worked adequately. On 20th July, a meeting was held at AMGHQ to discuss current problems in the light of experience. This resulted in the issue of G.A.I. No.14 laying down the method of treating State salaries, pensions, and military family allowances. Staff continued to arrive sporadically at different ends of the Island; and it was not until 5th August that the majority reported for duty. By the end of the month, 22 officers were assigned to the Provinces and 23 to Headquarters. This latter amount includes 13 Accountants and 5 on the staff of AMFA; both of which sections must be centralised for reasons of efficiency.

3. I should like to take this opportunity of saying how tirelessly the staff have worked, from the jack-of-all-trades in the Province to the specialist at Headquarters.

PUBLIC FINANCE:

4. From the first day of occupation it was clear that the heaviest demands on AMFA for advances would be for (a) normal recurrent expenditure, mainly salaries, (b) relief and (c) payments for grain. Together these will remain our principal expenditure which has increased considerably since the rise in the subsidy paid for grain under G.O. No.3.

5. Budgets for Communes and Provinces were found to be available in great detail at the Provincial capitals. But no centralised records exist for State Expenditure as the civil services were paid direct from Rome. Since its arrival the Revenue Section has concentrated on obtaining information on the many and varied forms of State concerns, but it has not been found possible to centralise Island-wide activities in the Capital. Thus, when permission was granted by the C.C.A. to pay Army and Civil Service pensions, instructions were issued on a provincial level to make the necessary payments and book against State expenditure. Through lack of records, communications and transport, it has been impossible and probably not wise, to centralise in Palermo, the work previously done in Rome.

6. Italian Revenue offices are re-assembling their dispersed personnel and records; and are being re-housed where necessary. The staffs of the monopolies, Customs and Lotteries are largely idle, but the Intendente has been instructed to use them to replace staff shortages and to deal with arrears of work in other revenue sections. Fairly large stocks of tobacco belonging to monopolies are reported in Catania where an investigation is now in process. The possibility of restarting this activity is under discussion with the Civilian Supply Division. It is estimated that the reopening of Lotteries would assist Sicilian revenue by 25/30 million lire per year net, and would give employment to the lottery agents normally remunerated by commission who will otherwise be placed on relief.

7. Unless large stocks of fiscal stamps or the original printing plates become available by next month, shortages are likely to cause us trouble.

8. Under General Order No.2, the moratorium was lifted to provide for all taxation payments; and persons could pay direct in cash or, having funds on deposit in a local bank, were allowed to authorise the bank to pay in cash, all taxation due. Up to the present time, little revenue has reached provincial or State treasuries and become available to reduce the cash required for advances. It should be remembered that a large amount of people are on relief, many are

5205

Declassified E.O. 12356 Section 3.3/NND No. 785015

living far from their homes; and the banks have not been opened. Considerable improvement is anticipated in September when a large portion of the August tax instalment, deferred by local orders to relieve hardship and avoid the seizure by the exactors of personal chattels, should flow into the coffers.

BANKING.

9. In late July a rough estimate of the cash position of the banks disclosed that the sum involved, excluding the provinces not then occupied, was about L.350,000,000 of which the bulk was in Caltanissetta, used a central store by the Banca d'Italia. Only in Ragusa and Palermo did the Banca d'Italia obey their orders from Rome to burn currency and securities. In the former, the amount of currency destroyed amounted to L.20,000,000 and in Palermo only L.70,000. These cases of inspired incendiarism, provided a useful stick with which to beat the Banca d'Italia when necessary.

10. Investigations in Palermo gave a picture for the whole island of deposits totalling L.6,000,000,000. Most banks had transferred the bulk of their securities to Italy, cash was largely dissipated, and as the date of occupation drew nearer, large quantities of assegni circolari and vaglia were paid out.

11. In Palermo, an Inspectorate committee of personnel from the local banks was formed to prepare and assemble data on the conditions of the banks. This committee has functioned well and has been in close contact with the Controller of Financial Institutions.

12. When the picture became clearer, it was agreed that the banks should be re-opened on a basis of L.5,000 maximum withdrawal plus payrolls and taxation payments, as the idea of a limited percentage withdrawal is abhorrent to the Sicilian, and strongly suggests the final payment of a bankrupt. The date of the re-opening of the banks was conditional upon the reception of further A.M. lire from the U.S.; and General Order No.6 was not published until a date after the end of the period covered by this report. It decreed that banks in the Palermo Province could be opened on 6th September, and all other banks on 15th September; the delay being caused by physical distribution of cash to the banks on an island-wide basis. The Banca d'Italia is not to be re-opened except for Treasury operations.

13. The Banca Nazionale del Lavoro was thoroughly investigated as it was known that its business was closely allied to Fascist organizations, and handled exclusively the accounts of the Unione Fed Syndicates. A stringent blocking programme which will be dealt with in the next monthly report, has been imposed furnishing adequate safeguards in respect of this type of business. As the bank is the third most important in the Island, and transacts a substantial volume of ordinary banking business, it was decided to allow them to re-open in common with other banks.

14. Much difficulty arises on the method of dealing with Postal Savings. The Palermo post office was occupied by Seventh Army Rear Headquarters, and records have been destroyed and dispersed. Instructions have been issued to all Provinces to report on the appropriate liability for postal savings, and

L.70,000. These cases of inspired incendiarism, provided a useful stick with which to beat the Banca d'Italia when necessary.

10. Investigations in Palermo gave a picture for the whole island of deposits totalling L.6,000,000,000. Most banks had transferred the bulk of their securities to Italy, cash was largely dissipated, and as the date of occupation drew nearer, large quantities of assegni circolari and vaglia were paid out.

11. In Palermo, an Ispettorato committee of personnel from the local banks was formed to prepare and assemble data on the conditions of the banks. This committee has functioned well and has been in close contact with the Controller of Financial Institutions.

12. When the picture became clearer, it was agreed that the banks should be re-opened on a basis of L.5,000 maximum withdrawal plus payrolls and taxation payments, as the idea of a limited percentage withdrawal is abhorrent to the Sicilian, and strongly suggests the final payment of a bankrupt. The date of the re-opening of the banks was conditioned upon the reception of further A.M. lire from the U.S.A.; and General Order No.6 was not published until a date after the end of the period covered by this report. It decreed that banks in the Palermo Province could be opened on 6th September, and all other banks on 13th September; the delay being caused by physical distribution of cash to the banks on an Island-wide basis. The Banca d'Italia is not to be re-opened except for Treasury operations.

13. The Banca Nazionale del Lavoro was thoroughly investigated as it was known that its business was closely allied to Fascist organizations, and handled exclusively the accounts of the Unions and Syndicates. A stringent blocking programme which will be dealt with in the next monthly report, has been imposed furnishing adequate safeguards in respect of this type of business. As the bank is the third most important in the Island, and transacts a substantial volume of ordinary banking business, it was decided to allow them to re-open in common with other banks.

14. Much difficulty arises on the method of dealing with Postal Savings. The Palermo post office was occupied by Seventh Army Rear Headquarters, and records have been destroyed and dispersed. Instructions have been issued to all Provinces to report on the aggregate liability for postal savings, and the situation will then be re-examined. The Postal Savings system enjoys much confidence among the poorer elements of the population.

15. Another difficult problem is that of handling assegni circolari and similar types of paper. They are not being treated as deposits under General Order No.6; and we are considering their registration in order to ascertain the scope of our problem. No new paper is to be issued by banks without our express authorization; and existing holders cannot dispose of such paper. There is no doubt that the amount in the pockets of the people is very large.

5402

SOCIAL INSURANCE.

16. Of all problems concerning the Financial Division, this is the most complex. The field of Social Insurance embraces a number of complicated systems with accretions of a non-insurance nature, imposed by the Fascist Regime for

political motives. Of the many concerns the Istituto di Previdenza Sociale is the oldest and most efficient, and its continued operation is comparatively simple. The Casse Mutue Malattie which cover sickness were in some part under the aegis of the workers' and employers' syndicates. By implication the life of the syndicates has been terminated by the abolition of Contributi Sindacali under General Order No.2; and this question is inter-related to the labour proposals now under consideration. There is no reason why the Casse Mutue Malattie should suffer from the abolition of the syndicates, but it is considered necessary that their multifarious branches should be combined, for the sake of economy and efficiency into fewer institutions. Social Insurance is obligatory on employers. Only in the case of Contributi Unificati were premiums collected by the Esattori on rolls which combined:-

(a) Contributi Sindacali.
(b) Premiums for Previdenza Sociale.
(c) Casse Mutue Malattie Lavatori Agricoli.

A formula has been established for continuing collection by the Esattori of (B) and (C) but eliminating (A). This procedure will function until the end of the current year. Thereafter a plan is being prepared which will place the collection of (B) and (C) on the Esattori's land tax roll as an additional percentage.

17. Except in Agriculture, premiums to the Previdenza Sociale are paid by stamps purchased by the employer and affixed in the employee's booklet. Such stamps amounted to about 57 denominations, largely of fractional lire, and were previously supplied from Rome to the Previdenza Sociale and the Post Offices. In existing circumstances it is hoped that a new source of supply will not need to be established by AMGOT. In the case of Casse Mutue Malattie, premiums are paid by the employer by his own contributions and deductions from the employees' wages. All premiums are now being transferred direct to the Insurance concerns. Income has always fallen far short of Revenue; and AMGOT will find it necessary to supply substantial funds to enable the concerns to resume actively the payment of benefits.

18. In the field of private Insurance, investigations disclosed that none of the firms operating in Sicily has a Head Office in the Island. Each agency is independent, reporting directly to the mainland. It was decided not to grant financial assistance to such agencies but to re-examine them later on the mainland.

POSTAL SERVICES

19. As stated above, the General Post-Office in Palermo is occupied by the 7th Army to the exclusion of the Civilian staff; and the early days of August were taken up in finding alternative accommodation and in transferring what was left of the records from old offices to new. Meetings were held with the local postal officials from time to time. A large number of account statements and cash remittances on hand in the post offices were opened under supervision and statements prepared. On August 12th agreement was reached with ISL on the development of Civil mail services, which provided for the following :-

(b) Premiums for Previdenza Sociale.
(c) Casse Mutue Malattie Lavatore Agricoli.

A formula has been established for continuing collection by the Esattori of (B) and (C) but eliminating (A). This procedure will function until the end of the current year. Thereafter a plan is being prepared which will place the collection of (B) and (C) on the Esattori's land tax roll as an additional percentage.

17. Except in Agriculture, premiums to the Previdenza Sociale are paid by stamps purchased by the employer and affixed in the employee's booklet. Such stamps amounted to about 57 denominations, largely of fractional value, and were previously supplied from Rome to the Previdenza Sociale and the Post Offices. In existing circumstances it is hoped that a new source of supply will not need to be established by AMGOT. In the case of Casse Mutue Malattie, premiums are paid by the employer by his own contributions and deductions from the employees' wages. All premiums are now being transferred direct to the Insurance concerns. Income has always fallen far short of Revenue; and AMGOT will find it necessary to supply substantial funds to enable the concerns to resume actively the payment of benefits.

18. In the field of private insurance, investigations disclosed that none of the firms operating in Sicily has a Head Office in the Island. Each agency is independent, reporting directly to the mainland. It was decided not to grant financial assistance to such agencies but to re-examine them later on the mainland.

POSTAL SERVICES.

19. As stated above, the General Post-Office in Palermo is occupied by the 7th Army to the exclusion of the Civilian staff; and the early days of August were taken up in finding alternative accommodation and in transferring what was left of the records from old offices to new. Meetings were held with the local postal officials from time to time. A large number of account statements and cash remittances on hand in the post offices were opened under supervision and statements prepared. On August 12th agreement was reached with IIC on the development of Civil mail services, which provided for the following :-

Stage I. Delivery of postcards in Palermo.

Stage II. A similar delivery in other towns.

Stage III. Introduction of an inter-communication service between towns for postcards.

Stage IV. Inclusion of sealed letters in Stage III.

20. Agreement was reached with the 7th Army that the sorting offices in the main post office might be made available, a concession which enabled the delivery of postcards in Palermo to begin on 24th August. AMGOT postage stamps, of which a considerable stock has arrived, were on sale to the public at five branch post-offices in the City. Only the 15 centesimi denomination for postcards was issued. At the moment of writing this report, AMGOT postage stamps and covering instructions are being distributed through C.A.O's to Postmasters with a view to initiating similar deliveries in about 100 towns. Within the next month will follow the gradual introduction of a service between towns of both letters and postcards on an

5401

Island wide basis. It may then be possible to accept the large amount of letters from prisoners of war, which we are being pressed to deliver by Milmast.

AMFA AND CURRENCY.

21. During the first 12 days of occupation, A.M.F.A's activities were carried out in Algeria and Tunisia, and confined to completing arrangements both for receipt of the first air shipment of A.M. Lire, and with appropriate Finance Officers and Paymasters of the two Armies for proper accounting of A.M. lire transfers to the Armies by AMFA; and for preparation by the Armies of monthly statistical reports of their cash receipts and expenditures in Sicily.

22. Thereafter A.M.F.A. was engaged in transporting its first receipt of A.M. Lire to Sicily, carrying the currency into its accounts, making the first bulk transfers of A.M. Lire to the Armies and to the Provincial S.C.A.O's, acquiring the necessary vault and office facilities in Palermo, and establishing a bank account in the Banco di Sicilia. At the end of this period the first balance sheet of AMFA was prepared, dated 9 August 1943, and attached as Exhibit D. This balance sheet serves to recapitulate AMFA's principal activities during this period:

a) A.M. Lire notes received by air amounted, as of this date, to Lire 2,163.2 million. The full amount of these notes was carried into the balance sheet as a liability.

b) The sum of about 1,000 million lire was paid out to the Chief Finance Officer of the 7th Army, primarily for the purpose of meeting his 31 August payroll. A portion of this sum was, however, used to make exchange for North African francs and yellow-seal dollars still possessed by officers and men. Small amounts of BMA pounds were also presented for exchange.

c) The sum of 532 million lire was advanced to Provincial S.C.A.O's as working balances. The entire amount was charged to Occupation Costs. When any part of this is used to make advances to provinces, communes, or to various organizations and enterprises, these amounts will appear under "Advances" (presumed to be recoverable), with a consequent reduction in the amount charged to Occupation Costs.

d) AMFA made its first advance during this early period — other than transfers to the Armies or to AMG officials — in the form of an advance of 1 million lire to the State Railroads for the purpose of meeting essential payrolls.

23. In the remainder of the month of August AMFA's concern has been primarily with the following two groups of activities: (a) Participation in further development of policy and planning; (b) continued banking transactions, as reflected in the balance sheet of August 31, attached as Exhibit E.

a) In the field of policy and planning the principal matters have been:

1) Arrangements for the reopening of the banks, dependent on receipt of additional supplies of currency and now planned for the 6 September in Palermo Province. AMFA drew up the form of credit agreement to put the banks in funds (in collaboration with the Legal Division) and AMFA officers participated in

Declassified E.O. 12356 Section 3.3/NND No. 785015

[illegible] bulk transfers of A.M. Lire to the Armies and to the Provincial S.C.A.O's, acquiring the necessary vault and office facilities in Palermo, and establishing a bank account in the Banco di Sicilia. At the end of this period the first balance sheet of AMFA was prepared, dated 9 August 1943, and attached as Exhibit A. This balance sheet serves to recapitulate AMFA's principal activities during this period:

a) A.M. Lire notes received by air amounted, as of this date, to Lire 2,163.2 million. The full amount of these notes was carried into the balance sheet as a liability.

b) The sum of about 1,000 million lire was paid out to the Chief Finance Officer of the 7th Army, primarily for the purpose of meeting his 31 August payroll. A portion of this sum was, however, used to make exchange for North African francs and yellow-seal dollars still possessed by officers and men. Small amounts of UK pounds were also presented for exchange.

c) The sum of 532 million lire was advanced to Provincial S.C.A.O's as working balances. The entire amount was charged to Occupation Costs. When any part of this is used to make advances to provinces, communes, or to various organizations and enterprises, these amounts will appear under "Advances" (presumed to be recoverable), with a consequent reduction in the amount charged to Occupation Costs.

d) AMFA made its first advance during this early period -- other than transfers to the Armies or to AMG officials -- in the form of an advance of 1 million lire to the State Railroads for the purpose of meeting essential payrolls.

2. In the remainder of the month of August AMFA's concern has been primarily with the following two groups of activities: (a) Participation in further development of policy and planning; (b) continued banking transactions, as reflected in the balance sheet of August 31, attached as Exhibit B.

a) In the field of policy and planning the principal matters have been:

1) Arrangements for the reopening of the banks, dependent on receipt of additional supplies of currency and now planned for the 6 September in Palermo Province. AMFA drew up the form of credit agreement to put the banks in funds (in collaboration with the Legal Division) and AMFA officers participated in island-wide surveys of the banking situation.

2) Estimating currency needs, and scheduling arrivals. With additional shipments delayed, arrangements were made for the two Armies to continue to use of dollars and BMA's, and to provide such currencies for AMG use in emergency.

3) The accounting procedures and the allocation of accounting responsibility within AMG continued to occupy the attention of AMFA; a "modus operandi" has been agreed and the C.C.S. requested to approve our interpretation of their accounting instructions. 5404

b) The Balance sheet of 31 August, attached as Exhibit B, indicates, by comparison with Exhibit A, that AMFA's cash reserve has declined to 833 million lire. This decline was due chiefly to outpayments of an additional 293 million to Provincial S.C.A.O's between 10 and 31 August. At the same time, 112 million lire held by the S.C.A.O. at Siracusa were transferred to the General Paymaster of the 8th Army. These are being held by him as a reserve until enough lire can be supplied to permit the British forces to shift from BMA's to lire. Arrangements were also completed to provide funds to the U.S. Navy through the Disbursing Officer at the Naval Operating Base in Palermo. By the end of August 30 million lire had been turned over to him. The Royal Navy is able to obtain funds, when necessary, from British Army Paymasters. Funds needed by the American merchant fleet are being provided by the U.S. Naval Disbursing Officer. British-flag merchant ships or ships under British charter are currently being provided with funds by the Royal Navy, but other arrangements are under discussion with British Army Paymasters.

24. The balance sheet, form of which has since been amended, also shows a further development of AFHQ's activities in other directions. Advances to the State Railways increased to 30 million, principally for salaries. This represents the first advance made by AFHQ to an Italian State institution on an Island-wide basis. Toward the end of August the Civilian Supplies Division arranged its first export transaction — citric and tartaric acids — and came to AFHQ for an advance of 2 million to cover a partial payment to the supplier.

ACCOUNTS.

25. Owing largely to the delay in the arrival from Tripoli of the Chief Accountant, the majority of the Civil Affairs and Finance officers who were to undertake initial accounting operations, had left Cairo before receiving the administrative instruction on accounting, cash books and a supply of essential vouchers. These were dispatched, but failed to reach their destination, with the disappointing result that many officers landed in Sicily without instructions or forms.

26. On arriving in Palermo, where the security ban of North Africa no longer applied, the printing question was tackled, and urgently-needed forms and cash books were ordered and distributed to as many sub-accountants as could be reached. Several accounting officers have toured the provinces instructing and advising on accounting matters. A directive has been issued calling for returns of revenue and expenditure for the same period as covered by this report. As many accountants as could be spared have been sent to the provinces to assist in the preparation of these reports and to settle accounting queries on the spot. In view of the frequent changes in Civil Affairs officers - one commune has had four - it is hoped that this method will allow better results than to await the arrival of the reports and thereafter send off inquiries by correspondence. Progress has been made on the AMGOT accounting manual, which will prove of value to the inexperienced officer called upon to undertake financial duties.

27. Now that more centralized control is possible, we are considering limiting the sub-accountancy machinery to Finance officers except where the volume of work of a C.A.O. and inaccessibility to Provincial H.Q. justifies the appointment of a sub-accountant. To assist the provincial Financial officer, it was hoped to post an accountant to handle this increase in his work. But the proposed dilution of staff may result in our having to revert to the earlier and more cumbersome mechanism.

[illegible] Railways increased to 30 million, principally for salaries. This represents the first advance made by AMGOT to an Italian State institution on an Island-wide basis. Toward the end of August the Civilian Supplies Division arranged its first export transaction — citric and tartaric acids — and came to AMGOT for an advance of 2 million to cover a partial payment to the supplier.

ACCOUNTS.

25. Owing largely to the delay in the arrival from Tripoli of the Chief Accountant, the majority of the Civil Affairs and Finance officers who were to undertake initial accounting operations, had left Camp before receiving the administrative instruction on accounting, cash books and a supply of essential vouchers. These were dispatched, but failed to reach their destination, with the disappointing result that many officers landed in Sicily without instructions or forms.

26. On arriving in Palermo, where the security ban of North Africa no longer applied, the printing question was tackled, and urgently-needed forms and cash books were ordered and distributed to as many sub-accountants as could be reached. Several accounting officers have toured the provinces instructing and advising on accounting matters. A directive has been issued calling for returns of revenue and expenditure for the same period as covered by this report. As many accountants as could be spared have been sent to the provinces to assist in the preparation of these reports and to settle accounting queries on the spot. In view of the frequent changes in Civil Affairs officers - one commune has had four - it is hoped that this method will allow better results than to await the arrival of the reports and thereafter send off inquiries by correspondence. Progress has been made on the AMGOT accounting manual, which will prove of value to the inexperienced officer called upon to undertake financial duties.

27. Now that more centralized control is possible, we are considering limiting the sub-accountancy machinery to Finance officers except where the volume of work of a C.A.O. and inaccessibility to Provincial H.Q. justifies the appointment of a sub-accountant. To assist the provincial Financial officer, it was hoped to post an accountant to handle this increase in his work. But the proposed dilution of staff may result in our having to revert to the earlier and more cumbersome mechanism.

A.P. Grafftey-Smith

A.P. GRAFFTEY-SMITH
Colonel,
Chief Finance Officer.

5399

Declassified E.O. 12356 Section 3.3/NND No. 785015

EXHIBIT 'A'.

Allied Military Government
ALLIED MILITARY FINANCIAL AGENCY

Balance Sheet as of 9 August 1943

Assets.

(All amounts in Lire)

Cash.		
Current	743,319	
On deposit in Banco di Sicilia	576,936,000°	
In reserve	53,952,000	
Total cash		629,631,319°
Expenditures on account of occupation costs.		
U.S. Army	1,000,312,000	
Provincial A.M.G.O.s	532,160,000	
AMG Administrative expenses:		
Civilian Supply Division	4,000	
Adm.	20,621	
Total expenditures on account of occupation costs.		1,532,560,621
Advances.		
Railroads of the State	1,000,000	
Total advances.		1,000,000
TOTAL ASSETS.		2,163,200,000°

Liabilities.

New A.M. Lire notes received.	2,163,200,000°
TOTAL LIABILITIES.	2,163,200,000°

° Figures adjusted to show correct amounts on basis of check subsequent to 9 August.

5398

EXHIBIT 'D'

Allied Military Government
ALLIED MILITARY FINANCIAL AGENCY
Balance Sheet as of 31 August 1943

Assets.

(All amounts in lire)

Cash.			
Current			
Lire	396,982		
U.S. Dollars	317,300		
BMA pounds	20,480	734,362	
On deposit in Banco di Sicilia		163,417,264	
In Reserve		93,952,000	
Total cash			258,103,626
[illegible]			1,705
Angot stamps charged to Postal Section			20,000
[illegible] on account of occupation costs			
British Army	112,066,000		
U.S. Army	1,141,180,000		
U.S. Navy	30,266,000	1,283,512,000	
Provincial A.C.A.O.s.		610,056,000	
AMG HQ administrative expenses		267,643	
Total expenses on account of occupation costs.			1,893,[illegible]
[illegible] account, Civilian Supply Division			
Purchase of goods for export.			2,[illegible]
Advances:			
Railroads of the State		30,000,000	
Industries and individuals		5,000	
Total Advances.			30,005,000
TOTAL ASSETS.			2,164,077,974

Liabilities.

New A.M. Lire notes received.		2,163,200,000
Angot postage stamps issued		90,000
Deposits:		
Civilian Supply Division, sale of goods	214,332	
Property Controller, revenue from films	63,102	
TOTAL DEPOSITS.		277,434
Suspense account (deposit by CFO pending clearing of his imprest account)		510,[illegible]
TOTAL LIABILITIES.		2,164,077,974

5397

MGC/5386

CASUALTY RETURN A.F. 3011.

REGION 4

DATE	REF TO	DATE	REF TO	DATE	REF TO

Declassified E.O. 12356 Section 3.3/NND No. 785015

DATE REF TO DATE REF TO DATE REF TO

5096

S E C R E T

12 January 1944

REPORT OF THE FINANCE SUB-COMMISSION HQ AMG/ACC FOR DECEMBER 1943

I. Establishment of Headquarters at Naples

During the month of December, Headquarters of the Finance Sub-Commission AMG/ACC and AMFA Headquarters were moved from Palermo to Naples. Several officers arrived in Naples by air in the second week of December to obtain office space and furniture. The majority left Palermo by overland convoy on 18 December and arrived at Naples on 24 December.

Representation of this Sub-Commission at Command Post of ACC Brindisi was maintained throughout the month of December. Further important negotiations continued with Lt Colonel Guido Jung, Under Secretary of Finance; a report of the DCFO who has led those negotiations is attached. Some of the contents of this report are repeated in the main report of the Finance Sub-Commission, but it has been thought desirable to include it in its entirety in view of the high importance of the matters dealt with.

II. Price Policy

1. On the basis of two draft memoranda * submitted by AFHQ, and in anticipation of consideration of the problem by the Economic Directorate, the Finance Sub-Commission explored the problem of price policy for Italy. Later, it participated in the meetings of the Economic Directorate held to discuss price problems and in the drafting of a memorandum on the subject. In anticipation of the meetings on price policy scheduled to be held at AFHQ in January 1944, members of the Economic Directorate including representatives of the Finance Sub-Commission met with representatives of Regions I and II to discuss the various aspects of the price problem. The conclusions reached in these conferences were included in a memorandum titled "Views of ACC/AMG on Price Policy in Italy", which incorporated the unanimous views of the Economic Directorate and of ACC/AMG Headquarters as well. In response to its request, a copy of the memorandum was transmitted to the Central Economic Committee, and later was discussed with a representative of 15 Army Group and the Central Economic Committee. Lt Colonel Bernstein and Capt Baker-Bates went to AFHQ on 4 January 1944 to participate in the conferences on price policy in Italy.

2. With regard to imports, it was recommended that:

(a) Imported goods should be charged against the account of the Italian Government at landed cost in the currency of the country of origin; and that

(b) to keep subsidies as low as practicable, imported commodities should be sold in Italy, on behalf of the Italian Government at not less than the landed cost basis, except where, as in the case of wheat or coal, such action would result in such a price rise over the existing [illegible] arrived at Naples on 24 December.

Representation of this Sub-Commission at Command Post of ACC Brindisi was maintained throughout the month of December. Further important negotiations continued with Lt Colonel Guido Jung, Under Secretary of Finance; a report of the DCFO who has had these negotiations is attached. Some of the contents of this report are repeated in the main report of the Finance Sub-Commission, but it has been thought desirable to include it in its entirety in view of the high importance of the matters dealt with.

II. Price Policy

1. On the basis of two draft memoranda * submitted by AFHQ, and in anticipation of consideration of the problem by the Economic Directorate, the Finance Sub-Commission explored the problem of price policy for Italy. Later, it participated in the meetings of the Economic Directorate held to discuss price problems and in the drafting of a memorandum on the subject. In anticipation of the meetings on price policy scheduled to be held at AFHQ in January 1944, members of the Economic Directorate including representatives of the Finance Sub-Commission met with representatives of Regions I and II to discuss the various aspects of the price problem. The conclusions reached in these conferences were included in a memorandum titled "Views of ACC/AMG on Price Policy in Italy", which incorporated the unanimous views of the Economic Directorate and of ACC/AMG Headquarters as well. In response to its request, a copy of the memorandum was transmitted to the Central Economic Committee, and later was discussed with a representative of 15 Army Group and the Central Economic Committee. Lt Colonel Bernstein and Capt [illegible] went to AFHQ on 4 January 1944 to participate in the conferences on price policy in Italy.

2. With regard to imports, it was recommended that:

(a) imported goods should be charged against the account of the Italian Government at landed cost in the currency of the country of origin; and that

(b) to keep subsidies as low as practicable, imported commodities should be sold in Italy, on behalf of the Italian Government at not less than the landed cost basis, except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. The difference, if any, between landed cost charged to the Italian Government and the price collected for the account of the Italian Government would represent the Italian Government's subsidy.

3. With regard to commodities exported from Italy, it was recommended that exportable surpluses should be purchased from Italian producers at prices in Lire sufficient to cover actual cost at time of production, plus a fair profit unless the goods can be bought in the open market at lower prices.

---

* "Price Policy to be followed by AMG/ACC in Italy - Recommendations as to" - prepared by [illegible] 7 Dec 1943.

and

"Italy - Price of Coal and Handling of Coal" - prepared by Coal Section 5 Dec 1943.

4. It was recommended that exports from Italy should be sold abroad as far as practicable at prices equivalent to prices prevailing in the foreign markets concerned and the payment for exports to the U.S., U.K. and French North Africa should be respectively in Dollars, Sterling or Francs, credited to a special account held by or under the control of the British and American Governments.

5. Recommendations were also made with regard to passenger railway rates, Italian public utility rates and the price of coal and petroleum products.

III. Government Expenditure and Revenue

1. Revenue. Owing to the time spent in moving from Palermo to Naples, adequate information on tax collections has not been obtained. Revenues are not satisfactory, however, owing to disturbed economic conditions and, in part, to apathy, both of tax payers and of tax officials.

2. Field Workers. To meet this situation, six financial officers have been assigned for 30 days temporary duty in Regions I, II, and VI.

3. Taxation Plans. Study of the Italian tax system is continuing and new sources of information, both governmental and academic, have been consulted in Naples. It is intended within a few weeks to redraft the tentative tax revision plan previously submitted into a definitive programme for action.

4. Budget. The budget control proposals described in the November report went into effect in the latter part of December. The CFO 15 Army Group has also put into effect such of the proposals as were applicable to his problems. It is too early to report the results of this program.

5. Personnel. Lt Colonel [illegible], CFO, has joined the group at the Command Post [illegible] at Brindisi. Major [illegible], DCFO, is stationed at Naples.

IV. Financial Institutions

1. The Bank of Italy. Arrangements for the opening of the Sicily branches of the Bank of Italy were completed early in December and they reopened for business on [illegible] December 1943. Experience in Sicily indicated the possible need of a temporary head office for the Bank of Italy. Accordingly, discussions were held with Lt Colonel Jung of the Ministry of Finance and a plan was devised for designating the Naples branch of the Bank of Italy as temporary head office for liberated Italy and Sicily. Two individuals have been selected to be the administrative and policy heads respectively of this office, and discussions with them are now in progress.

Because the local managers in Sicily were hesitant to establish a value for government bonds accepted as collateral on loans to banks, it was agreed that all existing loans of this type should not be called by the Bank of Italy until a policy could be established for the Bank of

III. Government Expenditure and Revenue

1. Revenue. Owing to the time spent in moving from Palermo to Naples, adequate information on tax collections has not been obtained. Revenues are not satisfactory, however, owing to disturbed economic conditions and, in part, to apathy, both of tax payers and of tax officials.

2. Field Workers. To meet this situation, six financial officers have been assigned for 30 days temporary duty in Regions I, II, and VI.

3. Tax Revision Plans. Study of the Italian tax system is continuing and new sources of information, both governmental and academic, have been consulted in Naples. It is intended within a few weeks to redraft the tentative tax revision plan previously submitted into a definitive programme for action.

4. Budget. The budget control proposals described in the November report went into effect in the latter part of December. The CFO 15 Army Group has also put into effect such of the proposals as were applicable to his problems. It is too early to assess the results of this program.

5. Personnel. Lt Colonel Gross, CFO, has joined the group at the Command Post ACC at Brindisi. Major Nash, DCFO, is stationed at Naples.

IV. Financial Institutions

1. The Bank of Italy. Arrangements for the opening of the Sicily branches of the Bank of Italy were completed early in December and they reopened for business on 15 December 1943. Experience in Sicily indicated the possible need of a temporary head office for the Bank of Italy. Accordingly, discussions were held with Lt Colonel Jung of the Ministry of Finance and a plan was devised for designating the Naples branch of the Bank of Italy as temporary head office for liberated Italy and Sicily. Two individuals have been selected to be the administrative and policy heads respectively of this office, and discussions with them are now in progress.

Because the local managers in Sicily were hesitant to establish a value for government bonds accepted as collateral on loans to banks, it was agreed that all existing loans of this type should not be called by the Bank of Italy until a policy could be established for the Bank of Italy system as a whole. The credit agreements between AMG and the various banks in Sicily were not renewed as of 1 January 1944. The policy arranged with the Ministry of Finance in regard to the Bank of Italy was that it would accept as collateral short dated Treasury bonds and Government securities at par (with appropriate banking margins) and longer term bonds at a small discount, in making loans to banks. Instructions to this effect have been issued to all Bank of Italy managers by the Ministry of Finance. It is believed that this arrangement gives the banking system ample protection and liquidity and eliminates the need, in practically all cases, for AMG support in the future.

2. December maturity of Government bonds. An issue of Italian Government 4% bonds matured on 15 December 1943. Decision having previously been reached to redeem that part of the issue held in liberated Italy (estimated by the Finance Ministry at about 300,000,000 Lire), arrangements were made with AMFA to advance the Bank of Italy branches throughout Sicily and

the liberated mainland such funds as were required. Information on the net cash requirement for this transaction has not yet been received. It is believed from certain reports we have received that that part of the issue held in German occupied Italy was also redeemed.

3. Financing of Industry. Studies, begun in November, established the need for some form of Italian government financial assistance to industry. Such financing is now available in liberated Italy under a plan worked out with Lt Colonel Jung, Under Secretary of Finance. Applications in Sicily will be made to the Bank of Sicily and in the mainland to the Bank of Naples. These banks will study the applications together with AMG/ACC officials, and, on being convinced that financing should be furnished, arrangements will be made with the Italian government to guarantee the loans.

The plan contemplates that the following classes of enterprise shall be financed:

(a) Those whose products or services are necessary to the war effort.

(b) Those whose products or services are necessary to maintain or to aid the economic well-being of liberated Italy.

(c) Those whose reestablishment will employ labor and will produce vitally needed materials to be used elsewhere in the rehabilitation of liberated Italy.

No enterprise, however, will be financed with government aid except in instances where production is required to further the war effort unless:

(a) the enterprise is one which will be able to stand on its own feet and become self-supporting in the future.

(b) materials - raw or finished - to be purchased are available in sufficient quantities to obtain necessary amounts without creating competitive buying and hence an upsurge in prices.

Loans have already been arranged for two enterprises in Sicily, the products of both of which are being used by the armed forces, and other loans are under discussion in both the Sicily and Naples area.

4. Postal Savings System. Estimates obtained from the Ministry of Finance indicate that the resumption of full service in postal savings bonds would not cause a drain on the Government's financial position, except possibly for the first two or three weeks. In view of the desirability of absorbing excess currency in circulation, it has been decided to resume such service and to permit the sale of new bonds as soon as possible. Steps are being taken to obtain paper and printing facilities. As soon as a sufficient supply of new bonds has been distributed, redemptions and sales will be resumed throughout liberated Italy.

5. Bank of Naples. Since the arrest of Frignani, President of the Bank of

[illegible] that financing should be furnished, arrangements will be made with the Italian government to guarantee the loans.

The plan contemplates that the following classes of enterprise shall be financed:

(a) Those whose products or services are necessary to the war effort.

(b) Those whose products or services are necessary to maintain or to aid the economic well-being of liberated Italy.

(c) Those whose reestablishment will employ labor and will produce vitally needed materials to be used elsewhere in the rehabilitation of liberated Italy.

No enterprise, however, will be financed with government aid except in instances where production is required to further the war effort unless:

(a) the enterprise is one which will be able to stand on its own feet and become self-supporting in the future.

(b) materials - raw or finished - to be purchased are available in sufficient quantities to obtain necessary amounts without creating competitive buying and hence an upsurge in prices.

Loans have already been arranged for two enterprises in Sicily, the products of both of which are being used by the armed forces, and other loans are under discussion in both the Sicily and Naples area.

4. Postal Savings System. Estimates obtained from the Ministry of Finance indicate that the resumption of full service on postal savings bonds would not cause a drain on the government's financial position, except possibly for the first two or three [illegible]. In view of the desirability of absorbing excess currency in circulation, it has been decided to resume such service and to permit the sale of new bonds as soon as possible. Steps are being taken to obtain paper and printing facilities. As soon as a sufficient supply of new bonds has been distributed, redemptions and sales will be resumed throughout liberated Italy.

5. Bank of Naples. Since the arrest of Frignani, President of the Bank of Naples, that institution has been without a directing head. This situation being seriously undesirable, AC 15 Army Group and HQ AMG/ACC after investigation, have made arrangements with the Ministry of Finance for the selection of two individuals to take over the general management of the bank. One of these is a banker and will become the administrative head; the other is an industrialist of Naples and will become the director of policy. Discussions with these two men are now taking place, and it is hoped that an announcement of the appointment can be made in the near future.

V. AMFA

1. Receipts of New AM Lire. During the month large shipments of AM Lire notes were received, for the first time providing cash on hand sufficient to cover estimated needs for currency for more than one month in

5394

Declassified E.O. 12356 Section 3.3/NND No. 785015

It is now possible to estimate that cash on hand will cover all requirements in the area now occupied by Allied Forces for at least three months. Total receipts during the month amounted to 22,824,320,000 Lire, bringing the grand total received to date to 39,392,280,000 Lire. As the total ordered from the Treasury Department was 45,340,368,000 Lire, there remain to be delivered to AFHQ only 5,948,000,000 Lire. No further orders have been placed with the Treasury Department for AM lire notes.

2. Payments to the Italian State and its Armed Forces. During the month, arrangements were made to supply the Royal Treasury Section of the Bank of Italy with the funds needed to redeem the portion of the Buoni Novennali maturing on 15 December which was held in occupied territory. Also a credit of 200,000,000 Lire was issued by AFHQ in favour of the Italian Treasury. In so far as the Treasury was unable to secure funds required for other purposes from revenue or from the sale of short-term securities to the Italian banks, AFHQ made additional long-term advances to the Government, but only on a month-to-month basis. Such short-term securities have been sold to banks on the mainland, but not as yet to those in Sicily. A statement of the amounts involved is not available at this time. The sale of bonds to the banks means that AFHQ's advances no longer account for the entire deficit of the Italian Government, and the amount of this deficit must now be obtained from reports of the CBO.

Payments to Italian troops are now being made by the Bank of Italy from Treasury funds transferred to Italian paymasters by means of [illegible]. In cases where the Bank of Italy is short of cash, AFHQ will advance funds for account of the Italian Treasury either to the Bank of Italy, or in exceptional cases, to the Italian paymaster.

3. Payments to Allied Armed Forces. Arrangements were completed for direct advances from AFHQ to the Royal Navy and to the Royal Air Force, but only in areas where the British Army paymasters were not in a position to service the other two arms of the service. AFHQ also agreed to open deposit accounts in favour of "A" Force, from which payments could be made by qualified Allied officers to Italians. In this way these payments can be made by any AFHQ officer if no accredited "A" Force officer is available.

4. Redemption of Yellow Seal Dollars and BMA Pounds. During the month of December, the branch office in Palermo continued to pay out AM Lire to the Sicilian banks in exchange for yellow seal dollars and BMA pounds. The latter are being turned in by the banks in Catania in the amount of 1 to 2 million Lire per day. Prior to 21 December, the sum of 4,505,300 in yellow seal dollars and [illegible],750 in BMA pounds were returned to the paymasters of the respective Allied Forces. Contrary to the original proposal, however, the Allied paymasters gave receipts in dollars and pounds, respectively, instead of AM Lire. Accordingly, no [illegible] in these currencies were added to the occupation costs accounts.

5. Remittances from U.S. and U.K. As a result of the unwillingness of the Bank of Sicily to accept the exchange risk in holding dollars, OCS suggested that dollars and sterling deposited abroad be held by the Bank for account of AFHQ. This procedure was found acceptable, and a means of effecting remittances was discussed with the Finance Officers of Regions I and II. It is proposed that any remittances per person in per quarter, not to exceed £100, be transferred, at a fixed charge, by the Bank of Sicily or the Bank of Naples (in Region II). The U.S. Treasury Department would transmit a list of such remittances, in [illegible]

Declassified E.O. 12356 Section 3.3/NND No. 785015

basis. Such short-term securities have been sold to banks on the mainland, but not as yet to those in Sicily. A statement of the amounts involved is not available at this time. The sale of bonds to the banks means that AMFA's now does no longer account for the entire deficit of the Italian Government, and the amount of this deficit must now be obtained from reports of the CMO.

Payments to Italian troops are now being made by the Bank of Italy from treasury funds transferred to Italian paymasters by means of vaglia cambiari. In areas where the Bank of Italy is short of funds, AMFA will advance funds for account of the Italian Treasury either to the Bank of Italy, or in exceptional cases, to the Italian paymaster.

3. Payments to Allied Armed Forces. Arrangements were completed for direct advances from AMFA to the Royal Navy and to the Royal Air Force, but only in areas where the British Army paymasters were not in a position to service the other two arms of the service. AMFA also agreed to open deposit accounts in favor of "A" Force, from which payments could be made by qualified Allied officers to Italians. In this way these payments can be made by any AMG officer if no accredited "A" Force officer is available.

4. Redemption of Yellow Seal Dollars and BMA Pounds. During the month of December, the branch office in Palermo continued to pay out AM lire to the Sicilian banks in exchange for yellow seal dollars and BMA pounds. The latter are being turned in by the banks in Catania in the amount of 1 to 2 million lire per day. Prior to 21 December, the sums of 1,505,700 in yellow seal dollars and £487,750 in BMA pounds were returned to the paymasters of the respective Allied forces. Contrary to the original proposal, however, the Allied paymasters gave receipts in dollars and pounds, respectively, instead of AM lire. Accordingly, the amounts in these currencies were added to the occupation costs accounts.

5. Remittances from U.S. and U.K. As a result of the unwillingness of the Bank of Sicily to accept in exchange risk in holding dollars, OCS suggested that dollars and sterling deposits [illegible] be held by the Bank for account of AMFA. This procedure was found acceptable, and a means of effecting remittances was discussed with the Finance Officers of Regions I and II. It is proposed that such remittances per household per quarter, not to exceed $100, be transferred, at a flat charge, to the Bank of Sicily or the Bank of Naples (in Region II). The U.S. correspondent bank would transmit a list of such remittances, in duplicate, via AMFA to the Italian bank each month. Likewise a monthly list of persons who could not be found would be returned to the correspondent bank via the appropriate AMFA branch. AMFA would hold the dollar balances, and no payment of these dollars would be permitted by the U.S. Treasury Department unless certified by AMFA. However, AMFA would accept responsibility for payment to the payee in lire. The procedure for remittances from the United Kingdom was very similar, except that the Bank of England would act as sole correspondent of the Italian bank, and payments would be limited to £25 per individual per quarter. These proposals are now being presented to the Bank of Sicily before being transmitted to AFHQ.

6. [illegible] Allowances to British and American Nationals. Pending the establishment of a procedure by the U.S. [illegible], the Palermo branch was authorized to make payments not exceeding 4,000 lire per month per person, or 6,000 lire per month per household, on proper proof of eligibility. In other regions similar payments are being made by Finance Officers. On a [illegible] basis, AMFA

Declassified E.O. 12356 Section 3.3/NND No. 785015

will serve as a paying bank, but other AMG or State Department officials will undertake the task of approving applicants.

VI. Accounts

1. E&D Sicily Region. A report on an investigation into the accounting of the Economic and Supply Division (E&D) of Region I, and accounts showing the stock movements in quantity and the sales in quantity and in value were, together with a report dated 29 December on the general situation, submitted to the Chief Finance Officer on 31 December. Investigations into the accounting for petroleum products and medical supplies were also begun.

2. AMFA. The balance sheets of the various AMFA branches as of 30 November were reviewed and a consolidated balance sheet was prepared. The AMFA Headquarters bookkeeping was supervised.

3. AMG. Accounts for the period to 30 October were received from Regions I, II, and VI. These were examined, and those of Region I were discussed with the Regional Accountant. Accounts from Region III have not yet been received.

4. General. Senior officials of the accounting section were among those cooperating with representatives of the Industry and Commerce Sub-Commission on the subject of price policy.

Advance party to open Naples office arrived there on 15 December 43, and arranged premises at 51 Via Santa Brigida.

The Chief Accountant arrived 30 December 43, leaving a rear party still in Palermo, after closing the accounts of the Economic and Supply Sub-Division. Two additional officers have been ordered forward from Tizi-Ouzou to replace vacancies caused by sickness.

VII. Customs

1. Translation of Italian Customs Law. The translation of the Italian customs law was completed, but considerable editing of the translation is still necessary. The [illegible] customs regulations has been translated and edited.

2. Guardia di Finanza. Conferences were held with Colonel Bianchi, Commandante of the Guardia di Finanza for the Palermo District, and with his Adjutant General. These conferences revealed that that corps is ready to operate in the Palermo District and that its personnel is well organized. The corps suffers, however, from a lack of vessels. In ordinary times from 2/3 to 3/4 of the business of the Guardia di Finanza is concerned with customs activities, and it is obvious that if the customs business is to receive the support from the Guardia di Finanza that is necessary to proper functioning, vehicles and small fast craft should be made available to the Guardia.

3. Sicily Customs. Further conferences were held with Olgo Durchi, Inspector General of Customs for Sicily, who has completed his tour of inspection of his department, and a copy of his report was received. It appears that customs facilities have been badly damaged over all of Sicily, but the personnel is in

2. [illegible]. The balance sheets of the various [illegible] branches as of 30 November were reviewed and a consolidated balance sheet was prepared. The [illegible] Head Quarters bookkeeping was supervised.

3. AMG. Accounts for the period to 30 October were received from Regions I, II, and VI. These were examined, and those of Region I were discussed with the Regional Accountant. Accounts from Region III have not yet been received.

4. General. Senior officials of the accounting section were among those cooperating with representatives of the Industry and Commerce Sub-Commission on the subject of price policy.

Advance party to open Naples office arrived there on 15 December 43, and arranged premises at [illegible] Via Santa Brigida.

The Chief Accountant arrived 30 December 43, leaving a rear party still in Palermo, after clearing the accounts of the Economic and Supply Sub-Division. Two additional officers have been ordered forward from Tizi-Ouzou to replace vacancies caused by sickness.

VI. Customs

1. Translation of Italian Customs Law. The translation of the Italian customs law was completed, but considerable editing of the translation is still necessary. The index to the customs regulations has been translated and edited.

2. Guardia di Finanza. Conferences were held with Colonel Biondi, Commandante of the Guardia di Finanza for the Palermo District, and with his Adjutant General. These conferences revealed that that corps is ready to operate in the Palermo District and that its personnel is well organized. The corps suffers, however, from a lack of vessels. In ordinary times from 2/3 to 3/4 of the business of the Guardia di Finanza is concerned with customs activities, and it is obvious that if the customs business is to receive the support from the Guardia di Finanza that is necessary to proper functioning, vehicles and small fast craft should be made available to the Guardia.

3. Sicily Customs. Further conferences were held with Olgo Zucchi, Inspector General of Customs for Sicily, who had completed his tour of inspection of his department, and a copy of his report was received. It appears that customs facilities have been badly damaged over all of Sicily, but the personnel is on hand and operating. Stocks of forms are now on hand and work is commencing. Collections for the month of October in Sicily were in the neighborhood of [illegible],000 Lire.

4. Duty on Allied Imports Turned Over to the Italian Government or Civilians. The question of whether or not to collect duties on imports of the Allied Governments handed over to the Italian Government or Italian consumers was studied with Region I and [illegible] Sub-Commission officers. A memorandum advocating collection of duties in all cases from the Italian consignee of the merchandise was prepared, together with a plan for effecting the collection.

5393

5. Memorandum on Functions of Italian Customs Service. Work has progressed on a series of memoranda setting forth the functions of the Italian customs service and the related functions of the Guardia di Finanza and the Capitaneria. These will be presented in a week or so.

HEADQUARTERS ALLIED CONTROL COMMISSION JJL/msr

APO 394

22 January 1944

In reply
refer to : 319.1

Subject : Finance Sub-Commission Operations Report

To : General Mason MacFarlane

1. Attached herewith is the operations report of the Finance Sub-Commission for 15 - 21 January 1944.

J. J. Lawler

J. J. LAWLER
Lieut. Comdr. U.S.C.G.R.
Finance Sub-Commission

Thank you
M.M. 26/1

Incl
Operations Report

5392

HEADQUARTERS
ALLIED CONTROL COMMISSION

FINANCE SUB-COMMISSION

Report of Period 15 to 21 Jan.

1. Advance of Currency

No currency has been advanced to the Italian Govt. since mid December. Currency in the banking system available to the Government through the Banca d'Italia started to decline and by the beginning of the period covered by this report the currency holdings of the Banca d'Italia were approaching the 400 million lire reserve which has been agreed upon as a minimum.

Discussions with Col. Jung on a further advance of currency were conducted throughout this period, in the course of which he provided statistics now being studied as the basis of a request for 450 million lire. In addition a suggestion was made to the Regions that Italian Armed Forces be paid by Vaglia issued by Jung to absorb local bank currency deposits.

2. Budget

In connection with Col. Jung's request for 450 million lire in currency mentioned above, a study is being made of all January budget estimates and of such February estimates as are available.

3. Payment of Awards by Joint Claims Commissions

Brigadier General Richmond and Col. Cawdyan of the Joint Claims Commissions arrived to discuss with Col. Jung the method to be employed by the Italian Government in paying awards by the Joint Claims Commission for injury to property and for personal injury or death arising out of activities of our occupation troops. A satisfactory method was adopted, under which the Italian Ministry of Finance will place a fiscal officer in the office of the Joint Claims Commissions, and all operations from the time of the award to the actual payment to the claimant will be handled by the appropriate Italian authorities.

4. Italian Diplomatic Missions

Statements of the foreign exchange needs of Italian Diplomatic Missions were received from the Italian Government and are being studied preparatory to further discussions with the political section and with the Italian Government.

5. Price Increases

[illegible] received from the Central Economic Committee

December. Currency in the banking system available to the Government through the Banca d'Italia started to decline and by the beginning of the period covered by this report the currency holdings of the Banca d'Italia were approaching the 400 million lire reserve which has been agreed upon as a minimum.

Discussions with Col. Jung on a further advance of currency were conducted throughout this period, in the course of which he provided statistics now being studied as the basis of a request for 450 million lire. In addition a suggestion was made to the Regions that Italian Armed Forces be paid by Vaglia issued by Jung to absorb local bank currency deposits.

2. Budget

In connection with Col. Jung's request for 450 million lire in currency mentioned above, a study is being made of all January budget estimates and of such February estimates as are available.

3. Payment of Awards by Joint Claims Commissions

Brigadier General Richmond and Col. Cawdyan of the Joint Claims Commissions arrived to discuss with Col. Jung the method to be employed by the Italian Government in paying awards by the Joint Claims Commission for injury to property and for personal injury or death arising out of activities of our occupation troops. A satisfactory method was adopted, under which the Italian Ministry of Finance will place a fiscal officer in the office of the Joint Claims Commissions, and all operations from the time of the award to the actual payment to the claimant will be handled by the appropriate Italian authorities.

4. Italian Diplomatic Missions

Statements of the foreign exchange needs of Italian Diplomatic Missions were received from the Italian Government and are being studied preparatory to further discussions with the political section and with the Italian Government.

5. Price Increases

An inquiry was received from the Central Economic Committee concerning an increase in the price of salt. This increase was approved by this Sub-Commission as a revenue measure prior to receipt of advice from the Committee that any proposal price increases be referred to it for approval. Advice to this effect and proposed decrees increasing the rates on postal and telegraphic service and rents were forwarded to the Economic Directorate.

With reference to external postal rates, which by International Convention are tied to the foreign exchange rate, discussions are now taking place between the Minister of Communications, Col. Jung, a member of the Postal division of the Communications Section and a member of this Sub-Commission.

5304

6. Lire Currency

The Deputy Chief Financial Officer and another member of this Sub-Commission went to AFHQ to discuss this problem, mentioned at length in the Jan 1 - 15 report. The DCFO proceeded to the United States to make all necessary arrangements for the earliest possible manufacture and delivery of Italian Government Lire currency.

7. Displaced Persons Imprest Account

Having brought several thousand refugees from Jugoslavia into this area the Displaced Persons and Refugees Sub-Commission found that there were not adequate civilian or military medical facilities to care for these persons. In addition the Sub-Commission plans to establish its Headquarters at Bari and will be out of contact with the ACC Hq. To meet this situation an Imprest Account of 100,000 lire was established with the arrangement that the Sub-Commission would detail one officer to keep accounts as provided by the Finance Sub-Commission.

8. Paper Stock

Appropriate paper stock for postal savings bonds was made available to the Italian Ministry of Finance and delivery of cigarette tissue was assured.

9. Personnel

Lt. Col. A.F. Cross, Lt. Col. A.F.H. Stephan, Lt. Comdr. J. J. Lawler and Capt. A. Kamarck were present in Brindisi during this report period.

J. J. Lawler
J. J. LAWLER
Lieut. Comdr. U.S.C.G.R.
Finance Sub-Commission

were not adequate civilian or military medical facilities to care for these persons. In addition the Sub-Commission plans to establish its Headquarters at Bari and will be out of contact with the ACC Hq. To meet this situation an Imprest Account of 100,000 lire was established with the arrangement that the Sub-Commission would detail one officer to keep accounts as provided by the Finance Sub-Commission.

8. Paper Stock

Appropriate paper stock for postal savings bonds was made available to the Italian Ministry of Finance and delivery of cigarette tissue was assured.

9. Personnel

Lt. Col. A.F. Cross, Lt. Col. A.F.H. Stephan, Lt. Comdr. J. J. Lawler and Capt. A. Emmarck were present in Brindisi during this report period.

J. J. Lawler
J. J. LAWLER
Lieut. Comdr. U.S.C.G.R.
Finance Sub-Commission

5390

20 November 1943.

Memorandum for Discussion at Meeting of Finance Officers

Region I on Saturday 21 November 1943.

Subject : Budgetary Control.

1. There is presently under consideration by the Finance Sub-Commission A.M.G., H.Q. the desirability and practicability of inaugurating a system of budgetary control intended to supplement that now in operation but with the purpose of making the control more effective and at the same time less burdensome in operation.

The specific instrument of budgetary control now under discussion is the annual work program so set up as to give control figures over a monthly period basis.

2. Briefly the work program consists of and is operated as follows:

In the formulation of the annual program covering the varied activities of the governmental unit involved the data are compiled so as to indicate the estimated financial transactions by months of the year, required to consummate the proposed program. The whole is expressed simply by dividing the annual estimate of revenues and expenditures into monthly periods to indicate in which particular month a given amount of revenue will be collected and a given amount of expenditure will be made.

The particular classification of accounts to be used in the work program should be the same, or readily converted into, the classification of accounts used on Mod CRO/7 plus debt service and movimenti di capitali.

3. With the completion of the formulation of the work program it is then used as a base to control the monthly operations of the governmental unit through control of financial transactions. That is, first on the revenue side, if actual revenues realized for a given period differs from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. If the actual revenue is less than anticipated steps may be taken to correspondingly reduce the proposed expenditures, or additional revenues may be indicated, or a combination of both in order to keep the budget in balance. Excess of actual revenues over anticipated may properly be used to retire debt or set aside as a reserve to meet contingencies.

Secondly if the actual expenditures for a given period differ from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. In the case of excessive expenditures

Declassified E.O. 12356 Section 3.3/NND No. 785015

20 November 1943.

Memorandum for Discussion at Meeting of Finance Officers

Region I on Saturday 21 November 1943.

Subject : Budgetary Control.

1. There is presently under consideration by the Finance Sub-Commission A.M.G., H.Q. the desirability and practicability of inaugurating a system of budgetary control intended to supplement that now in operation but with the purpose of making the control more effective and at the same time less burdensome in operation.

The specific instrument of budgetary control now under discussion is the annual work program so set up as to give control figures over a monthly period basis.

2. Briefly the work program consists of and is operated as follows:

In the formulation of the annual program covering the varied activities of the governmental unit involved the data are compiled so as to indicate the estimated financial transactions by months of the year, required to consummate the proposed program. The whole is expressed simply by dividing the annual estimate of revenues and expenditures into monthly portoin to indicate in which particular month a given amount of revenue will be collected and a given amount of expenditure will be made.

The particular classification of accounts to be used in the work program should be the same, or readily converted into, the classification of accounts used on Mod [illegible]/7 plus debt service and movimenti di capitali.

3. With the completion of the formulation of the work program it is then used as a base to control the monthly operations of the governmental unit through control of financial transactions. That is, first on the revenue side, if actual revenues realized for a given period differs from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. If the actual revenue is less than anticipated steps may be taken to correspondingly reduce the proposed expenditures, or additional revenues may be indicated, or a combination of both in order to keep the budget in balance. Excess of actual revenues over anticipated may properly be used to retire debt or set aside as a reserve to meet contingencies.

Secondly if the actual expenditures for a given period differ from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. In the case of excessive expenditures

1. There is presently under consideration by the Finance Sub-Commission A.M.G., H.Q. the desirability and practicability of inaugurating a system of budgetary control intended to supplement that now in operation but with the purpose of making the control more effective and at the same time less burdensome in operation.

The specific instrument of budgetary control now under discussion is the annual work program so set up as to give control figures over a monthly period basis.

2. Briefly the work program consists of and is operated as follows:

In the formulation of the annual program covering the varied activities of the governmental unit involved the data are compiled so as to indicate the estimated financial transactions by months of the year, required to consummate the proposed program. The whole is expressed simply by dividing the annual estimate of revenues and expenditures into monthly periods to indicate in which particular month a given amount of revenue will be collected and a given amount of expenditure will be made.

The particular classification of accounts to be used in the work program should be the same, or readily converted into, the classification of accounts used on Mod CMO/7 plus debt service and movimenti di capitali.

3. With the completion of the formulation of the work program it is then used as a base to control the monthly operations of the governmental unit through control of financial transactions. That is, first on the revenue side, if actual revenues realized for a given period differs from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. If the actual revenue is less than anticipated steps may be taken to correspondingly reduce the proposed expenditures, or additional revenues may be indicated, or a combination of both in order to keep the budget in balance. Excess of actual revenues over anticipated may properly be used to retire debt or set aside as a reserve to meet contingencies.

Secondly if the actual expenditures for a given period differ from those estimated in the work program such differences must be fully explained to the satisfaction of the reviewing authority. In the case of excessive expenditures a reduction of future expenditures for the remaining period covered by the whole program may be indicated, or additional revenue may be sought, or a combination of both. Actual expenditures less than anticipated may be set aside as a reserve to meet contingencies or used to retire debt, or any other authorized purpose.

4. The advantages of the operation of the work program include the following :

(a) A monthly guide is furnished on which to base recurring action concerning the financial needs of the governmental unit.

(b) The financial stability of the governmental unit will be enhanced by keeping the budget currently in balance.

5389

/........(c)

4. (Cont)

(c) Not only is a sound estimate of the need for credit to be advanced to the governmental unit provided for the coming year but also the specific month and the amount needed in the specific month is estimated well in advance.

(d) At any period during the budget year it will be possible to ascertain to what extent the actual financial transactions of the governmental unit are at variance with the program outlined in the annual budget.

(e) Uniformity in activities of similar governmental units may more easily be insured from month to month rather than on an annual basis.

(f) It will insure to the reviewing authority that the annual budget was compiled only after sufficient planning had been made to insure the practicability and soundness of the annual program outlined in the budget

5. The disadvantages of the operation of the work program may include the following:

(a) The Italian officials who will be charged with the formulation of the works program may be unfamiliar with it, and thus require education in its purpose and use.

(b) The time element prevents in some instance the compilation of the work program simultaneously with the annual budget.

Any other disadvantages including the amount of work involved, it is hoped, will be brought to light during this discussion.

6. In conclusion if it is found feasible to make use of the work program the problem of reviewing all financial requests by the various governmental units should be made easier to all officers concerned. It should prove to be a time saver and lessen the burden of officers operating on all levels of supervision.

Unless its advantages far outweigh its disadvantages, of course, it should not be put into operation.

HEADQUARTERS
ALLIED CONTROL COMMISSION
(Forward Echelon)
APO 394

: Secret
: Auth: C.Fin.ACC
: Initials: JJL
: Date 5 Feb 1944

Report of the Operations of the Finance Sub-Commission at Brindisi
1 - 31 January, 1944

1. Advances of currency to the Badoglio Government in January

Summary	Millions of lire
Italian Government's estimate of its currency needs for January to be advanced by AMFA	480
Advance requested by Colonel Jung	450
Corrected estimate of Italian Government's currency needs for January	420
Total amount AMFA was authorized to advance if necessary	420
Actual total which was advanced by AMFA in January	200

No advances for January of currency were made to the Italian Government until 25 January 1944 when 200 million lire in currency was advanced by AMFA. On 21 January the Italian Ministry of Finance presented estimates, which are shown below in tabular form, of the government's cash position.

		Millions of lire
Estimated total disbursements of the government in January in excess of receipts		1020
Less:		
(a) Currency available for use in excess of minimum reserve	40	
(b) Payments made outside of the King's four provinces for which vaglia (Banca d'Italia checks, may be used	270	
(c) Estimated inflow of currency into Banca d'Italia through increased deposits, reimbursement of advances, etc.	230	
Total currency resources to be subtracted		540
Net estimated needs of Badoglio Government for currency for January to be advanced by AMFA		480

[redacted]

Summary

	Millions of lire
Italian Government's estimate of its currency needs for January to be advanced by AMFA	480
Advance requested by Colonel Jung	450
Corrected estimate of Italian Government's currency needs for January	420
Total amount AMFA was authorized to advance if necessary	420
Actual total which was advanced by AMFA in January	200

No advances for January of currency were made to the Italian Government until 25 January 1944 when 200 million lire in currency was advanced by AMFA. On 21 January the Italian Ministry of Finance presented estimates, which are shown below in tabular form, of the government's cash position.

		Millions of lire	
Estimated total disbursements of the government in January in excess of receipts		1020	
Less:			
(a) Currency available for use in excess of minimum reserve	40		
(b) Payments made outside of the King's four provinces for which vaglia (Banca d'Italia checks) may be used	270		
(c) Estimated inflow of currency into Banca d'Italia through increased deposits, reimbursement of advances, etc.	230		
Total currency resources to be subtracted		540	
Net estimated needs of Badoglio Government for currency for January to be advanced by AMFA			480

(a) Based on the estimates presented in the foregoing table, Colonel Jung made a request that the government be provided with 450 million lire in currency (that is the same amount we had provided in December to the government) rather than the 480 million needed shown by his estimates.

(b) In examining the figures of the Ministry of Finance, we discovered that the figure for "currency available for use in excess of minimum reserve" was too low by 60 million lire. The figure given was for the 20 January 1944, that is, after the government had made a number of disbursements for January. The correct figure to use was the amount available of currency on hand at the beginning of January 5338 the January demands. The correct figure was 100 million lire rather than 40 million lire. This change reduced the estimated needs for currency to 420 million lire rather than 480 million lire.

Summary	Millions of lire
Italian Government's estimate of its currency needs for January to be advanced by AMFA	480
Advance requested by Colonel Jung	450
Corrected estimate of Italian Government's currency needs for January	420
Total amount AMFA was authorized to advance if necessary	420
Actual total which was advanced by AMFA in January	200

No advances for January of currency were made to the Italian Government until 25 January 1944 when 200 million lire in currency was advanced by AMFA. On 21 January the Italian Ministry of Finance presented estimates, which are shown below in tabular form, of the government's cash position.

		Millions of lire	
Estimated total disbursements of the government in January in excess of receipts		1020	
Less:			
(a) Currency available for use in excess of minimum reserve	40		
(b) Payments made outside of the King's four provinces for which vaglia (Banca d'Italia checks) may be used	270		
(c) Estimated inflow of currency into Banca d'Italia through increased deposits, reimbursement of advances, etc.	230		
Total currency resources to be subtracted		540	
Net estimated needs of Badoglio Government for currency for January to be advanced by AMFA			480

(a) Based on the estimates presented in the foregoing table, Colonel Jung made a request that the government be provided with 450 million lire in currency (that is the same amount we had provided in December to the government) rather than the 480 million needed shown by his estimates.

(b) In examining the figures of the Ministry of Finance, we discovered that the figure for "currency available for use in excess of minimum reserve" was too low by 60 million lire. The figure given was for the 20 January 1944, that is, after the government had made a number of disbursements for January. The correct figure to use was the amount available of currency on hand at the beginning of January to meet the January demands. The correct figure was 100 million lire rather than 40 million lire. This change reduced the estimated needs for currency to 420 million lire rather than 480 million lire.

5388

(c) Based on these estimates corrected as shown above, on January 25, 1944 General MacFarlane approved a total advance of 420 million lire in currency to the government for its January requirements. This advance was to be made in two installments, an initial advance of 200 million lire and a second installment of 220 million million lire, as soon as it was necessary. This procedure proved to be justified: only the initial advance of 200 million lire was made and this was sufficient to take care of the government's currency requirements. No further advances have been made.

(d) The main reason between the amount of currency which Colonel Jung estimated he would need and the amount of currency which he actually did need was that he underestimated the inflow of currency into the Banca d'Italia through the increase in deposits with the Banca d'Italia, the repayment of advances, the issue of vaglia cambiari, etc. While we do not have available complete data on the month of January as yet, the figures provided to us by the Banca d'Italia through 20 January show a greater inflow of currency, through the channels mentioned in the first twenty days than Colonel Jung had estimated for the whole month.

(e) A memorandum recommending that in the future Regions 1, 2, and 3 utilize the inflow of currency into the Banca d'Italia, instead of the present practice of advancing currency, lire for lire, to meet the estimated deficit, was prepared and forwarded to ACC-AMG headquarters Naples. In addition studies were commenced looking to the utilization of the present supply of currency which now is in excess of one billion lire in the banking system of Region 1 as soon as the government of that area is turned over to the King's government.

2. Report on the Financial Position of the Italian Government

The major efforts of the Finance Sub-Commission staff at Brindisi during the first half of January were devoted to the preparation of a lengthy report summarizing the Italian Government's financial position. The report incorporates information on revenues and expenditures, indicates how the government financed its deficit during the last quarter of 1943, and outlines the government's financing program for the immediate future. A copy of this report is attached hereto.

3. State Expenditure Control

During the month of January data was received covering the estimated expenditures to be made for the month of January 1944 and for the month of February 1944, showing separately the various ministries of the Italian State Government. These figures are being studied to determine the amount and purpose for which the funds are being expended. The study covers 16 ministries including 1697 purposes under the title "capitoli". Since the study cannot be completed so as to embody the findings in this report, a separate report will be submitted at a later date.

For the month of January the total estimated expenditures are not forth in the following table.

Comparison of Estimated Expenditures Italian State Government (Puglia)
For the months of December 1943 and January 1944

Ministries	Dec 1943	Jan 1944	Inc of Jan over Dec.	Dec of Jan under Dec.
Finance	93,000,000	20,000,000		73,000,000
Justice	2,500,000	5,000,000	2,500,000	
Foriegn affairs	1,000,000	1,000,000		
Italian africa				
Education	7,000,000	13,000,000	6,000,000	
[illegible]	[illegible]	55,000,000		45,000,000

as yet, the figures provided to us by the Banca d'Italia through 20 January show a greater inflow of currency, through the channels mentioned in the first twenty days than Colonel Jung had estimated for the whole month.

(e) A memorandum recommending that in the future Regions 1, 2, and 3 utilize the inflow of currency into the Banca d'Italia, instead of the present practice of advancing currency, lire for lire, to meet the estimated deficit, was prepared and forwarded to ACC-AMG headquarters Naples. In addition studies were commenced looking to the utilization of the present supply of currency which now is in excess of one billion lire in the banking system of Region 1 as soon as the government of that area is turned over to the King's government.

2. Report on the Financial Position of the Italian Government

The major efforts of the Finance Sub-Commission staff at Brindisi during the first half of January were devoted to the preparation of a lengthy report summarizing the Italian Government's financial position. The report incorporates information on revenues and expenditures, indicates how the government financed its deficit during the last quarter of 1943, and outlines the government's financing program for the immediate future. A copy of this report is attached hereto.

3. State Expenditure Control

During the month of January data was received covering the estimated expenditures to be made for the month of January 1944 and for the month of February 1944, showing separately the various ministries of the Italian State Government. These figures are being studied to determine the amount and purpose for which the funds are being expended. The study covers 16 ministries including 1697 purposes under the title "capitoli". Since the study cannot be completed so as to embody the findings in this report, a separate report will be submitted at a later date.

For the month of January the total estimated expenditures are not forth in the following table.

Comparison of Estimated Expenditures Italian State Government (Puglia)
For the months of December 1943 and January 1944

Ministries	Dec 1943	Jan 1944	Inc of Jan over Dec.	Dec of Jan under Dec.
Finance	93,000,000	20,000,000		73,000,000
Justice	2,500,000	5,000,000	2,500,000	
Foriegn affairs	1,000,000	1,000,000		
Italian Africa				
Education	7,000,000	13,000,000	6,000,000	
Interior	100,000,000	55,000,000		45,000,000
Public Works	5,000,000	6,000,000	1,000,000	
Communications	165,000,000	190,000,000	25,000,000	
Agriculture	1,000,000	3,000,000	2,000,000	
Industry & Commerce	1,000,000	500,000		500,000
Popular Culture	1,000,000			1,000,000
Foriegn Exchange				
Information				
Total Civil Ministries	376,500,000	293,500,000	36,500,000	119,500,000
Monopolies	1,000,000	70,000,000	69,000,000	
Lottery	100,000	500,000	400,000	
Public Debt	5,000,000	16,000,000	11,000,000	
Buoni Tesoro ordinari	21,000,000			21,000,000

Buoni Tesoro poliennali	2,000,000			2,000,000
Collettivi varie	25,000,000			25,000,000
Enti Militari				
(Capitaneri Porto				
e Marina)	3,000,000			3,000,000
Contabilita speciali				
varie	25,000,000			25,000,000
Fondi somministrati	86,000,000			86,000,000
Total Exclusive of Military	544,600,000	380,000,000	116,900,000	281,500,000
Military				
War	577,047,500	578,236,000	1,188,500	
Navy	135,366,500	237,625,200	102,258,700	
Air	143,131,162	104,430,000		38,701,162
Total Military	855,545,162	920,291,200	103,447,200	38,701,162
Less Other Than Four Provinces				
Navy-Naples (Naples)	27,000,000	69,241,000	42,241,000	
Army-Lucania(")	27,990,500	20,287,500		7,703,000
Calabria(")	51,296,000	47,234,500		4,061,500
Sicilia(")	42,078,000	36,874,000		5,204,000
Campania(")	130,323,000	92,557,000		37,766,00
Sardigna	98,199,000	224,283,000	126,084,000	
Total Deductions	376,886,500	490,477,000	168,325,000	54,734,500
Net Total Military	478,658,662	429,814,200	64,877,800	16,033,338
Total Government	1,023,258,662	809,814,200	52,022,800	265,466,662

It will be noted that the break-down of the December estimate shows that it included funds which are not expenditures and others which apparently are duplications of other items. These facts are being studied and will be dealt with in a separate report. Information is also at hand which indicates that not all the sums estimated under the Air Ministry, unlike the Ministry of War and the Ministry of Marine, are for Puglia.

Along with the study on estimated expenditures the actual figures for expenditures in previous periods that are included in the Interim Report appended are being corrected as quickly as the information is received. These corrections will also be embodied in the separate report.

4. Lire Currency

Discussions with Colonel Jung looking toward the discontinuance of Allied Military lire and substitution of the Italian Government lire have been taking place since 18 November 1943. There were numerous discussions of this matter between 1 January 1944 and 13 January 1944 which culminated in bringing the matter to a head.

Colonel Jung was at first reluctant to have Italian currency manufactured by

Total Exclusive of Military	544,600,000	380,000,000	116,900,000	281,500,000
Military				
War	577,047,500	578,256,000	1,188,500	
Navy	135,366,500	237,625,200	102,258,700	
Air	143,131,162	104,430,000		38,701,162
Total Military	855,545,162	920,281,200	103,447,200	38,701,162
Less Other Than Four Provinces				
Navy-Naples (Puglia)	27,000,000	69,241,000	42,241,000	
Army-Lucania(")	27,990,500	20,287,500		
Calabria(")	51,296,000	47,234,500		7,703,000
Sicilia(")	42,078,000	36,874,000		4,061,500
Campania(")	130,323,000	92,557,000		5,204,000
Sardigna	98,199,000	224,283,000	126,084,000	37,766,00
Total Deductions	376,886,500	490,477,000	168,325,000	54,734,500
Net Total Military	478,658,662	429,814,200	64,877,800	16,033,338
Total Government	1,023,258,662	809,814,200	52,022,200	265,466,662

It will be noted that the break-down of the December estimate shows that it included funds which are not expenditures and others which apparently are duplications of other items. These facts are being studied and will be dealt with in a separate report. Information is also at hand which indicates that not all the sums estimated under the Air Ministry, unlike the Ministry of War and the Ministry of Marine, are for Puglia.

Along with the study on estimated expenditures the actual figures for expenditures in previous periods that are included in the Interim Report appended are being corrected as quickly as the information is received. These corrections will also be embodied in the separate report.

4. Lire Currency

Discussions with Colonel Jung looking toward the discontinuance of Allied Military lire and substitution of the Italian Government lire have been taking place since 18 November 1943. There were numerous discussions of this matter between 1 January 1944 and 13 January 1944 which culminated in bringing the matter to a head.

Colonel Jung was at first reluctant to have Italian currency manufactured by private bank note companies. When he was informed that paper, ink, and plates could be provided from the United States if he could print the notes in Italy, he stated that this could be done in Naples. He was asked to supply the necessary specifications. While these were being prepared Colonel Jung visited Naples, discovered that facilities were entirely inadequate and then proposed that notes stocks be prepared in U.S. with the necessary signatures to be added in Italy.

At this time Colonel Jung made available samples of notes of 50, 100, 500, and 1000 lire, which denominations are issued by the Bank of Italy. On being asked for samples of small denominations (1, 2, 5 and 10 lire) Colonel Jung said this was another matter since small denomination notes are Italian State notes. It was pointed out to Colonel Jung that AMFA experience indicates a greater need of small than of large denominations, that failure to supply an adequate number of small notes would have an inflationary effect, and that the shift to a non-military lire should not be made on a piece-meal basis. We informed Colonel Jung that the U.S. Treasury has terminated all manufacture of AM lire currency in order to devote its facilities to work which for security reasons cannot be done by a private printer and that, in consequence, unless the preparation of a new Italian Government currency is begun as soon as possible, an extremely critical situation might develop. It appeared obvious that the complete notes should be prepared in one place so that there would be no time lost in breaking up shipments for the addition of signatures on this side. We also told Colonel Jung that later, when printing facilities in Italy are available, plates, paper and ink can be supplied from the United States for the production of lire currency in Italy.

As a result, Colonel Jung agreed to provide samples, specifications and estimates of need for both large and small denominations immediately. Colonel Foley then informed Military Government Section, AFHQ that Colonel Jung had agreed to have Italian currency manufactured by private bank note companies under U.S. Treasury supervisionand that, in view of the pressing and complicated nature of the question and the discretion needed, direct negotion would be essential if prompt and effective action were to be secured. Colonel Foley suggested that he would go to Washington at an early date to handle this and other financial questions. Colonel Jung delivered samples, specifications and estimates for the notes and Colonel Foley proceeded to AFHQ on 16 January to discuss the preparation of the new currency. There it was decided that he should go on to Washington and he left Algiers on 20 January.

5. Payment of 15 December 1943 Bond Maturity

As stated in earlier reports, the Finance Sub-Commission authorized the Italian Government to meet the maturity of the 4%, nine-year bonds coming due on 15 December 1943 and AMFA made available funds to the Banca d'Italia for this purpose.

In the King's four provinces the payment of the maturity was accompagnied by enough of an increase in investments in Buoni del Tesoro ordinari (short-term notes) to result in a net increase in investments in government securities. There was, therefore, no call made on the AMFA credit in this region. In Region 2, Calabria and Lucania, the payment of matured Buoni ordinari exceeded the investments in Buoni ordinari by 13 million lire. In Sicily, 32 million lire was distributed throughout the island to meet the maturity. Complete figures are not yet available to us but the data so far for the principal provinces show that only a little more than 4 million par value of the nine-year bonds were redeemed. Because no Buoni ordinari were being serviced in Sicily, only 11,500 lire of these securities were sold. The available statistics are presented in the following table.

nine-year	Total value of bonds presented for payment	Buoni del Tesoro(short term notes & bills redeemed	Buoni del Tesoro Sold	Net Investment in Govn't Securties
	(1)	(2)	(3)	(3-(1 & 2)
King's Four Provinces of Puglia......	11,952,500	25,930,000	44,307,000	6,424,500
Sicily (1)...........	4,234,500	—	11,500	_ 4,223,000
Calabria.............	1,809,000	21,241,000	11,973,000	_11,077,000
Lucania..............	1,576,000	10,212,500	9,492,500	_ 2,299,000
Campobasso...........	1,444,500	—	1,778,500	—

agreed to provide samples, specifications and estimates of need for both large and small denominations immediately. Colonel Foley then informed Military Government Section, AFHQ that Colonel Jung had agreed to have Italian currency manufactured by private bank note companies under U.S. Treasury supervision and that, in view of the pressing and complicated nature of the question and the discretion needed, direct negotion would be essential if prompt and effective action were to be secured. Colonel Foley suggested that he would go to Washington at an early date to handle this and other financial questions. Colonel Jung delivered samples, specifications and estimates for the notes and Colonel Foley proceeded to AFHQ on 16 January to discuss the preparation of the new currency. There it was decided that he should go on to Washington and he left Algiers on 20 January.

5. Payment of 15 December 1943 Bond Maturity

As stated in earlier reports, the Finance Sub-Commission authorized the Italian Government to meet the maturity of the 4%, nine-year bonds coming due on 15 December 1943 and AMFA made available funds to the Banca d'Italia for this purpose.

In the King's four provinces the payment of the maturity was accompaanied by enough of an increase in investments in Buoni del Tesoro ordinari (short-term notes) to result in a net increase in investments in government securities. There was, therefore, no call made on the AMFA credit in this region. In Region 2, Calabria and Lucania, the payment of matured Buoni ordinari exceeded the investments in Buoni ordinari by 13 million lire. In Sicily, 52 million lire was distributed throughout the island to meet the maturity. Complete figures are not yet available to us but the data so far for the principal provinces show that only a little more than 4 million par value of the nine-year bonds were redeemed. Because no Buoni ordinari were being serviced in Sicily, only 11,500 lire of these securities were sold. The available statistics are presented in the following table.

nine-year	Total value of bonds presented for payment	Buoni del Tesoro (short term notes & bills redeemed	Buoni del Tesoro Sold	Net Investment in Govn't Securties
	(1)	(2)	(3)	(3-(1 & 2)
King's Four Provinces of Puglia......	11,952,500	25,930,000	44,307,000	6,424,500
Sicily (1)............	4,234,500	—	11,500	_ 4,223,000
Calabria..............	1,809,000	21,241,000	11,973,000	_11,077,000
Lucania...............	1,576,000	10,212,500	9,492,500	_ 2,299,000
Campobasso...........	1,444,500	—	1,778,500	—

(1) Incomplete

6. Italian Government Revenues

(a) Prices of salt monopoly products have been raised approximately 100% as from 15 January 1944. Arrangements have been made for similar action to be taken in AMG territory on the mainland. Several discussions have taken place with Colonel Jung and other officials on the steps to be taken to improve Italian State revenues. AMG HQ have also been asked to put into force in AMG territories certain other taxation changes, particularly in connection with the turnover tax and the tax on spirits, whose sale had been previously restricted. Questionnaires have been drafted and circulated fro the collection of statistics of the state revenue and expenditures on a uniform basis for all provinces and these have been circulated throughout AMG territory.

(b) Suggestions have also been called for from Italian revenue officials in the provinces, for subsequent consideration by an Italian committee, on needed improvements in the revenue administration. Following the discussions with Colonel Jung several of his senior officers have been instructed by him to prepare memoranda of suggested major taxation revisions. In section 2c of the appended Interim Report there is a discussion of the Italian revenues in the last quarter of 1943.

7. New Management for the Bank of Naples and the Naples branch of the Bank of Italy

As was stated in the Finance Sub-Commission's operations report for December, 1943, Colonel Jung proposed to appoint Cesare Ricciardi, a prominent Naples business man, as "Commissioner Extraordinary" for the Bank of Naples, in place of Frignani, the former president who has been arrested for Fascist activities, and to install Signore Rossignoli, presently manager of the Naples branch of the Bank of Italy, as administrative head of the Bank of Naples. Both Ricciardi and Rossignoli were brought to Brindisi to confer with Colonel Jung and after some urging both agreed to accept their appointments. Both of these men have been investigated by G-2 and cleared of any Fascist connections.

A suggestion had been made that Ricciardi should be cleared politically with the Committee of National Liberation in Naples before being appointed. Colonel Jung, after consulting with Marshal Badoglio, came out strongly against such a move. In view of the political question involved, this matter was referred to Mr. Caccia, acting Vice-President, Political Section. Mr. Caccia was strongly of the view that such clearance was inadvisable, as it would be tantamount to giving veto power to a group in opposition to the present Italian Government and not, in his opinion, politically responsible. The major political task before the ACC, he said, is to keep the Government in office at least until Rome is reached.

A decree by the Council of Ministers will be necessary to create the post of "Commissioner Extraordinary" for the Bank of Naples and Colonel Jung has arranged to have such a decree enacted at the next meeting of the Council, to be held around 20 January. Orders appointing Ricciardi and Rossignoli to their respective posts will be published when the decree is made public. These orders require only the signature of Marshal Badoglio. In order that the decree and orders may have effect in AMG territory it will be necessary for them to be adopted and republished by the appropriate Region 3 official. There is a regular procedure whereby this can be done and Finance Sub-Commission representatives are clearing the decree and orders in advance in order that Region 3 can act simultaneously with the Italian Government.

The Italian Government, in order to establish the Naples branch of the Bank of Italy as temporary head office for the liberated area, is planning to issue a decree naming Arturo Atti, a non-employee senior officer of the Bank of Italy, as commissioner of the Bank, and allowing him to assume the functions and exercise the powers belonging to the Superior Council, Governor and Director - General of the Bank, under the supervision of the Minister of Finance. Signore A. Pettinari, presently manager of the Bari branch, will become administrative head of the Bank.

8. Payments to Suppliers - Administrative Memorandum No. 95

On January 2, 1944 the Superintendent of the Dock Yard for the Royal Navy at Taranto and the two senior pay and supply officers of that base conferred with us

1943, Colonel Jung proposed to appoint Cesare Ricciardi, a prominent Naples business man, as "Commissioner Extraordinary" for the Bank of Naples, in place of Frignani, the former president who has been arrested for Fascist activities, and to install Signore Rossignoli, presently manager of the Naples branch of the Bank of Italy, as administrative head of the Bank of Naples. Both Ricciardi and Rossignoli were brought to Brindisi to confer with Colonel Jung and after some urging both agreed to accept their appointments. Both of these men have been investigated by G-2 and cleared of any Fascist connections.

A suggestion had been made that Ricciardi should be cleared politically with the Committee of National Liberation in Naples before being appointed. Colonel Jung, after consulting with Marshal Badoglio, came out strongly against such a move. In view of the political question involved, this matter was referred to Mr. Caccia, acting Vice-President, Political Section. Mr. Caccia was strongly of the view that such clearance was inadvisable, as it would be tantamount to giving veto power to a group in opposition to the present Italian Government and not, in his opinion, politically responsible. The major political task before the ACC, he said, is to keep the Government in office at least until Rome is reached.

A decree by the Council of Ministers will be necessary to create the post of "Commissioner Extraordinary" for the Bank of Naples and Colonel Jung has arranged to have such a decree enacted at the next meeting of the Council, to be held around 20 January. Orders appointing Ricciardi and Rossignoli to their respective posts will be published when the decree is made public. These orders require only the signature of Marshal Badoglio. In order that the decree and orders may have effect in AMG territory it will be necessary for them to be adopted and republished by the appropriate Region 3 official. There is a regular procedure whereby this can be done and Finance Sub-Commission representatives are clearing the decree and orders in advance in order that Region 3 can act simultaneously with the Italian Government.

The Italian Government, in order to establish the Naples branch of the Bank of Italy as temporary head office for the liberated area, is planning to issue a decree naming Arturo Atti, a non-employee senior officer of the Bank of Italy, as commissioner of the Bank, and allowing him to assume the functions and exercise the powers belonging to the Superior Council, Governor and Director - General of the Bank, under the supervision of the Minister of Finance. Signore A. Pettinari, presently manager of the Bari branch, will become administrative head of the Bank.

8. Payments to Suppliers - Administrative Memorandum No. 95

On January 2, 1944 the Superintendent of the Dock Yard for the Royal Navy at Taranto and the two senior pay and supply officers of that base conferred with us concerning the proper method of paying private firms for work performed under contract and the proper method of determining the value of ship repairs made by private contractors and by the Italian Royal Arsenal at Taranto. They were advised that in the interest of prompt and expeditious ship repair work the Base Paymaster should continure to pay for the work, keeping his regular accounts. With reference to the determining the value of the repair work done by the private contractors, they were advised that since AM lire constitute public funds just as do dollars appropriated by Congress and pounds sterling Parliament, the same care as they would exercise in expending pounds sterling should be exercised in this case to assure that full value is obtained. With reference to determining the value of work performed by the Royal Italian Arsenal, they were advised that the accounts must be made available to the British Navy when requested by the latter.

5381

Administrative Memorandum No 95, dealing with the procedure to be followed in requisitioning or purchasing Italian goods and services for the use of the Allies, reached this headquarters a week later, followed by a dispatch advising that it would be discussed at Naples on 17 January 1944.

A few days later the Fleet Accounts Officer of the Royal Navy Mediterranean fleet called to discuss the problems presented the preceeding week in view of the new Administrative Memorandum from AFHQ. He was advised of the meeting planned for 17 January 1944 and expressed a desire to be represented. He was advised that in the present understaffed condition of the Italian Ministry of Finance, he should continure to make payments direct to the private ship repair firms working for the Royal Navy. Later, when the Italian Government has a more adequate administrative staff, it will be possible to have such payments made by the Government on behalf of the Allies.

AGS was then notified that a representative from this headquarters would attend the meeting and was advised of the Fleet Accounts Officer's desire that representatives of the Royal Navy Flag Officers at Naples and Taranto be invited to attend the meeting. Provision of a method for paying small suppliers was then discussed Col. Jung and a method whereby this can be done through the Intendente di Finanza and the Royal Treasure Section of the Bank of Italy was worked out. Colonel Jung agreed to undertake the payments. The vouchers will be presented to the Intendente who will issue a payment order upon the Royal Treasury Section. Colonel Jung also prepared a memorandum showing what facts it is desirable to include in the voucher from the standpoint of his accounting system.

At the meeting of the Local Resources (Italian) Board, at which Adm. Memo No 95 was discussed, the Finance Sub-Commission representatives explained that we are presently discussing with the Italian Government the establishment of a procedure whereby the Italian Government would make payments to contractors and suppliers for goods or services provided to the Allied armed forces. It was agreed at the meeting that the armed forces would continue to make such payments when necessary until advised that the Italian Government was prepared to take over such payments.

Apparently some of the military financial authorities were not advised of this decision, permitting payments pending the establishment of a system to implement Administrative Memorandum No 95. We have advised the Royal Navy Paymaster at Taranto, the British Army Headquarters and the U.S. Army Finance Office at Bari on individual payments which were urgent.

8. Price Increase in the Four Provinces for Wheat, Bread and Olive Oil

Early in Janary the Finance Sub-Commission discovered that the Italian Government, by proclamations dated 29 December 1943, had increased the price of wheat and olive oil in the provinces of Bari, Brindisi, Lecce and Taranto. The Finance Sub-Commission had not been consulted on this price increase and we were requested by the acting Economic Director of ACC, Brigadier Hamlyn, to look into the matter. Colonel Jung informed us that on the motion of Signore Corbino, Under-Secretary of Industry, Commerce and Labor, the Council of Ministers on 27 December 1943 had decided to increase the price of wheat immediately in an attempt to bring more wheat into the market. It was felt this step was necessary because of the very short supply of wheat and the failure of the Allies to deliver a promised shipment of wheat or flour.

Lieutenant Colonel Monfort, Lieutenant Colonel Mayne and Captain Imrie were

... the Italian Government has a more adequate administrative staff, it will be possible to have such payments made by the Government on behalf of the Allies.

AMG was then notified that a representative from this headquarters would attend the meeting and was advised of the Fleet Accounts Officer's desire that representatives of the Royal Navy Flag Officers at Naples and Taranto be invited to attend the meeting. Provision of a method for paying small suppliers was then discussed Col. Jung and a method whereby this can be done through the Intendenta di Finanza and the Royal Treasure Section of the Bank of Italy was worked out. Colonel Jung agreed to undertake the payments. The vouchers will be presented to the Intendente who will issue a payment order upon the Royal Treasury Section. Colonel Jung also prepared a memorandum showing what facts it is desirable to include in the voucher from the standpoint of his accounting system.

At the meeting of the Local Resources (Italian) Board, at which Adm. Memo No 95 was discussed, the Finance Sub-Commission representatives explained that we are presently discussing with the Italian Government the establishment of a procedure whereby the Italian Government would make payments to contractors and suppliers for goods or services provided to the Allied armed forces. It was agreed at the meeting that the armed forces would continue to make such payments when necessary until advised that the Italian Government was prepared to take over such payments.

Apparently some of the military financial authorities were not advised of this decision, permitting payments pending the establishment of a system to implement Administrative Memorandum No 95. We have advised the Royal Navy Paymaster at Taranto, the British Army headquarters and the U.S. Army Finance Office at Bari on individual payments which were urgent.

a. <u>Price Increase in the Four Provinces for Wheat, Bread and Olive Oil</u>

Early in January the Finance Sub-Commission discovered that the Italian Government, by proclamations dated 29 December 1943, had increased the price of wheat and olive oil in the provinces of Bari, Brindisi, Lecce and Taranto. The Finance Sub-Commission had not been consulted on this price increase and we were requested by the acting Economic Director of ACC, Brigadier Hamlyn, to look into the matter. Colonel Jung informed us that on the motion of Signore Corbino, Under-Secretary of Industry, Commerce and Labor, the Council of Ministers on 27 December 1943 had decided to increase the price of wheat immediately in an attempt to bring more wheat into the market. It was felt this step was necessary because of the very short supply of wheat and the failure of the Allies to deliver a promised shipment of wheat or flour.

Lieutenant Colonel Monfort, Lieutenant Colonel Mayne and Captain Imrie were informed of the proposed price increases and raised no objection. The Central Economic Committee also raised a question with ACC, stating that such increases should have been cleared with the Committee before issuance. We advised CEC of the facts set forth above and added that the possibility of revocation had been discussed with Colonel Jung. In view of the fact that the orders had already been posted and could not be withdrawn without causing the Italian Government considerable embarrassment, we did not think it advisable to press for revocation. We have received assurances, however, from the Italian Government that in the future wage and price orders would be submitted to ACC before issuance and in turn we will inform CEC.

Consequent upon the increase (averaging lire per kilo) in the price of wheat, the Italian Government proposed to increase the price of bread. It was first suggested that the price be raised from L. 2.80 per kilo to L. 3.65 per kilo.

This proposed increase followed the Italian practice of increasing the bread price by 60% of a wheat price increase. Before the new price was announced, Colonel Jung informed us that because of increased baking costs - chiefly wages and fuel - the price per kilo of bread would have to be further increased by 35 centesimi to a total of 4 lire. We requested Colonel Jung to withhold action and referred the price question to Mr. Henry Grady, Deputy Vice-President, Economic and Administration, for discussion with CEC, requesting we be advised as soon as possible of the action to be taken. We have also referred to the acting Economic Director the question whether the price of imported flour should be increased in view of the fact that the Italian Government has indicated its intention to raise the price of bread. A reply was received to this latter question, stating that imported flour should be sold for not less than the price of domestic flour. Colonel Jung was informed.

An inquiry was also received from the Central Economic Committee concerning an increase in the price of salt. This increase was approved by the Finance Sub-Commission as a revenue measure prior to receipt of advice from CEC that any proposed price increases should be referred to it for approval.

10. Postal and Telegraph Rates and Maximum Rents

In accordance with the request of the Central Economic Committee, Colonel Jung handed us draft decrees for transmission to the Committee increasing postal and telegraphic rates and maximum rents. The proposed increases in the first two decrees were 100% for telegraph rates and domestic postal rates with authority vested in the Minister of Communications to increase foreign postal rates up to 400% over the old rate of L 1.25.

Shortly thereafter several conferences took place, attended by the Communications Minister, Colonel Jung, a member of the Postal Sub-Commission and a member of this Sub-Commission. The Postal Sub-Commission proposed a new foreign rate of L 5.00 having reached this figure by the following process. CCS had advised the Postal Sub-Commission that the new foreign rate should be in reasonable conformity with the International Postal Convention by which all rates are based on the gold Swiss franc, increases in rate are limited to 40% and decreases to 20%. The last free pound - lire rate was 100 lire to the pound. The present rate is 400 lire to the pound. Therefore the new foreign postal rate should be L 500 instead of L 1.25. Colonel Jung refused to adopt such a rate for the King's provinces except by expressed order, stating that such a rate was politically impossible since it recognized a currency devaluation of 400 (sic) per cent and such recognition would precipitate demands for corresponding wage and pension increases from all organized groups. It was pointed out to Colonel Jung that under the proposed decree which was furnished us by him and which stated it was with his convenience the foreign rate could be raised to L 6.25.

Colonel Jung stated that this was a mistake, that his Ministry did not concur and that he wished to withdraw the decree. The member of the Postal Sub-Commission and Colonel Jung attempted to devise a method of actually raising the rate without entailing the consequences feared by Colonel Jung. This Sub-Commission opposed all of such proposals since everyone of them included some announcement indicating doubt as to the present exchange rate. Ultimately, a foreign postal rate of L 2.50 was suggested by CCS and agreed upon by the Postal Sub-Commission, the Communications Minister and Colonel Jung. This Sub-Commission did not object since no undesirable announcement was contemplated.

The proposed decree on maximum rents and the proposed decree on telegraph

An inquiry was also received from the Central Economic Committee concerning an increase in the price of salt. This increase was approved by the Finance Sub-Commission as a revenue measure prior to receipt of advice from CCS that any proposed price increases should be referred to it for approval.

10. Postal and Telegraph Rates and Maximum Rents

In accordance with the request of the Central Economic Committee, Colonel Jung handed us draft decrees for transmission to the Committee increasing postal and telegraphic rates and maximum rents. The proposed increases in the first two decrees were 100% for telegraph rates and domestic postal rates with authority vested in the Minister of Communications to increase foreign postal rates up to 400% over the old rate of L 1.25.

Shortly thereafter several conferences took place, attended by the Communications Minister, Colonel Jung, a member of the Postal Sub-Commission and a member of this Sub-Commission. The Postal Sub-Commission proposed a new foreign rate of L 5.00 having reached this figure by the following process. CCS had advised the Postal Sub-Commission that the new foreign rate should be in reasonable conformity with the International Postal Convention by which all rates are based on the gold Swiss franc, increases in rate are limited to 40% and decreases to 20%. The last free pound - lire rate was 100 lire to the pound. The present rate is 400 lire to the pound. Therefore the new foreign postal rate should be L 500 instead of L 1.25. Colonel Jung refused to adopt such a rate for the King's provinces except by expressed order, stating that such a rate was politically impossible since it recognized a currency devaluation of 400 (sic) per cent and such recognition would precipitate demands for corresponding wage and pension increases from all organized groups. It was pointed out to Colonel Jung that under the proposed decree which was furnished us by him and which stated it was with his convenience the foreign rate could be raised to L 6.25.

Colonel Jung stated that this was a mistake, that his Ministry did not concur and that he wished to withdraw the decree. The member of the Postal Sub-Commission and Colonel Jung attempted to devise a method of actually raising the rate without entailing the consequences feared by Colonel Jung. This Sub-Commission opposed all of such proposals since everyone of them included some announcement indicating doubt as to the present exchange rate. Ultimately, a foreign postal rate of L 2.50 was suggested by CCS and agreed upon by the Postal Sub-Commission, the Communications Minister and Colonel Jung. This Sub-Commission did not object since no undesirable announcement was contemplated.

The proposed decree on maximum rents and the proposed decree on telegraph rates were forwarded to the Economic Directorate.

11. Gasoline Price and Subsidy

At a conference in Algiers early in the month attended by Colonel R. Bernstein, the problem of establishing a retail price for gasoline was considered. Petroleum Section, AFHQ, had proposed a 16 lire per kilo price to cover the following elements: landed cost, 6 lire; taxes, 4.4 lire; handling and storage, 5 lire; profit, 0.60 lire. The Finance Sub-Commission recommended the price of 11 lire per kilo for the following reasons:

(a) a higher price would affect the prices of food items and other commodities in the distribution of which motor transportation was a relatively important cost factor.

5385

(b) The landed cost figure was abnormally high, considering the costs in the United States, and might well reflect a temporary situation in ocean transportation.

(c) The handling and storage charges were excessive. In November CIP informed us that they estimated the cost to be about 1.5 lire per liter. We were told by CIP that 5 lire was a rough estimate, might prove to be too high, and would certainly decline with increased volume.

Since it was desirable to keep the the price of gasoline as low as possible, the 11 lire price was proposed, this amount to be used first to cover distribution costs, then taxes, and the balance, if any, to be applied to landed cost. It was felt that the application of this price for a short period would enable us to determine with more accuracy what the actual distribution costs are. If the price proved to be too low it could be increased; it would be difficult to lower the price if the proposed 16 lire price proved in fact to be too high.

Petroleum Section, AFHQ, agreed that they had no interest in the retail price, as long as the Italian Government is charged with land cost, as it would be under the procedure approved by the Algiers price conference. The Central Economic Committee, however, took a contrary view, stating that it was in favor of a 16 lire price unless the Italian Government was prepared to subsidize the difference between 16 and 11 lire. CEC evidently did not believe that it may not be necessary to sell at a 16 lire price in order to cover all costs. In order to ascertain the Italian Government's views on subsidies, the question of the gasoline price was discussed with Colonel Jung. He stated that he hopes to eliminate all subsidize, except those for essentials such as food, as soon as possible on the ground that they are inflationary. He felt that the establishment of a subsidy on as relatively a non-essential commodity as gasline would be far too dangerous a precedent for the Ministry of Finance to consider, and, in addition, expressed grave concern at fixing the price of gasoline so high because of the probable inflationary impact on the entire price level. We advised CEC of these views.

12. Prices of Certain Food Stuffs

(We have been securing weekly price quotations from each of the four provincial capitals in the King's Italy on the most important commodities making up the diet of Italians. We now have sufficient information to be able to draw some conclusions as to the trend of prices in the King's Italy).

From the first week in December to the third week in January, the following were the major price developments in the King's four provinces of Puglia.

(a) The black market appears to be the main market. For the bulk of the commodities reported on, there are no supplies at all available on the legal market. Puglia is an area of surplus olive oil production, yet no olive oil is available on the legal market. Fruit is the only commodity of which there is a sufficient supply on the legal market.

(b) Prices of the most important commodities have almost doubled in six weeks on the black market. From the first week in December to the third week in January, bread prices increased from 25 lire per kilo to 40-50 lire per kilo; pasta prices from 20-30 lire per kilo to 45-55 lire ; olive oil from 25-30 lire per litre to 80 lire per litre; potatoes from 10 lire per kilo to 20-25 lire per felt that the application of this price for a short period would enable us to determine with more accuracy what the actual distribution costs are. If the price proved to be too low it could be increased; it would be difficult to lower the price if the proposed 16 lire price proved in fact to be too high.

Petroleum Section, AFHQ, agreed that they had no interest in the retail price, as long as the Italian Government is charged with land cost, as it would be under the procedure approved by the Algiers price conference. The Central Economic Committee, however, took a contrary view, stating that it was in favor of a 16 lire price unless the Italian Government was prepared to subsidize the difference between 16 and 11 lire. CEC evidently did not believe that it may not be necessary to sell at a 16 lire price in order to cover all costs. In order to ascertain the Italian Government's views on subsidies, the question of the gasoline price was discussed with Colonel Jung. He stated that he hopes to eliminate all subsidize, except those for essentials such as food, as soon as possible on the ground that they are inflationary. He felt that the establishment of a subsidy on as relatively a non-essential commodity as gosline would be far too dangerous a precedent for the Ministry of Finance to consider, and, in addition, expressed grave concern at fixing the price of gasoline so high because of the probable inflationary impact on the entire price level. We advised CEC of these views.

12. <u>Prices of Certain Food Stuffs</u>

(We have been securing weekly price quotations from each of the four provincial capitals in the King's Italy on the most important commodities making up the diet of Italians. We now have sufficient information to be able to draw some conclusions as to the trend of prices in the King's Italy).

From the first week in December to the third week in January, the following were the major price developments in the King's four provinces of Puglia.

(a) The black market appears to be the main market. For the bulk of the commodities reported on, there are no supplies at all available on the legal market. Puglia is an area of surplus olive oil production, yet no olive oil is available on the legal market. Fruit is the only commodity of which there is a sufficient supply on the legal market.

(b) Prices of the most important commodities have almost doubled in six weeks on the black market. (From the first week in December to the third week in January, bread prices increased from 25 lire per kilo to 40-50 lire per kilo; pasta prices from 25-30 lire per kilo to 45-55 lire ; olive oil from 25-30 lire per litre to 60 lire per litre; potatoes from 10 lire per kilo to 20-25 lire per kilo.) The prices of meat, cheese, green vegetables have increased around 50%. The prices of fruit have shown little change.

13. <u>Payment of Claims</u>

On January 9, 1944 a memorandum from the Joint Claims Committee AFHQ was forwarded with endorsement of approval by ACS. This memorandum recommended that the Italian Government include in the budget a recurring item for payment of claims by Italian subjects allowed by the British and United States Claims service and that the Italian Government establish a paying office at the headquarters of the British and American Claims Service. Brigadier General Richmond and Colonel Cawdron of the Joint Claims Commission came to Brindisi to discuss with Colonel Jung the method to be employed by the Italian Government in paying awards made by the Claims Commission for injury to property and for personal injury or death arising out of the operations of Allied troops.

(8)

a satisfactory method was adopted under which the Italian Ministry of Finance will place a fiscal officer in the office of the Joint Claims Commission, and all operations from the time of the award to the actual payment to the claimant will be handled by the appropriate Italian authorities.

14. Use of Vaglia to Pay Italian Armed Forces

During December the Italian Finance Ministry sent both physical currency and Vaglia to service paymasters in Region 2 to avoid a possible duplication the Regional Finance Officer directed the banks not to honor the Vaglia. In order to avoid the shipment of physical currency and to absorb some of the idle currency on deposit in Region 1, 2 and 3, Colonel Jung was asked to effect all armed forces payments in those areas for the pay roll due 27 January by means of Vaglia. The matter was discussed with the CFO and AMG and appropriate instructions sent to the Regional Finance Officers.

15. Pay of the Italian Sabauda Division now in Sicily

We were advised that the Italian Sabauda Division, transferred to Sicily from Sardinia, had requested an advance of 20,000,000 lire from Military District One (Sicily) who in turn asked AFHQ whether this payment should be made. We informed District One and AFHQ (AMG) that the correct procedure for paying the division's expenses is for the division to obtain the necessary funds from the Italian Government. In view of the urgent need for funds we authorized AMG Palermo to finance the Division for the month of January only. We have made the necessary arrangements with Colonel Jung whereby future financial requirements of the division will be provided by the Italian Government through the Bank of Italy in Sicily.

16. Release of Paper to Italian Government

The large stocks of paper at Foggia belonging to the Italian Government have been frozen by the Psychological Warfare Branch. Since supplies available to the Italian Treasury and Bank of Italy are running low, Colonel Jung made two requests to PWB for release of paper. 50 tons of paper are needed to print tax collection forms for the Treasury and 30 tons to print accounting forms for the Treasury Section of the Bank of Italy. The Finance Sub-Commission supported these requests to PWB in view of the urgent need to rehabilitate the Italian revenue machinery. We have been advised that the requests have been aproved and the amounts unfrozen by PWB. A further requests for paper to print postal bonds has been made by the Under-Secretary of Posts and Telegraphs to PWB. Finance Sub-Commission representatives in Naples have arranged with PWB to release an amount sufficient for six months supply of postal savings bonds and are now awaiting estimates for the various regions as to the amounts required. It is Colonel Jung's belief that there is no paper in Italy suitable for printing the Treasures short-term notes (Buoni del Tesoro ordinari) and he is to provide us with samples in order that we can explore the possibility of having the necessary amounts of such paper manufactured in the United States.

17. Exchange of Jugoslav Currency

Within the first fifteen days of the month the Displaced Persons Sub-Commission brought several thousand refugees from Jugoslavia, processed them and distributed them in camps and billets throughout the four provinces. The Displaced Persons Sub-Commission requested us to consider the establishment of exchange [illegible]

Regional Finance Officers.

15. Pay of the Italian Sabauda Division now in Sicily

We were advised that the Italian Sabauda Division, transferred to Sicily from Sardinia, had requested an advance of 20,000,000 lire from Military District One (Sicily) who in turn asked AFHQ whether this payment should be made. We informed District One and AFHQ (G-5) that the correct procedure for paying the division's expenses is for the division to obtain the necessary funds from the Italian Government. In view of the urgent need for funds we authorized AMG Palermo to finance the Division for the month of January only. We have made the necessary arrangements with Colonel Jung whereby future financial requirements of the division will be provided by the Italian Government through the Bank of Italy in Sicily.

16. Release of Paper to Italian Government

The large stocks of paper at Foggia belonging to the Italian Government have been frozen by the Psychological Warfare Branch. Since supplies available to the Italian Treasury and Bank of Italy are running low, Colonel Jung made two requests to PWB for release of paper. 50 tons of paper are needed to print tax collection forms for the Treasury and 30 tons to print accounting forms for the Treasury Section of the Bank of Italy. The Finance Sub-Commission supported these requests to PWB in view of the urgent need to rehabilitate the Italian revenue machinery. We have been advised that the requests have been aproved and the amounts unfrozen by PWB. A further requests for paper to print postal bonds has been made by the Under-Secretary of Posts and Telegraphs to PWB. Finance Sub-Commission representatives in Naples have arranged with PWB to release an amount sufficient for six months supply of postal savings bonds and are now awaiting estimates for the various regions as to the amounts required. It is Colonel Jung's belief that there is no paper in Italy suitable for printing the Treasures short-term notes (Buoni del Tesoro ordinari) and he is to provide us with samples in order that we can explore the possibility of having the necessary amounts of such paper manufactured in the United States.

17. Exchange of Jugoslav Currency

Within the first fifteen days of the month the Displaced Persons Sub-Commission brought several thousand refugees from Jugoslavia, processed them and distributed them in camps and billets throughout the four provinces. The Displaced Persons Sub-Commission requested us to consider the establishment of exchange facilities to enable the refugees to convert dinars into lire and thus reduce the evacuation costs. In view of the implications of the establishment of a dinar-lire rate and its impact upon other rates, and bearing in mind that relief expenditures for Jugoslav refugees have been charged to the Italian Government since our occupation, the Displaced Persons Sub-Commission was advised that we have no authority to establish such exchange facilities and that the problem has been referred to AFHQ for their views. AFHQ requested the opinion of CCS on the matter, and CCS has now asked for more information, including amounts and types of the dinar currency held by the refugees. We are attempting to secure this information from the Displaced Persons Sub-Commission.

18. Argentine Remittances to Italy

The Political Section of the ACC referred to the Finance Sub-Commission for

5384

comment the text of a cable which the Italian Foreign Office desired to send to the Italian Embassy in Argentina concerning the early resumption of remittances to Italy from Argentina. We informed the Political Section that it would be undesirable at the present time to allow the Italian Government to accumulate and dispose of foreign exchange balance without restriction in a country such as Argentina. Sterling and dollar balances acquired by the Italians are subject to a double control - the Italian exchange control under ACC supervision and the British Exchange Control or U.S. Treasury Foreign Funds Control. Since only the first control would be operative in the case of Argentina peso balances, it was our view that we should have categorical assurances from the Italian Foreign Ministry and Finance Ministry that any such balances will not be disposed of without our permission and that power to draw on such assets would not be delegated to any Italian official outside Allied-occupied Italian territory. Mr. Caccia agreed with our view and requested us to obtain the necessary assurances from Colonel Jung before the message was dispatched. When the matter was discussed with Colonel Jung, he assured us that only he would make payments out of Italian foreign exchange assets and that our permission would be first secured. CCS was advised of this agreement and on 24 January replied that no direct remittances should be permitted from Argentina to Italy.

19. Expenses of Italian Diplomatic Missions

Statements of the foreign exchange needs of Italian diplomatic missions were received from the Italian Government and are being studied preparatory to further discussions with the Political Section and with the Italian Government.

20. Apprehension of Speculators in Gold and Gold Coins

G-2 requested us to provide them with a fund of one million lire to be used in trapping local speculators in gold and gold coin. This fund was provided and G-2 agreed to deliver any foreign exchange or bullion seized to AMFA for impounding.

21. Attempted Requisitioning of the Banca d'Italia Vault in Taranto

We were informed that the Town Major of Taranto intended to requisition the vault of the Banca d'Italia for the use of the Command Pay Office. A memorandum was immediately addressed to the Chief Liaison Officer for the four provinces pointing out that the Banca d'Italia is the instrument through which the Italian Navy is paid, all governmental operations in the province are financed, and important repair and maintenance work on Royal Navy, U.S. Navy and Italian Navy vessels is financed. Requisitioning of the vault would make it impossible for the bank to function and would jeopardize the continuance of these important functions. Consequently, the Finance Sub-Commission was absolutely opposed to the proposed requisitioning. We have since been advised that the requisitioning proceedings was dropped.

22. Payment of Interest During Moratorium Period

Colonel Grafftey-Smith, Chief Financial Officer, HQ AMG, 15th Army Group, has requested the views of the various ACC and AMG finance officers as to whether the provisions of Article 2, Section 2 of Proclamation Number 5 should be altered. This section provides, among other things, that interest shall not accrue during the period of the moratorium ordered by Proclamation 5. The advisability of such

... message was dispatched. When the matter was discussed with Colonel Jung, he assured us that only he would make payments out of Italian foreign exchange assets and that our permission would be first secured. CCS was advised of this agreement and on 24 January replied that no direct remittances should be permitted from Argentina to Italy.

19. Expenses of Italian Diplomatic Missions

Statements of the foreign exchange needs of Italian diplomatic missions were received from the Italian Government and are being studied preparatory to further discussions with the Political Section and with the Italian Government.

20. Apprehension of Speculators in Gold and Gold Coins

G-2 requested us to provide them with a fund of one million lire to be used in trapping local speculators in gold and gold coin. This fund was provided and G-2 agreed to deliver any foreign exchange or bullion seized to AMFA for impounding.

21. Attempted Requisitioning of the Banca d'Italia Vault in Taranto

We were informed that the Town Major of Taranto intended to requisition the vault of the Banca d'Italia for the use of the Command Pay Office. A memorandum was immediately addressed to the Chief Liaison Officer for the four provinces pointing out that the Banca d'Italia is the instrument through which the Italian Navy is paid, all governmental operations in the province are financed, and important repair and maintenance work on Royal Navy, U.S. Navy and Italian Navy vessels is financed. Requisitioning of the vault would make it impossible for the bank to function and would jeopardize the continuance of these important functions. Consequently, the Finance Sub-Commission was absolutely opposed to the proposed requisitioning. We have since been advised that the requisitioning proceeding was dropped.

22. Payment of Interest During Moratorium Period

Colonel Grafftey-Smith, Chief Financial Officer, HQ AMG, 15th Army Group, has requested the views of the various ACC and AMG finance officers as to whether the provisions of Article 2, Section 2 of Proclamation Number 5 should be altered. This section provides, among other things, that interest shall not accrue during the period of the moratorium ordered by Proclamation 5. The advisability of such a provision has been the subject of much discussion. We discussed the matter with Colonel Jung who is of the opinion that the provision is in error and should be changed. In support of his argument Colonel Jung cites as a precedent the 1914 moratorium, during which interest continued to accrue. A ruling to the contrary violates, Jung feels, Italian financial tradition and practice and causes needless dislocation. If, when all replies to Colonel Grafftey-Smith's letter have been received, it still appears desirable to amend Proclamation 5, joint action will be taken in ACC and AMG territory.

23. Displaced Persons Imprest Account

Having brought several thousand refugees from Jugoslavia into Italy, the Displaced Persons and Refugees Sub-Commission found that there were not adequate civilian or military medical facilities to care for these persons.

The Finance Sub-Commission provided the necessary financial aid by establishing an imprest account of 100,000 lire. The Displaced Persons Sub-Commission has agreed to detail an officer to maintain records of drawings on this account. The Finance Sub-Commission will prescribe the type of accounts to be kept.

24. Compensation for Communications Facilities in Sicily

The Legal Sub-Commission submitted to us an opinion prepared, at the request of the Communications Section, on the questions arising out of the use of privately owned telephone system in Sicily and the rehabilition and repair of such systems. It was felt that the opinion went too far, under present conditions, in suggesting that the Italian Government take up the question of compensation directly with the owners. This view was conveyed to the Legal Sub-Commission and the Communications Section.

25. German Credit at Taranto

A credit for L. 40,00 in favor of a German Army Unit has been discovered in the Taranto branch of the Credito Italiano. This credit has been blocked and we have informed the Controller of Property of its existende in order that he may sequester it or take other appropriate action.

26. Expenditure Control in Sicily

We have arranged for Signore Vincenzo Testa, acting Chief Inspector of the Bank of Italy in Sicily, to come to the mainland for a conference with Colonel Jung on expenditure control in Sicily after the turn-over of the island to the King's Government. We also plan for Lt. Col. Menapace, Regional Chief Financial Officer, Region 1, to be present at this meeting.

27. Intelligence Information

Both in planning for future developments and in making current policy decisions, it is often desirable for the Finance Sub-Commission to have intelligence information on such subjects as monetary, price, and wage developments in German-occupied Italy, extent of the black market in liberated territory, supply position for important commodities, and other similar matters. Accordingly, memoranda indicating specifically the topics on which we desired information were addressed to the Industry and Commerce, Public Safety and Agriculture Sub-Commission. Further, several conferences were held with a representative of the Economic Intelligence Unit, Advanced G-2 Section, AFHQ, to explore the possibilities of obtaining economic intelligence from enemy territory. Several such reports have been received by the Finance Sub-Commission.

28. Transmission of Letters and Documents from the Ministry of Finance to Italian Officials

Reports have been received that letters and other communications from the Italian Ministry of Finance are reaching Italian Officials without having passed through the appropriate ACC headquarters. Arrangements have accordingly been made for all such communications to be forwarded to such headquarters through Finance Sub-Commission, HQ ACC in order that appropriate or inapplicable instructions may be prevented from going out to the field. We have also suggested to the various regional headquarters that mail from the Ministry of Finance be examined and if [illegible]

25. German Credit at Taranto

A credit for L. 40,00 in favor of a German Army Unit has been discovered in the Taranto branch of the Credito Italiano. This credit has been blocked and we have informed the Controller of Property of its existence in order that he may sequester it or take other appropriate action.

26. Expenditure Control in Sicily

We have arranged for Signore Vincenzo Testa, acting Chief Inspector of the Bank of Italy in Sicily, to come to the mainland for a conference with Colonel Jung on expenditure control in Sicily after the turn-over of the island to the King's Government. We also plan for Lt. Col. Menapace, Regional Chief Financial Officer, Region 1, to be present at this meeting.

27. Intelligence Information

Both in planning for future developments and in making current policy decisions, it is often desirable for the Finance Sub-Commission to have intelligence information on such subjects as monetary, price, and wage developments in German-occupied Italy, extent of the black market in liberated territory, supply position for important commodities, and other similar matters. Accordingly, memoranda indicating specifically the topics on which we desired information were addressed to the Industry and Commerce, Public Safety and Agriculture Sub-Commission. Further, several conferences were held with a representative of the Economic Intelligence Unit, Advanced G-2 Section, AFH, to explore the possibilities of obtaining economic intelligence from enemy territory. Several such reports have been received by the Finance Sub-Commission.

28. Transmission of Letters and Documents from the Ministry of Finance to Italian Officials

Reports have been received that letters and other communications from the Italian Ministry of Finance are reaching Italian Officials without having passed through the appropriate AMG headquarters. Arrangements have accordingly been made for all such communications to be forwarded to such headquarters through Finance Sub-Commission, HQ ACC in order that appropriate or inapplicable instructions may be prevented from going out to the field. We have also suggested to the various regional headquarters that mail from the Ministry of Finance be examined and if for some reason any particular is considered undesirable it should be returned to the Ministry of Finance through the Finance Sub-Commission.

29. Move to Salerno

We were advised that the section of the Finance Sub-Commission at Brindisi would move to Salerno on 1 February 1944. Personnel affected are: Lt. Col. A.H.F. Stephan, Lt. Comdr. J.J. Lawler, Capt. A. Kamarck, Capt. D.A.L. Timmons, and T/3 D. Dengo.

J.J. Lawler
J.J. LAWLER
Lt. Comdr., U.S.C.G.R.

For:
E.H. FOLEY, JR.
Deputy Chief, Finance Sub-Commission

5383

U. S. SECRET
Equals British MOST SECRET

#38

INTERIM REPORT

Italian Government Finances

Last Quarter of 1943

Prepared by the Finance Sub-Commission

of the

Last Quarter of 1943

Prepared by the Finance Sub-Commission

of the

Allied Control Commission

14 January 1944

U. S. SECRET
Equals British MOST SECRET

5382

U. S. SECRET
Equals British MOST SECRET

I N T E R I M   R E P O R T

ITALIAN GOVERNMENT FINANCES

LAST QUARTER OF 1943

Table of Contents

Table of Contents

U. S. SECRET
Equals British MOST SECRET

5381

U. S. SECRET
Equals British MOST SECRET

S U M M A R Y

1. The Finance Sub-Commission was not represented at Brindisi, the temporary seat of the Italian Government, until 18 November 1943, except for a short visit by the Deputy Chief Financial Officer (DCFO), Colonel Foley, at the end of October. At the present time, in addition to the DCFO, there are six members of the Finance Sub-Commission at Brindisi.

2. Information on Italian State finance is difficult to obtain because of the scarcity of able Italian finance personnel; lack of Italian governmental files, communications and transportation facilities; dislocations and other difficulties caused by the war; and the absence of the Government from Rome. Even normally, Italian State finance, taxation, and accounting, are not efficient according to our standards.

3. The Italian Government has been operating at a deficit since the fiscal year 1930-31. In the last quarter of 1943, the Government has had only four provinces of Puglia (Bari, Brindisi, Lecce, and Taranto) to draw on for its revenues. Normal State expenditures in these four provinces usually greatly exceeded revenues. From 12 September 1943, on top of the normal expenditures were imposed the expenditures of the Central Government.

4. The Italian Ministry of Finance strongly believes that it is politically impossible at this time to make the basic changes which are necessary in the existing tax-structure and tax-collection machinery. So far, our main task in the revenue field has been to get the most out of the present tax system. This has meant re-building revenue staffs, securing the necessary paper and printing facilities, and making minor changes in the existing tax structure. Plans are being made for a general revision of the tax-collection machinery, increases in existing rates and the imposition of new forms of taxation.

5. The existing Italian budgetary procedures make impossible any scientific expenditure control. A more efficient system of procedures is being prepared. No attempt was made to control expenditures of the Badoglio Government until December, and even then, there was not enough data available, and due to poor communications, not enough could be collected in time to permit any substantial control over the December budget.

6. The deficit of the Government in the last quarter of 1943 was financed by advances from the Banca d'Italia (around three-fourths of the total), and AMFA (around one-fourth of the total). The bulk of the funds advanced by the Banca d'Italia came from bankers' deposits funneled into the Banca d'Italia by shutting off other outlets for bank funds.

7. The deficit will continue to be financed on a "hand-to-mouth" basis for some time to come as, in the judgment of the Ministry of Finance, the Badoglio Government cannot now successfully sell long-term securities. The Ministry of Finance hopes to be able to finance a large part of the deficit through an increase in the floating debt of short-term notes. The rest will have to be met by advances from the Banca d'Italia and AMFA. Advances from the Banca d'Italia will depend largely on the rate of increase in accounts maintained by commercial banks in the Central Bank. The remainder of the deficit after the increase in the floating debt and after advances from the Banca d'Italia will have to be met

... State finance, taxation, and accounting, are not efficient according to our standards.

3. The Italian Government has been operating at a deficit since the fiscal year 1930-31. In the last quarter of 1943, the Government has had only four provinces of Puglia (Bari, Brindisi, Lecce, and Taranto) to draw on for its revenues. Normal State expenditures in these four provinces usually greatly exceeded revenues. From 12 September 1943, on top of the normal expenditures were imposed the expenditures of the Central Government.

4. The Italian Ministry of Finance strongly believes that it is politically impossible at this time to make the basic changes which are necessary in the existing tax-structure and tax-collection machinery. So far, our main task in the revenue field has been to get the most out of the present tax system. This has meant re-building revenue staffs, securing the necessary paper and printing facilities, and making minor changes in the existing tax structure. Plans are being made for a general revision of the tax-collection machinery, increases in existing rates and the impositions of new forms of taxation.

5. The existing Italian budgetary procedures make impossible any scientific expenditure control. A more efficient system of procedures is being prepared. No attempt was made to control expenditures of the Badoglio Government until December, and even then, there was not enough data available, and due to poor communications, not enough could be collected in time to permit any substantial control over the December budget.

6. The deficit of the Government in the last quarter of 1943 was financed by advances from the Banca d'Italia (around three-fourths of the total), and AMFA (around one-fourth of the total). The bulk of the funds advanced by the Banca d'Italia came from bankers' deposits funneled into the Banca d'Italia by shutting off other outlets for bank funds.

7. The deficit will continue to be financed on a "hand-to-mouth" basis for some time to come as, in the judgment of the Ministry of Finance, the Badoglio Government cannot now successfully sell long-term securities. The Ministry of Finance hopes to be able to finance a large part of the deficit through an increase in the floating debt of short-term notes. The rest will have to be met by advances from the Banca d'Italia and AMFA. Advances from the Banca d'Italia will depend largely on the rate of increase in accounts maintained by commercial banks in the Central Bank. The residual of the deficit after the increase in the floating debt and after advances from the Banca d'Italia will have to be met by the issuance of new currency, that is, by advances from AMFA.

8. The Italian Government has no facilities for producing its own currency. Although the armistice terms provide that the Government shall make available such currency as the Allied Forces require, actually it has been necessary for us to supply the Government with currency. Arrangements are now being made to use the facilities of American bank-note companies under the supervision of the United States Treasury for the manufacture of Italian lire, and to import plates,

U. S. SECRET
Equals British MOST SECRET

5380

U. S. SECRET
Equals British MOST SECRET

SECTION I

Introduction

A. Finance Sub-Commission

1. The Finance Sub-Commission of the Allied Control Commission did not come into the Italian government's finance picture until December when the Italian government for the first time was able to gather [illegible] estimates of its expenditures and revenues.

2. There was no permanent representation of the Finance Sub-Commission with the Allied Control Commission until near the end of November. The Italian government having raised certain technical questions, Colonel E. H. Foley, Jr., Deputy Chief of the Finance Sub-Commission came to Brindisi to consult with Marshal Badoglio's financial advisor, Colonel Guido Jung on October 29. Colonel Foley remained only 3 or 4 days and returned to Palermo for a discussion of the questions raised with Brigadier [illegible] and other representatives of the Finance Sub-Commission. On November 16, Colonel Foley returned to Brindisi with Captain A. B. L. Timmons, where they have been since that time. From time to time they have been joined by other members of the Finance Sub-Commission. At present the Finance Sub-Commission is represented in its dealings with the Italian Treasury, in addition to Colonel Foley and Captain Timmons, by Lieutenant Colonel A. F. Cross, Lieutenant Colonel A. H. F. Stephen, Lieutenant Commander J. J. Lawler, and Captain Andrew Kamarck.

B. Description of Report

This report is based on incomplete and unsatisfactory statistics which are all that are available at this time.

1. The source from which information must largely be obtained is the Italian Ministry of Finance, which is sadly under-staffed. It is hardly more than a shadow of a real governmental department. It consists of the Under-Secretary, Lieutenant Colonel Guido Jung, and fewer than 10 other officials which Colonel Jung has been able to assemble from inadequate sources.

2. As Colonel Jung has pointed out, [illegible] the few officials he has are not the most capable of Italian civil servants. The [illegible] with the Italian Government, at best, are considerably below the level of the top ranks of the Ministry of Finance personnel at Rome.

3. Some of the officials are not thoroughly familiar with the material with which they are working, and are unable at times to explain the significance of particular data. Due to this lack of familiarity, information obtained often has been found to be inaccurate or misleading. Information is sometimes given in response to a request which appears to cover the whole ground, but which later developments show only to cover a portion of the data.

4. There does not seem to be as great an attempt to secure statistical accuracy as might be desired. Mistakes in arithmetic, in the tabulation of data in the copying of figures, [illegible] are not uncommon.

5. Very few records and files are available to the government at Brindisi. All [illegible] at Rome.

5379

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

SECTION II

Revenues and Expenditures

A. General

1. The Italian government has been operating at a deficit for years. In the last quarter of 1943, the government found itself with only four poor, normally-subsidized, provinces to draw on for revenues while it had to engage in rebuilding itself after the flight from Rome.

a. The Italian government has been operating with a steadily increasing deficit since the fiscal year of 1930-31. This is clear even though there are no figures available on actual revenues and expenditures of the whole government since the fiscal year 1940-41. (Table A in the Appendix presents a summary of the actual revenues and expenditures of the government from 1930-31 through 1940-41). Since 1940-41, all that we have of the Italian government's budget is its estimates of revenues and expenditures. Table I shows the chief revenue sources and the expenditures by agency for the last six fiscal years. Included are the estimates for the budget year 1943-44 which were prepared by the Mussolini government before it was overthrown on 25 July 1943.

TABLE I
ITALIAN STATE GOVERNMENT (1)
Revenues by Sources and Expenditures by Agency
for the fiscal years indicated
(in millions of lire)

Revenues	1938-39 (actual)	1939-40 (actual)	1940-41 (actual)	1941-42 (est.)	1942-43 (est.)	1943-44 (est.)
Direct Taxes	6,625	7,234	8,914	9,000	10,020	11,120
Indirect Taxes	6,089	7,297	9,063	8,258	10,416	11,262
Customs & Taxes on Manufactures	6,380	7,924	6,389	6,484	6,184	5,850
Monopoly	3,580	3,915	4,499	4,350	5,334	7,910
Lottery	544	523	519	535	534	604
State Lands	644	770	867	458	522	1,103
Special Accounts	188	303	351	180	250	250
Profits on Minor Public Services	261	256	269	231	254	304
Reimbursements	765	968	700	688	700	699
Miscellaneous Receipts	2,500	3,160	2,661	660	743	715
Total Ordinary Revenue	27,576	32,350	34,234	30,844	34,958	39,816
Extraordinary Revenues	Included above			238	467	532

... actual revenues and expenditures of the government from 1930-31 through 1940-41). Since 1940-41, all that we have of the Italian government's budget is its estimates of revenues and expenditures. Table I shows the chief revenue sources and the expenditures by agency for the last six fiscal years. Included are the estimates for the budget year 1943-44 which were prepared by the Mussolini government before it was overthrown on 25 July 1943.

TABLE I
ITALIAN STATE GOVERNMENT (1)
Revenues by Sources and Expenditures by Agency
for the fiscal years indicated
(in millions of lire)

Revenues	1938-39 (actual)	1939-40 (actual)	1940-41 (actual)	1941-42 (est.)	1942-43 (est.)	1943-44 (est.)
Direct Taxes	6,625	7,234	8,914	9,000	10,020	11,120
Indirect Taxes	6,069	7,297	9,063	8,258	10,416	11,262
Customs & Taxes on Manufactures	6,380	7,924	6,389	6,484	6,184	5,850
Monopoly	5,580	5,915	4,499	4,350	5,334	7,910
Lottery	544	543	519	535	534	604
State Lands	644	770	667	456	522	1,103
Special Accounts	188	303	351	180	250	250
Profits on Minor Public Services	261	256	269	231	254	304
Reimbursements	765	968	700	688	700	699
Miscellaneous Receipts	2,500	2,160	2,661	660	743	715
Total Ordinary Revenue	27,576	32,350	34,234	30,844	34,958	39,816
Extraordinary Revenues	Included above			258	467	532
Movement of Capital	3,016	30,285	21,614	1,646	10,915	5,632
Total Revenues	30,592	62,635	55,848	32,728	46,339	45,980

U. S. SECRET
Equals British MOST SECRET

5378

U. S. SECRET

[illegible]

Expenditures by Ministry	1938-39 (actual)	1939-40 (actual)	1940-41 (actual)	1941-42 (est.)(2)	1942-43 (est.)(2)	1943-44 (est.)(2)
Finance	14,770	25,669	25,592	17,521	29,244	27,655
Justice	500	656	698	641	591	734
Foreign Affairs	623	1,[illegible]	1,209	1,186	1,119	1,161
Italian Africa	3,958	7,557	4,059	1,[illegible]	451	257
Education	2,076	2,558	2,638	2,511	3,015	3,438
Interior	1,572	2,788	7,565	1,270	1,453	1,569
Public Works	1,445	1,791	1,667	1,[illegible]	1,925	1,853
Communications	936	865	842	765	751	688
War	7,146	15,590	45,526	4,657	5,401	5,755
Navy	3,505	5,291	7,174	4,024	4,512	5,077
Air	4,408	7,228	8,445	3,699	4,259	4,590
Agriculture	959	1,156	2,547	1,655	1,666	1,590
Commerce & Industry	319	561	665	554	545	295
Popular Culture	141	194	224	134	156	1[illegible]
Foreign Exchange	23	28	50	54	56	44
War Production	—	—	—	—	—	11
TOTAL EXPENDITURES	42,627	69,555	105,659	41,956	55,199	54,059
Total Expenditures excluding Spese eccezionali	35,127	47,660	47,724	41,956	55,199	54,059

1) Source: 1938-39, 1939-40, 1940-41, Rendiconto Generale (General Financial Report)
1941-42, 1942-43, 1943-44: Stato di Previsione dell'entrata e Stato di Previsione della Spesa del Ministero delle Finanze (Estimates of receipts and expenditures of the Ministry of Finance).
2) Does not include "spese eccezionali".

b. On 12 September 1943, the King and Marshal Badoglio arrived in Brindisi after their flight from Rome. Files, records, and practically all of the staff personnel had been left in Rome. The Italian government had to be completely rebuilt, under war conditions, while the government was cut off from the northern two-thirds of the country. The Under-Secretary of the Ministry of Finance, Lieutenant Colonel Guido Jung, was not appointed until November 1943. Most of the important posts in the Ministry of Finance have still not been filled.

c. [illegible] the last [illegible] of 1943 the [illegible]

	1,445	1,791	1,6?7	1,8??	1,925	1,853
Communications	958	865	842	706	751	688
War	7,146	19,350	45,528	4,657	5,481	5,735
Navy	5,?05	5,291	7,174	4,024	4,?82	9,077
Air	4,488	7,128	8,449	5,699	4,259	4,990
Agriculture	959	3,196	2,547	1,659	1,686	1,990
Commerce & Industry	519	?61	669	534	545	295
Popular Culture	141	194	224	134	156	1?
Foreign Exchange	23	28	50	34	38	44
War Production	—	—	—	—	—	11
TOTAL EXPENDITURES	42,327	59,555	1?9,659	41,956	59,199	54,059
Total Expenditures excluding Spese eccezionali	35,127	47,650	47,724	41,956	59,199	54,059

1) Source: 1938-39, 1939-40, 1940-41, Rendiconto Generale (General Financial Report)
1941-42, 1942-43, 1943-44: Stato di Previsione dell'entrata e Stato di Previsione della Spesa del Ministero delle Finanze (Estimates of receipts and expenditures of the Ministry of Finance).
2) Does not include "spese eccezionali".

b. On 12 September 1943, the King and Marshal Badoglio arrived in Brindisi after their flight from Rome. Files, records, and practically all of the state personnel had been left in Rome. The Italian government had to be completely rebuilt, under war conditions, while the government was cut off from the northern two-thirds of the country. The Under-Secretary of the Ministry of Finance, Lieutenant Colonel Guido Jung, was not appointed until November 1943. Most of the important posts in the Ministry of Finance have still not been filled.

c. During the last quarter of 1943, the King's government extended only over four provinces of Apulia (Bari, Brindisi, Lecce, and Taranto) comprising a total population of a little more than two million people. The government could draw only on these four low-income, predominantly agricultural, provinces for revenues while it had to meet not only the normal state expenditures (which usually exceeded revenues) in these four provinces but the expenditures of the central government itself.

U. S. SECRET
Equals British MOST SECRET

2. The Italian state budget is complicated by the 'movement of capital' and 'exceptional expenditures' items. The former appears to be a commercial concept which applied to state accounting is meaningless and confusing. The latter consists of certain large items not included in the regular budget on which there is little information.

a. The Italian state budget includes on both the revenue and expenditure side an item entitled "Movimento di Capitali" (Movement of capitals). On the revenue side, it includes the following transactions; the sale of commodities and liberations from obligations, additions to the state debt, emmission of coins and state notes, reimbursement of loans and of various other credit extensions of the treasury, items which offset corresponding items on the expenditure side, special receipts reserved to the fund for amortization of the internal public debt, miscellaneous recoveries of funds. On the expenditures side, it includes the following items: extinction of debt, restitutions and reimbursements, expenditures and reimbursements, expenditures of the fund for amortization of the public debt, additions to state credit outstanding, acquisition of stock-holdings in corporations, re-possession of railroads, loans to railroad, telephone, and other autonomous companies of the state, loans to provinces, communes, and eleemosynary institutions, expenditures for war pensions, and items which offset revenue items.

b. In 1935-36, the practice was begun of deleting certain military items from the regular budget and of treating them as 'spese eccezionali' or exceptional expenditures. In the figures available on actual expenditures, the 'spese eccezionali' are charged to the proper ministry but beginning with the fiscal year 1941-42 we have only the state estimates and in these the 'spese eccezionali' are not included. It must be added that in the last year for which we have the figures of actual revenues and expenditures, the 'spese eccezionali' were larger than the other expenditures. (Table 2 in the Appendix gives the distribution of the 'spese eccezionali' between ministries for the three years ending 30 June 1941).

3. With the Badoglio government ruling only a small part of Italy, the published records of the government have little value in the present situation. The state accounts kept at each provincial branch of the Banca d'Italia must be used. Even these are not adequate because of the inclusion of transfer items, the absence of a record of the bulk of the operations of the many state autonomous bodies, etc. The figures for 1942-43 indicated that the King's four provinces even without the presence of the central government operated at a deficit.

a. The published Italian central government accounts are not divided into geographical areas except in the case of certain specific enterprises which are local in character. It is practically impossible to divide the central state accounts by geographical area to show what happened in the past in the King's provinces.

b. The state accounts kept at the Banca d'Italia in each provincial capital are the only source which can be used. These accounts do not give an accurate picture, however, for several reasons. Expenditure items pass through the account where the payment is made and not through the account of the province in which the work or service was performed. Revenue originating in the province in many cases only appears on the national level. The accounts include various 'vaglia' transfers of credit between provincial treasuries. Payments are made out of the account [illegible]

[illegible] which offset, corresponding [illegible] on the expenditure side, special receipts reserved to the fund for amortization of the internal public debt, miscellaneous recoveries of funds. On the expenditures side, it includes the following items: extinction of debt, restitutions and reimbursements, expenditures and reimbursements, expenditures of the fund for amortization of the public debt, additions to state credit outstanding, acquisition of stock-holdings in corporations, [illegible] of railroads, loans to railroad, telephone, and other autonomous companies of the state, loans to provinces, communes, and eleemosynary institutions, expenditures for war pensions, and items which offset revenue items.

b. In 1935-36, the practice was begun of deleting certain military items from the regular budget and of treating them as "spese eccezionali" or exceptional expenditures. In the figures available on actual expenditures, the "spese eccezionali" are charged to the proper ministry but beginning with the fiscal year 1941-42 we have only the state estimates and in these the "spese eccezionali" are not included. It must be added that in the last year for which we have the figures of actual revenues and expenditures, the "spese eccezionali" were larger than the other expenditures. (Table B in the Appendix gives the distribution of the "spese eccezionali" between ministries for the three years ending 30 June 1941).

5. <u>With the Badoglio government ruling only a small part of Italy, the published records of the government have little value in the present situation. The state accounts kept at each provincial branch of the Banca d'Italia must be used. Even these are not adequate because of the inclusion of transfer items, the absence of a record of the bulk of the operations of the many state autonomous bodies, etc. The figures for 1942-43 indicated that the King's four provinces even without the presence of the central government operated at a deficit.</u>

a. The published Italian central government accounts are not divided into geographical areas except in the case of certain specific enterprises which are local in character. It is practically impossible to divide the central state accounts by geographical area to show what happened in the past in the King's provinces.

b. The state accounts kept at the Banca d'Italia in each provincial capital are the only source which can be used. These accounts do not give an accurate picture, however, for several reasons. Expenditure items pass through the account where the payment is made and not through the account of the province in which the work or service was performed. Revenue originating in the province in many cases only appears on the national level. The accounts include various "vaglia" transfers of credit between provincial treasuries. Payments are made out of the account on the behalf of many autonomous bodies, for which bodies, however, the revenues and receipts generally are credited to separate accounts. These separate accounts likewise include many transfer items. Money received from the sales of five - and nine year bonds are included in the item "Receipts of the Budget", while money received from the sales of the short-term notes with a term of one year or under are shown separately as receipts from the sale of Treasury Bonds.

c. The summary picture of state expenditures and state revenues in the King's four provinces for the fiscal year ending 30 June 1943 that can be derived from the branches of the Banca d'Italia in Puglia is presented in Table II.

5377

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

TABLE II
Summary of State account, Banca d'Italia
King's Four Provinces
Fiscal Year 1942-43
(Millions of Lire)

	BARI	BRINDISI	LECCE	TARANTO	TOTAL
RECEIPTS					
Balance at Beginning	-36	278	163	345	750
Receipts of the Budget	1,306	162	285	384	2,137
Treasury Bonds	502	96	266	40	904
Treasury Vaglia (Transfers)	668	379	97	251	1,395
Advances from Rome	2,900	300	800	1,000	5,000
Receipts on a/c of past years	24	5	in above	37	66
TOTAL	5,364	1,220	1,611	2,057	10,252
OUTGO					
Payments of the Budget	2,768	584	365	1,582	5,299
Treasury Bonds	423	65	181	31	698
Treasury Vaglia (Transfers)	389	94	182	99	764
Payments for autonomous funds	1,598	7	641	84	2,330
Payments on a/c of past years	106	29	in above	69	204
Payments on a/c not yet classified	3	11	13	9	36
Balance as of 30 June 43	77	432	229	183	921
TOTAL	5,364	1,220	1,611	2,057	10,252

TABLE III
Comparison of Receipts and Expenditures Within
the Budget
King's Four Provinces
Fiscal year 1942-43
(Millions of Lire)

	Bari	Brindisi	Lecce	Taranto	Total 4 Provinces
Receipts of Budget	1,330	167	285	421	2,203
Receipts of Budget excluding Treasury Bonds & other minor receipts.	827	56	95	173	1,151
Expenditures of Budget	2,857	612	365	1,648	5,482

... of expenditures of the

(Millions of Lire)

	BARI	BRINDISI	LECCE	TARANTO	TOTAL
RECEIPTS					
Balance at Beginning	-36	278	163	345	750
Receipts of the Budget	1,306	162	285	384	2,137
Treasury Bonds	502	96	266	40	904
Treasury Vaglia (Transfers)	668	379	97	251	1,395
Advances from Rome	2,900	300	800	1,000	5,000
Receipts on a/c of past years	24	5	in above	37	66
TOTAL	5,364	1,220	1,611	2,057	10,252
OUTGO					
Payments of the Budget	2,768	584	365	1,582	5,299
Treasury Bonds	423	65	181	31	698
Treasury Vaglia (Transfers)	389	94	182	99	764
Payments for autonomous funds	1,598	7	641	84	2,330
Payments on a/c of past years	106	29	in above	69	204
Payments on a/c not yet classified	3	11	13	9	36
Balance as of 30 June 43	77	432	229	183	921
TOTAL	5,364	1,220	1,611	2,057	10,252

TABLE III
Comparison of Receipts and Expenditures Within
the Budget
King's Four Provinces
Fiscal year 1942-43
(Millions of Lire)

	Bari	Brindisi	Lecce	Taranto	Total 4 Provinces
Receipts of Budget	1,330	167	285	421	2,203
Receipts of Budget excluding Treasury Bonds & other minor receipts.	827	56	95	173	1,151
Expenditures of Budget	2,857	612	365	1,648	5,482
Excess of expenditures of the budget over receipts of budget excluding Treasury Bonds.	2,030	556	270	1,475	4,331

d. According to this data, in the King's four provinces, there was a net excess of 4,300 million lire of expenditures "of the budget" over receipts "of the budget" (excluding sums received from the sale of Treasury bonds).

B. REVENUES

1. General.

The Italian tax structure is generally unresponsive to the rise in prices which is taking place. The administrative practice is to levy taxes more by a system of estimate and bargaining than by an ascertained report of the full facts, this being probably largely due to a general absence of reliable income records. The Ministry of Finance states that it is politically impossible for the Badoglio Government to make the sweeping changes necessary. Work has had to be centered on getting the maximum revenue out of the existing system.

a. Even when substantial economies have been affected in expenditures, it is clear that substantial improvements in the taxation system are necessary in order to reduce the gap between Budget income and outgo. Only about a quarter of total revenues are derived from direct taxes of which the income tax makes up about a half. The estimates for 1943-44 considerably increased the revenue anticipated from the State monopoly of tobacco, salt, and matches, making the monopoly a larger contributor than any other single tax.

b. The tax structure is not very responsive to the rise in prices and incomes which is taking place.

(1) The direct taxes are levied in the main on assessments of a past period and do not reflect current prices and incomes until the following tax period when they again lag behind. In Italy, this unresponsiveness is accentuated by the fact that the income tax assessments consist in the main of round figures settled by a process of negotiation between the tax-payer and the revenue officials which remain in force for many years without regard to income fluctuations.

(2) The indirect taxes consist of 32 different taxes of which the Turnover tax is most important, yielding over 50% of the total. This tax should follow the rise in prices, but it is so administered that on the whole it does not. Instead of the tax actually being paid on turnover, it is generally levied by applying a coefficient, settled by the Trade Corporations in Rome, to the income tax assessment. The tax thus depends on the income tax assessment. (Steps are being taken to revise this method of levying, see paragraph 3c below).

(3) The National Government makes up the deficit of the communal and provincial authorities and so is interested financially in their budget position. Taxation levied by these authorities is very largely linked up with national taxation. The revenue of these local authorities is derived from additional taxes ("sovrimposte") on the national assessment base of the land tax, supplemented in the case of communes by Consumption taxes. The latter are based largely on a physical rather than an ad valorem basis and thus do not respond to the rise in prices at all. [illegible] upward of the national land tax assessments will assist the provincial and communal finances. Alternatively, an alteration of the communal consumption taxes to an ad valorem basis, might assist the State in diminishing the [illegible] upon it for financial assistance from the communes and in making possible higher state tax rates on land through reducing the communal rates on

a. Even when substantial economies have been affected in expenditures, it is clear that substantial improvements in the taxation system are necessary in order to reduce the gap between Budget income and outgo. Only about a quarter of total revenues are derived from direct taxes of which the income tax makes up about a half. The estimates for 1943-44 considerably increased the revenue anticipated from the State monopoly of tobacco, salt, and matches, making the monopoly a larger contributor than any other single tax.

b. The tax structure is not very responsive to the rise in prices and incomes which is taking place.

(1) The direct taxes are levied in the main on assessments of a past period and do not reflect current prices and incomes until the following tax period when they again lag behind. In Italy, this unresponsiveness is accentuated by the fact that the income tax assessments consist in the main of round figures settled by a process of negotiation between the tax-payer and the revenue officials which remain in force for many years without regard to income fluctuations.

(2) The indirect taxes consist of 32 different taxes of which the Turnover tax is most important, yielding over 50% of the total. This tax should follow the rise in prices, but it is so administered that on the whole it does not. Instead of the tax actually being paid on turnover, it is generally levied by applying a coefficient, settled by the Trade Corporations in Rome, to the income tax assessment. The tax thus depends on the income tax assessment. (Steps are being taken to revise this method of levying, see paragraph 3c below).

(3) The National Government makes up the deficit of the communal and provincial authorities and so is interested financially in their budget position. Taxation levied by these authorities is very largely linked up with national taxation. The revenue of these local authorities is derived from additional taxes ("sovrimposte") on the national assessment base of the land tax, supplemented in the case of communes by Consumption taxes. The latter are based largely on a physical rather than an ad valorem basis and thus do not respond to the rise in prices at [illegible] [illegible]ward of the national land tax assessments will assist the provincial and communal finances. Alternatively, an alteration of the communal consumption taxes to an ad valorem basis, might assist the State in diminishing the call upon it for financial assistance from the communes and in making possible higher state tax rates on land through reducing the communal rates on land.

c. The question of making the sweeping changes necessary in the taxation system has been discussed with the Ministry of Finance. The Ministry of Finance states that it is the belief of the Government that, in present conditions with only a part of the country in Allied hands and a smaller part actually under the King's Government, it is politically impossible to make major changes in the levying and collection of taxes. It has, however, been agreed that consideration of necessary changes in taxation should commence now. The improvement in the Revenue is therefore being carried out in two stages. The Government is now attempting to obtain the maximum revenue under the existing laws; later on to amend existing revenues and to introduce new ones.

5376

U. S. SECRET
Equals British MOST SECRET

2. We are assisting the Government in its attempt to overcome the [illegible] tions in revenue collection caused by the war. Revenue offices [illegible] relocated, transportation and communication facilities to the field [illegible] personnel released from the armed forces, Government paper released from the requisitioned imposed on it by the Psychological Warfare Board, the partial moratorium on taxes granted by State collectors reviewed.

a. Even in the King's Four Provinces, which suffered comparatively little from the invasion, dislocation in the revenue services exists though the requisitioning of offices and tobacco warehouses, and through transportation and other communications difficulties. One revenue office has had to move four times

We are assisting the Government to relocate its field offices and to communicate with its field installations. All mail and telegraph communications from the Ministry of Finance to offices outside the [illegible] provinces [illegible] through the Allied Control Commission.

b. On 15 December 1943 we initiated an inquiry to Italian Revenue officials in order to learn the number of members of their staff now working and the number absent on duty with the armed services. The Ministry of Finance has requested the Italian Army to release from the Army all personnel belonging to the Ministry of Finance. A survey of the state of work, is now being made of all revenue offices so that the released personnel can be distributed to best advantage

c. Difficulties in collecting revenues were encountered because of a shortage of forms and fiscal stamped paper and fiscal stamps. Instructions were issued on 20 and 24 December 1943 authorizing officials to make use of temporary forms of stamped paper, to use special stamps printed for one purpose for other purposes, and to collect stamp duties where possible from banks, corporations and other institutions by means of cash payments. Meanwhile, we have interceded with the Psychological Warfare Board, which had requisitioned all available paper stocks in Italy and have secured the release of sufficient paper to enable the Italian Government to start printing new stocks of the necessary fiscal stamps and fiscal stamp paper.

d. In order to meet the special conditions arising from the evacuation of taxpayers and the damages caused by bombardment, state collectors were permitted to make certain relaxations in the payment of taxes. Instructions have been issued to review as at 31 December all these relaxations so that tax collections can be stepped up.

3. A small increase in the income and land taxes and a 100% increase in the State [illegible] tobacco and salt prices came into effect in January 1944. A new tax on [illegible] consumption is being imposed. In certain trades, the innovation of [illegible] the Turnover tax on actual turnover is being tried. A revision of the [illegible] tax assessments on buildings is under way. The revenue inspectors [illegible] and to make recommendations on methods of increasing the State revenue.

a. On 1 January 1944, an addition of between 2% and 4% to the percentage rates of the income tax became effective for the principal classes of income-taxpayers. As the Italian income tax rates are low compared with British and American standards, the addition of 2% to 4% to the rate represents an [illegible]

Declassified E.O. 12356 Section 3.3/NND No. 785015

[illegible] the Government to relocate its field offices and to communicate with its field installations. All mail and telegraph communications from the Ministry of Finance to offices outside the [illegible] provinces pass through the Allied Control Commission.

b. On 15 December 1943 we initiated an inquiry to Italian Revenue officials in order to learn the number of members of their staff now working and the number absent on duty with the armed services. The Ministry of Finance has requested the Italian Army to release from the Army all personnel belonging to the Ministry of Finance. A survey of the state of work, is now being made of all revenue offices so that the released personnel can be distributed to best advantage.

c. Difficulties in collecting revenues were encountered because of a shortage of forms and fiscal stamped paper and fiscal stamps. Instructions were issued on 20 and 24 December 1943 authorizing officials to make use of temporary forms of stamped paper, to use special stamps printed for one purpose for other purposes, and to collect stamp duties where possible from banks, corporations and other institutions by means of cash payments. Meanwhile, we have interceded with the Psychological Warfare Board, which had requisitioned all available paper stocks in Italy and have secured the release of sufficient paper to enable the Italian Government to start printing new stocks of the necessary fiscal stamps and fiscal stamp paper.

d. In order to meet the special conditions arising from the evacuation of taxpayers and the damages caused by bombardment, state collectors were permitted to make certain relaxations in the payment of taxes. Instructions have been issued to review as at 31 December all these relaxations so that tax collections can be stepped up.

5. A small increase in the income and land taxes and a 100% increase in the [illegible] tobacco and salt prices came into effect in January 1944. A new tax on [illegible] for consumption is being imposed. In certain trades, the innovation of [illegible] the Turnover tax on actual turnover is being tried. A revision of the [illegible] assessments on buildings is under way. The revenue inspectors have [illegible] to make recommendations on methods of increasing the State revenues.

a. On 1 January 1944, an addition of between 2% and 4% to the percentage rates of the income tax became effective for the principal classes of income-taxpayers. As the Italian income tax rates are low compared with British and American standards, the addition of 2% to 4% to the rate represents an increase in the tax burden of approximately 15 to 20 per cent. A general overhaul of the income tax is necessary; in the rates, in the method of assessment, and in the method of collection.

(1) As mentioned earlier, the assessment consists in the main of a round figure settled by negotiation between the revenue officials and the taxpayer, which, without regard to income fluctuations, often remains in force for many years. The revenue official secures his estimates of what the assessments should be for a combination of partial fact and opinion. The information is almost entirely furnished by the Tributary Police (a section of the Royal Finance

U. S. SECRET
[illegible]als British MOST SECRET

Guard). The Tributary Police secure their information on the income of a firm, for example, from visits and inspection of the premises, from information of the taxes paid on consumption of goods, on its traffic handled by the railroads.

(2) Apparently only the large commercial companies produce certified accounts though we may find that in the industrial north of Italy there is a higher proportion of more accurate assessments.

(3) There appears to be a general absence of reliable bookkeeping. Reports have been received that even where books and records are kept, duplicate and even triplicate sets of false accounts are regularly maintained.

(4) To fully develop the income tax into the important source of revenue it should become, will require considerable time even if reform is pushed energetically. It will necessitate a steady improvement in the revenue staff both in quality and numbers and the building up of a body of accountants capable of handling and certifying the records of taxpayers.

b. A revision of the land tax (terreni) assessments on land has been completed. The old base was 1925. The base has been brought more up to date and is now 1937. The revision of the assessments took several years to carry out and generally raised the values approximately five or six times over those of 1925. At the same time, the state tax rate on the new base was reduced from the old 10% to 3%. The new assessments rolls and the new tax were put into effect on 1 January 1943. On 1 January 1944, a tax rate of 5% became effective. This rate is to continue to increase in steps of 2% each year until 10% is reached.

c. Tobacco prices charged by the State monopoly have been increased by approximately 100 per cent from 1 January 1944. The price of salt sold by the State monopoly on the Mainland is to be increased by 100% beginning 15 January 1944.

d. Alcoholic liquors, which had been blocked for use in war production, have now been released for use as beverages. The values of these blocked spirits have risen considerably during the period of blocking and a tax has been levied by which the State will receive 100 to 150 lire per litre according to the alcohol content.

e. The Turnover tax for 1944 is to be based for certain trades on the actual turnover of the business in 1943. This innovation will replace in these trades the old practice of levying the turnover tax by applying an arbitrary coefficient which was fixed by the Trade Corporations to the income tax assessment and calling the result a tax on turnover. This action has been applied only to certain trades in view of the fact that accounts and returns rendered by Italians for tax purposes are generally unreliable and that few businesses keep proper accounts. This action although intended to increase the yield of the tax is also partially experimental.

f. (1) A revision of the land tax (fabbricato) assessments on buildings is at present under way. It was due to be finished by 1 July 1944 and to come into effect on 1 January 1945. This work has been delayed by the war and the new rolls will not be usable for 1945. In the meantime taxes are still being levied on the old tax assessments which in some cases are based on a valuation

(4) To fully develop the income tax into the important source of revenue it should become, will require considerable time even if reform is pushed energetically. It will necessitate a steady improvement in the revenue staff both in quality and numbers and the building up of a body of accountants capable of handling and certifying the records of taxpayers.

b. A revision of the Land tax (terreni) assessments on land has been completed. The old base was 1925. The base has been brought more up to date and is now 1937. The revision of the assessments took several years to carry out and generally raised the values approximately five or six times over those of 1925. At the same time, the state tax rate on the new base was reduced from the old 10% to 5%. The new assessments rolls and the new tax were put into effect on 1 January 1943. On 1 January 1944, a tax rate of 5% became effective. This rate is to continue to increase in steps of 2% each year until 10% is reached.

c. Tobacco prices charged by the State monopoly have been increased by approximately 100 per cent from 1 January 1944. The price of salt sold by the State monopoly on the Mainland is to be increased by 100% beginning 15 January 1944.

d. Alcoholic liquors, which had been blocked for use in war production, have now been released for use as beverages. The values of these blocked spirits have risen considerably during the period of blocking and a tax has been levied by which the State will receive 100 to 150 lire per litre according to the alcohol content.

e. The Turnover tax for 1944 is to be based for certain trades on the actual turnover of the business in 1943. This innovation will replace in these trades the old practice of levying the turnover tax by applying an arbitrary coefficient which was fixed by the Trade Corporations to the income tax assessment and calling the result a tax on turnover. This action has been applied only to certain trades in view of the fact that accounts and returns rendered by Italians for tax purposes are generally unreliable and that few businesses keep proper accounts. This action although intended to increase the yield of the tax is also partially experimental.

f. (1) A revision of the Land tax (fabbricate) assessments on buildings is at present under way. It was due to be finished by 1 July 1944 and to come into effect on 1 January 1945. This work has been delayed by the war and the new rolls will not be usable for 1945. In the meantime taxes are still being levied on the old tax assessments which in some cases are based on a valuation made before 1900 originally, and brought up to date by applying an arbitrary multiplier to the original valuation.

(2) The tax inspectors having jurisdiction over the King's Four Provinces have been requested to make recommendations for increasing State revenue. They have been directed to make a general survey of all direct taxes and to recommend improvements which can be effected in the Turnover tax and in various special taxes.

4. Revenues in the King's Four Provinces in the last quarter of 1943 on the whole have been well-maintained compared to the preceding year. They do not reflect, however, the increase in prices and money incomes which has taken place since 1942.

5375

U. S. SECRET
Equals British MOST SECRET

a. In Table IV A are presented the figures for gross receipts "of the budget" of the King's Four Provinces for the last six months of 1943 and the total figure for the fiscal year 1942-43. The gross receipt figures include large sums for subscriptions to the five-and nine-year state bonds in 1942-43 and also include transfer and refunds between ministries and other public bodies. These items are entered in the provincial sections of the State Treasury as "Entrate di Bilancio" (Receipts of the Budget) and most of them come under the heading, Capo X, "Direttore Generale del Tesoro" (General Directory of the Treasury). If the entries under Capo X are excluded, as in Table IV B, a more accurate picture of the real State revenue situation "of the Budget" is obtained.

TABLE IV A
Gross Receipts "of the Budget"
(Entrate di Bilancio)
King's Four Provinces
(thousands of lire)

PROVINCES	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	1,529,849	43,868	111,724	68,417	73,212	67,397	93,754	458,602
Brindisi	167,159	2,662	9,834	27,[illegible]	8,322	5,215	8,093	56,922
Lecce	285,385	3,247	14,605	3,969	13,901	6,825	15,667	59,274
Taranto	420,616	4,150	12,973	16,[illegible]	11,794	5,200	13,739	64,336
Total King's Prov.	2,203,009	53,927	149,156	116,562	107,159	85,017	131,253	639,034

TABLE IV B
Receipts "of the Budget"
(Excluding Capo X: transfers, refunds, bond subscriptions)
King's Four Provinces
(thousands of lire)

PROVINCES	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	827,220	41,770	104,158	62,881	69,193	54,194	87,269	417,455
Brindisi	56,443	2,574	9,316	7,882	7,938	4,411	7,613	34,733
Lecce	94,954	3,020	13,568	3,607	15,514	5,179	13,225	53,133
Taranto	173,382	2,521	11,090	3,158	10,747	4,059	11,389	43,664
Total King's Prov.	1,151,999	49,885	138,112	77,527	101,392	68,843	119,496	548,985

b. In Table V is presented a comparison of the receipts from the principal taxes in the last quarters of 1942 and in 1943. These figures show that revenues from the State Monopoly and direct taxes increased greatly and that there was a slight increase from the indirect taxes. There was a great decrease in customs duties, as was to be expected, a large decrease in receipts from the manufacturing tax and in the proceeds from the State lottery. There was an in-

Gross Receipts "of the Budget"
(Entrate di Bilancio)
King's Four Provinces
(thousands of lire)

PROVINCES	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	1,529,849	43,868	111,724	68,727	75,112	67,697	93,794	450,602
Brindisi	167,159	2,662	9,834	27,[illegible]	8,522	5,215	8,093	56,922
Lecce	285,385	3,247	14,605	5,929	13,901	6,825	15,667	59,174
Taranto	420,616	4,150	12,973	16,[illegible]	11,794	5,280	13,739	64,336
Total King's Prov.	2,203,009	53,927	149,136	116,962	107,159	85,017	131,253	639,034

TABLE IV B
Receipts "of the Budget"
(Excluding Capo X: transfers, refunds, bond subscriptions)
King's Four Provinces
(thousands of lire)

PROVINCES	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	827,220	41,770	104,138	62,981	69,195	54,194	87,269	417,455
Brindisi	56,443	2,574	9,316	7,882	7,938	4,411	7,613	34,733
Lecce	94,954	3,020	13,568	3,607	13,514	5,179	13,225	53,133
Taranto	173,382	2,521	11,090	3,158	10,747	4,859	11,389	43,664
Total King's Prov.	1,151,999	49,885	138,112	77,527	101,392	68,643	119,496	548,985

b. In Table V is presented a comparison of the receipts from the principal taxes in the last quarters of 1942 and in 1943. These figures show that revenues from the State Monopoly and direct taxes increased greatly and that there was a slight increase from the indirect taxes. There was a great decrease in customs duties, as was to be expected, a large decrease in receipts from the manufacturing tax and in the proceeds from the State lottery. There was an increase in Capo X, the treasury item, but this does not have any significance by itself. In the appendix in Tables D, E. F. G, is given more detailed information on revenues of these Four Provinces. (It is to be noted that these tables were not compiled by the Italian Government, and the data with all their short-comings are still more complete and more accurate data than possessed by the Government itself).

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

TABLE V
Principal Revenue Items
King's Four Provinces
(thousands of Lire)

	Mfg. Tax	Customs	Monopoly	Lottery	Direct Taxes	Indirect Taxes	Capo X Treasury
PROVINCES			OCT - DEC 1942				
Bari	15,537	17,955	84,555	1,909	35,532	29,042	99,307
Brindisi	281	329	---	421	8,772	4,676	10,305
Lecce	532	5	---	981	13,818	8,946	26,155
Taranto	3,759	31,4[illegible]	---	1,074	9,814	7,947	119,957
TOTAL	20,109	49,711	84,555	4,365	67,936	50,611	255,724
			OCT - DEC 1943				
Bari	5,693	954	122,983	543	52,772	26,917	23,907
Brindisi	521	1,544	---	134	12,121	5,605	1,668
Lecce	759	---	---	329	18,576	12,160	4,456
Taranto	789	29	---	226	16,448	9,270	3,918
TOTAL	7,762	2,527	122,983	1,232	99,917	53,952	33,949
			JULY TO DEC 1942				
TOTAL FOR ALL FOUR PROVINCES	29,018	61,301	167,740	7,195	100,453	94,216	701,094
			JULY TO DEC 1943				
	28,181	9,261	249,200	3,520	161,589	105,563	88,050

Declassified E.O. 12356 Section 3.3/NND No. 785015

PROVINCES			OCT - DEC 1942				
Bari	15,537	17,955	84,355	1,909	35,532	29,042	99,307
Brindisi	281	329	---	423	8,772	4,676	10,305
Lecce	532	5	---	881	13,818	8,946	26,155
Taranto	3,759	31,[illegible]	---	1,074	9,814	7,947	119,957
TOTAL	20,109	49,711	84,355	4,365	67,936	50,611	255,724
			OCT - DEC 1943				
Bari	5,693	954	122,983	543	52,772	26,917	23,907
Brindisi	521	1,544	---	134	12,121	5,605	1,668
Lecce	759	---	---	329	18,576	12,160	4,456
Taranto	789	29	---	226	16,448	9,270	3,918
TOTAL	7,762	2,527	122,983	1,232	99,917	53,952	35,949
			JULY TO DEC 1942				
TOTAL FOR ALL FOUR PROVINCES	29,018	61,301	167,740	7,195	100,453	94,216	701,294
			JULY TO DEC 1943				
	28,181	9,261	249,200	3,520	151,589	105,563	86,050

U. S. SECRET
Equals British MOST SECRET

5374

C. Expenditures.

1. No attempt was made to control Italian governmental expenditures until December. When the December estimates were presented, it was discovered that these were not uniform, sufficient supporting data was not available and could not be procured in time. As a result, higher authority decided that no recommendation should be made to the Italian government.

a. The expenditure control officer did not arrive at Brindisi until 10 December 1943. At that time, Lt. Col. Guido Jung presented lump-sum ministry budget estimates for expenditures of the Italian government in December. Hearings were held with the representatives of the various ministries and the following points were brought out:

(1) No definite budgetary procedure had been instituted for the submission of requests for funds by the various ministries.
(2) No uniformity existed as to the basis on which funds should be requested. For example, the Ministry of the Navy requested funds needed to augment balances already on hand, the Army and the Air Force Ministries attempted to present total requirements for the month, including sums to cover long past due items, and the civilian ministries basedtheir requests substantially on cash disbursements made during the month of October 1943.
(3) In nearly all cases the estimated sums required were not determined with a basis of supporting data. This made it necessary to conduct a considerable amount of research to enable the presentation of even a partial picture of the financial conditions existing and consequent requirements.
(4) Communication and transport facilities were such that it was impossible to obtain the necessary supporting data to justify the sums requested.

b. While the budget was such that it was impossible to exercise any real control over expenditures, it was felt that as a minimum the Italian government should not be allowed to pay past-due bills of the preceding months until more information was available. However, it was decided by higher authority, in view of the general unsatisfactory and insufficient character of the data, that no specific recommendation should be made to the Italian government on the December estimates.

2. Statistics on past expenditures in the King's four provinces have had to be compiled. So far only the data on expenditures "of the budget" - about a third of total expenditures - have been completed for 1942-43. These show that the expenditures of the armed forces made up 72% of the total.

a. In the efforts now being made to control expenditures, a number of serious difficulties are being encountered. Among the foremost of these difficulties is the almost entire lack of data covering the territory now under the jurisdiction of the Italian state government. As was mentioned previously, state budgets covering proposed expenditures are not compiled on a geographical

...ings were held with the ... of the Italian government in December. Hear- with the representatives of the various ministries and the fol- lowing points were brought out:

(1) No definite budgetary procedure had been instituted for the submission of requests for funds by the various ministries.

(2) No uniformity existed as to the basis on which funds should be requested. For example, the Ministry of the Navy requested funds needed to augment balances already on hand, the Army and the Air Force Ministries attempted to present total requirements for the month, including sums to cover long past due items, and the civilian ministries basedtheir requests substantially on cash disbursements made during the month of October 1943.

(3) In nearly all cases the estimated sums required were not determined with a basis of supporting data. This made it necessary to conduct a considerable amount of research to enable the presentation of even a partial picture of the financial conditions existing and consequent requirements.

(4) Communication and transport facilities were such that it was impossible to obtain the necessary supporting data to justify the sums requested.

b. While the budget was such that it was impossible to exercise any real control over expenditures, it was felt that as a minimum the Italian government should not be allowed to pay past-due bills of the preceding months until more information was available. However, it was decided by higher authority, in view of the general unsatisfactory and insufficient character of the data, that no specific recommendation should be made to the Italian government on the December estimates.

2. <u>Statistics on past expenditures in the King's four provinces have had to be compiled. So far only the data on expenditures "of the budget" - about a third of total expenditures - have been completed for 1942-43. These show that the expenditures of the armed forces made up 72% of the total.</u>

a. In the efforts now being made to control expenditures, a number of serious difficulties are being encountered. Among the foremost of these difficulties is the almost entire lack of data covering the territory now under the jurisdiction of the Italian state government. As was mentioned previously, state budgets covering proposed expenditures are not compiled on a geographical basis, so that in order to determine justifiable expenditures for present Italian governmental activities in the regions involved, it was not possible to look to the total state budget. Instead, detailed analysis of past expenditures in the region had to be compiled from the best available source, that is the provincial branches of the Banca d'Italia. This was done and the results in so far as they concern the expenditures classified as being "of the Budget" are given in Table VI below. It must be borne in mind, however, that, as explained later, these expenditures cover only a minor portion of the total state expenditures for the four provinces of Bari, Brindisi, Lecce and Taranto.

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

TABLE VI

Italian State Expenditures
"Spese di Bilancio"
Expenditures of the Budget
King's Four Provinces
Fiscal Year 1942-43
(Millions of Lire)

Ministry	Total Expenditures	% of Total
Finance	L. 392	7.1
Justice	3[illegible]	0.6
Foreign Affairs	9	0.2
Italian Africa	..	-
Education	111	2.0
Interior	895	16.3
Public Works	67	1.2
Communications	10	0.2
War	1,[illegible]	30.3
Navy	1,830	33.4
Air	429	7.8
Agriculture	43	0.8
Industry and Commerce	-	0.1
Foreign Exchange	-	-
Information	-	-
Total, all Ministries	L. 5,4[illegible]	100.0

b. This table brings out the fact that any substantial reduction to be made will involve the expenditures for the armed services, since they constitute 72% of the total. Interior is next with 16% but while the details of these expenditures are not fully known as yet, it is known that a substantial part of these are for social relief. The Ministry of Finance spent 7% of the total, principally on fixed expenditures, that is, on items not readily reducible. All other ministries spent 5% of the total which when translated into lire amounts to a little less than 280 million lire for these ministries for a full year.

3. The statistics show a very large decrease in expenditures "of the budget" for the last quarter of 1943 compared to 1942. Since these are cash disbursement and not true expenditure figures, the picture probably appears much more favorable than it actually is.

a. Expenditure figures for the fiscal year 1943-44 are available for the first six months of the year, i.e. up to and including December 1943. Comparison of these figures with a like period in 1942-43 show a reduction of 46% in 1943-44 compared to 1942-43, and a reduction of over 80% in the last quarter of 1943.

TABLE VII

Comparison 1943 to 1942 "Spese di Bilancio"
Expenditures of the Budget, King's Four Provinces in
Millions of Lire

	1942	1943	Decrease in 1943 Compared to 1942	Increase in 1943 Compared to 1942
July	2[illegible]3	167	46	
August	[illegible]	[illegible]		

[illegible]		–	[illegible]
Education		111	–
Interior		889	2.0
Public Works		67	16.3
Communications		10	1.2
War		[illegible]	0.2
Navy		1,[illegible]	30.3
Air		1,[illegible]	33.4
Agriculture		[illegible]	7.8
Industry and Commerce		43	0.8
Foreign Exchange		4	0.1
Information		–	–
Total, all Ministries	L.	5,4[illegible]	100.0

b. This table brings out the fact that any substantial reduction to be made will involve the expenditures for the armed services, since they constitute 73% of the total. Interior is next with 16% but while the details of these expenditures are not fully known as yet, it is known that a substantial part of these are for social relief. The Ministry of Finance spent 7% of the total, principally on fixed expenditures, that is, on items not readily reducible. All other ministries spent [illegible] of the total which when translated into lire amounts to a little less than [illegible] million lire for these ministries for a full year.

3. The statistics show a very large decrease in expenditures "of the budget" for the last quarter of 1943 compared to 1942. Since these are cash disbursement and not true expenditure figures, the picture probably appears much more favorable than it actually is.

a. Expenditure figures for the fiscal year 1943-44 are available for the first six months of the year, i.e. up to and including December 1943. Comparison of these figures with a like period in 1942-43 show a reduction of 46% in 1943-44 compared to 1942-43, and a reduction of over 80% in the last quarter of 1943.

TABLE VII

Comparison 1943 to 1942 "Spese di Bilancio"
Expenditures of the Budget, King's Four Provinces in
Millions of Lire

	1942	1943	Decrease in 1943 Compared to 1942	Increase in 1943 Compared to 1942
July	[illegible]	187	46	
August	[illegible]	525		143
September	358	363		5
October	659	60	599	
November	[illegible]	108	185	
December	[illegible]	85	[illegible]	
Total	2,[illegible]	1,[illegible]	1,1[illegible]	148
			148	
Net Decrease in 1943 compared to 1942.			97[illegible]	

U. S. SECRET
Equals British MOST SECRET

5373

U. S. SECRET
Equals British MOST SECRET

b. There are several points which should be borne in mind in the interpretation of Table VII. First, the fact that the figures shown represent payments made by the Banca d'Italia branches on government account subject them to the ordinary fluctuations which are present in any set of cash disbursement figures. For example, the government may incur obligations in one month but the actual payment of the debt may not occur until a subsequent month or may be spread out over several months. The reverse of this is likewise a possibility. Also steps may be taken by those in control, to arbitrarly affect the amount of bank payments made in a particular month, without at the same time affecting the rate or amount of government spending activity. This can be accomplished by withholding bills for payment or on the other hand by presenting previously withheld bills in a particular month.

c. Figures given in the table for July do not reflect with any degree of accuracy governmental payments for the month. This is due to the fact that the Italian state government operates on a 13 month year with the month of July overlapping into each year.

d. It is probably safe to say that the increased rate of expenditure on the part of the Italian state government in 1943 compared to 1942 was arrested at some time during September 1943. Decreases reflected from then on may be due to various causes: The war conditions existing would naturally slow up the payments made by the banks. The decrease in December may be due to the fact that the last advance made by AMG to the government in that month came so late in the month that bills which normally would have been paid were not presented for payment.

4. <u>There do not exist any usable data on the expenditures which are not in the "of the budget" category but which comprised two-thirds of the expenditures in the King's four provinces in 1942-43. A good deal of work is necessary here.</u>

a. An important problem now under study and requiring laborious effort is that of the Italian governmental expenditures expended outside of the budget. This category included in the fiscal year 1942-43 around two-thirds of Italian governmental expenditures in the King's four provinces. Expenditures included in the budget for the fiscal year 1942-43 for the King's four provinces amounted to 5,482 million lire while the total of all governmental expenditures for the same territory (exclusive of partial expenditures not yet classifiable and transfers of funds) amounted to three times as much of 15,800 million lire.

b. The expenditures not included in the budget include a host of accounts and funds, principally dedicated and trust funds, having revenues and expenditures separate and apart from the budget.

c. The extra-budgetary expenditures are being studied with a view to securing accurate information on them in order to be able to control them effectively and to determine what reductions of expenditures are possible here and what sums in cash or other assets available in the dedicated or trust funds can be diverted to assist in balancing the Italian state budget. At present, in the Italian state accounting system there are practically no reliable data in usable form on these important expenditures. As a result, a great deal of spade work must be done.

5. <u>The introduction of a good budgetary procedure is necessary if scientific expenditure control is to be attained. Work is being directed towards this goal.</u>

The whole question of instituting a budgetary procedure in the Italian state finances for the routine handling of state government expenditures which will supply reliable financial data in an orderly fashion has had to be

c. Figures given in the table for July do not reflect with any degree of accuracy governmental payments for the month. This is due to the fact that the Italian state government operates on a 13 month year with the month of July overlapping into each year.

d. It is probably safe to say that the increased rate of expenditure on the part of the Italian state government in 1943 compared to 1942 was arrested at some time during September 1943. Decreases reflected from then on may be due to various causes: the war conditions existing would naturally slow up the payments made by the banks. The decrease in December may be due to the fact that the last advance made by AMG to the government in that month came so late in the month that bills which normally would have been paid were not presented for payment.

4. There do not exist any usable data on the expenditures which are not in the "of the budget" category but which comprised two-thirds of the expenditures in the King's four provinces in 1942-43. A good deal of work is necessary here.

a. An important problem now under study and requiring laborious effort is that of the Italian governmental expenditures expended outside of the budget. This category included in the fiscal year 1942-43 around two-thirds of Italian governmental expenditures in the King's four provinces. Expenditures included in the budget for the fiscal year 1942-43 for the King's four provinces amounted to 5,482 million lire while the total of all governmental expenditures for the same territory (exclusive of partial expenditures not yet classifiable and transfers of funds) amounted to three times as much, of 15,800 million lire.

b. The expenditures not included in the budget include a host of accounts and funds, principally dedicated and trust funds, having revenues and expenditures separate and apart from the budget.

c. The extra-budgetary expenditures are being studied with a view to securing accurate information on them in order to be able to control them effectively and to determine what reductions of expenditures are possible here and what sums in cash or other assets available in the dedicated or trust funds can be diverted to assist in balancing the Italian state budget. At present, in the Italian state accounting system there are practically no reliable data in useable form on these important expenditures. As a result, a great deal of spade work must be done.

5. The introduction of a good budgetary procedure is necessary if scientific expenditure control is to be achieved. Work is being directed towards this goal.

The whole question of instituting a budgetary procedure in the Italian state finances for the routine handling of state government expenditures which will supply reliable financial data in an orderly fashion has had to be faced. The introduction of such a procedure is necessary if scientific expenditure control is to be effected. Such a procedure must be sufficiently flexible to enable new areas to be included when such areas come under the control of the Italian government. It is obvious that to achieve this goal a considerable amount of careful planning and an extensive knowledge of the details of expenditure are needed. Work is being directed towards the inauguration of this vitally needed budgetary procedure into Italian state finances as soon as possible.

U. S. SECRET
Equals British MOST SECRET

U. S. SECRET
Equals British MOST SECRET

SECTION III
Financing the Deficit

A. Last quarter of 1943.

1. Sources funds.

In the last quarter of 1943, 30 September to 31 December, 1943, the Italian Government secured the funds to meet its deficit mainly from two institutions: the Banca d'Italia and AMFA. The Banca d'Italia provided roughly 1800 million lire in advances to the Government and AMFA advanced 450 million lire of currency. A small part of the deficit, probably less than 10 million lire was covered by the excess of sales of Treasury short-term notes, B.T.O. (Buoni del Tesoro ordinari), over redemptions.

TABLE VIII
Financing of Italian Government Deficit,
30 September to 31 December, 1943.

	millions of lire	
Advances from Banca d'Italia	1770	
Advances from AMFA	450	
Net receipts from sale of short-term notes (B.T.O.)	10	
Total receipts		2230
Total estimated deficit		2500 (?)
Difference unaccounted for		270 (?)

2. Advances from the Banca d'Italia.

The funds which the Banca d'Italia used to make advances to the Italian Government came from several sources. Table IX presents our estimates for the last quarter of 1943.

TABLE IX
Sources of funds for advances by Banca d'Italia, King's four provinces, to the Italian Government.
30 September to 31 December, 1943.

	millions of lire	
Net increase in deposits held at Banca d'Italia (1)	1310	
Net decrease in currency held by Banca d'Italia (2)		
Vaglia stampigliati issued (3)	140	
Net increase in postal savings (4)	300	
Total advances	30	1770

Notes:

1. Estimate based on Banca d'Italia "Riepilogo Puglia, Movimento verificatosi nei conti correnti e conti anticipazioni." (Summary of verified movement in current accounts and accounts guaranteed by a deposit of securities). (Appendix, Table H).

Declassified E.O. 12356 Section 3.3/NND No. 785015

... lire in advances to the Government and AMFA advanced 450 million lire of currency. A small part of the deficit, probably less than 10 million lire was covered by the excess of sales of Treasury short-term notes, B.T.O. (Buoni del Tesoro ordinari), over redemptions.

TABLE VIII

Financing of Italian Government Deficit,
30 September to 31 December, 1943.

	millions of lire	
Advances from Banca d'Italia	1770	
Advances from AMFA	450	
Net receipts from sale of short-term notes (B.T.O.)	10	
Total receipts		2230
Total estimated deficit		2500 (?)
Difference unaccounted for		270 (?)

2. Advances from the Banca d'Italia.

The funds which the Banca d'Italia used to make advances to the Italian Government came from several sources. Table IX presents our estimates for the last quarter of 1943.

TABLE IX

Sources of funds for advances by Banca d'Italia, King's four provinces, to the Italian Government.
30 September to 31 December, 1943.

	millions of lire	
Net increase in deposits held at Banca d'Italia (1)	1330	
Net decrease in currency held by Banca d'Italia (2)	140	
Vaglia stampigliati issued (3)	300	
Net increase in postal savings (4)	30	
Total advances		1770

Notes:

1. Estimate based on Banca d'Italia "Riepilogo Puglia, Movimento verificatosi nei conti correnti e conti anticipazioni." (Summary of verified movement in current accounts and accounts guaranteed by a deposit of securities). (Appendix, Table H).

- 17 -
U. S. SECRET
Equals British MOST SECRET

5372

2. Source: Banca d'Italia, "Riepilogo della Situazione di Cassa delle Filiali della Puglia" ("Summary of the situation of the vaults of the branches of Puglia"), 30 September 1943 to 31 December 1943. (Appendix, Table I).

3. Estimate based on sample of data compiled by Banca d'Italia, Succursale di Brindisi (Branch of Brindisi) on its issuance of "vaglia stampigliati" (bearer checks having legal tender).

4. Estimate based on fragmentary data covering portions of the period 30 September - 31 December. These data were secured from Commendottore Montuori, Dirigente, Ragioneria Generale dello Stato.

---

a. The largest single part of the funds provided by the Banca d'Italia to the government is represented by the increase in deposits held at the Banca d'Italia.

Normally in Italy a net increase in the advances made by the Banca d'Italia to the government represents a creation of new money. Since Italy is not a check-using country to the extent of the United States and England, a creation of money by the Banca d'Italia generally meant the issuance of an equivalent amount in currency, not an increase in deposits held at the Central Bank. Since the end of September, money has come back into the banks from circulation and hoarding. Governmental policy has tried to close off non-governmental outlets for bank investment. The banks have been depositing their available money in interest - bearing accounts, which can be drawn on at any time, with the Banca d'Italia. This has enabled the Banca d'Italia to make use of these funds in making advances to the government.

b. The Banca d'Italia in the King's four provinces, Bari, Brindisi, Lecce, and Taranto, held on the opening of business on 1 October 1943, 640 million lire in currency. At the close of business 31 December, the Banca d'Italia had 500 million lire on hand. The net decrease of currency held was therefore 140 million lire (640-500). During the last quarter of 1943, the Banca d'Italia on balance had a net inflow of funds from every source except the government account. The drain of currency out of the bank, thus, must be attributed to the advances made to the government.

c. The Banca d'Italia was authorized in September to issue a form of substitute for currency, "vaglia stampigliati", that is, checks payable to bearer, in fixed denominations and having the character of legal tender. In essence, these vaglia are currency and the issuance of the vaglia is a creation of new money by the Banca d'Italia. From 30 September 1943 to 31 December 1943, the Banca d'Italia in the four provinces probably issued around 300 million lire of these vaglia stampigliati.

d. The postal savings offices in Puglia have continued to receive savings deposits, current account deposits, and to sell postal savings bonds. While the central government was in Rome, the savings deposited with the postal savings offices were made available to the government by the central office of the postal savings system, the Cassa dei Depositi e Prestiti (Vault of deposits and loans). Since the departure of the Badoglio government from Rome, there has been no central office. The money collected by the postal savings system

30 September - 31 December. These data were secured from
Commendatore Montuori, Dirigente, Ragioneria Generale dello Stato.

---

a. The largest single part of the funds provided by the Banca d'Italia to the government is represented by the increase in deposits held at the Banca d'Italia.

Normally in Italy a net increase in the advances made by the Banca d'Italia to the government represents a creation of new money. Since Italy is not a check-using country to the extent of the United States and England, a creation of money by the Banca d'Italia generally meant the issuance of an equivalent amount in currency, not an increase in deposits held at the Central Bank. Since the end of September, money has come back into the banks from circulation and hoarding. Governmental policy has tried to close off non-governmental outlets for bank investment. The banks have been depositing their available money in interest - bearing accounts, which can be drawn on at any time, with the Banca d'Italia. This has enabled the Banca d'Italia to make use of these funds in making advances to the government.

b. The Banca d'Italia in the King's four provinces, Bari, Brindisi, Lecce, and Taranto, held on the opening of business on 1 October 1943, 640 million lire in currency. At the close of business 31 December, the Banca d'Italia had 500 million lire on hand. The net decrease of currency held was therefore 140 million lire (640-500). During the last quarter of 1943, the Banca d'Italia on balance had a net inflow of funds from every source except the government account. The drain of currency out of the bank, thus, must be attributed to the advances made to the government.

c. The Banca d'Italia was authorized in September to issue a form of substitute for currency, "vaglia stampigliati", that is, checks payable to bearer, in fixed denominations and having the character of legal tender. In essence, these vaglia are currency and the issuance of the vaglia is a creation of new money by the Banca d'Italia. From 30 September 1943 to 31 December 1943, the Banca d'Italia in the four provinces probably issued around 300 million lire of these vaglia stampigliati.

d. The postal savings offices in Puglia have continued to receive savings deposits, current account deposits, and to sell postal savings bonds. While the central government was in Rome, the savings deposited with the postal savings offices were made available to the government by the central office of the postal savings system, the Cassa dei Depositi e Prestiti (Vault of deposits and loans). Since the departure of the Badoglio government from Rome, there has been no central office. The money collected by the postal savings system is, however, available to the government through the Banca d'Italia. (A fuller explanation is given later on). As nearly as it is possible to estimate, funds secured by the Banca d'Italia from the postal savings system totaled around 30 million in the last quarter of 1943.

U. S. SECRET
Equals British MOST SECRET

3. AMFA Advances.

Colonel Jung requested an advance, early in December, of 1000 million lire in currency from AMFA to meet an estimated December deficit of this amount. While the question was being studied, General Joyce, Deputy President of A.C., approved an advance of 200 million lire from AMFA on 8 December 1943, to meet the immediate needs of the Badoglio Government. The Finance Sub-Commission accepted Colonel Jung's contention that 400 million lire in currency was necessary to the Banca d'Italia in the four provinces as a working fund for the government, reserve for the Banca d'Italia against deposits, and working capital of the post offices. On 22 December a further advance of 250 million lire was, therefore, approved to bring the currency holdings of the Banca d'Italia in four provinces over the 400 million lire mark and to meet the anticipated heavy end-of-the-month government pay roll. This brought the total advances by AMFA to the Italian government to 450 million lire up to 31 December 1943.

4. Net Receipts from sale of short-term notes. (Buoni del Tesoro ordinari).

Although the sale of short-term notes has been one of the principal sources of funds to the Italian government, the excess of sales over redemptions of the short-term notes (Buoni del Tesoro ordinari) in the last quarter of 1943 were probably barely 10 million lire. In the first part of the period more money was paid out on this account than was received by the state. In the last half of December with the payment of the matured nine-year bonds, there was a net investment of 18 million lire in the Buoni del Tesoro ordinari. (Appendix, Table J).

B. Program for Financing the Government Deficit.

1. The sale of five or nine year bonds by the Italian Government appears to be the ideal method of financing its deficit but cannot be undertaken by the Badoglio Government now or in the immediate future, in the judgment of the Ministry of Finance.

a. The principal means of the Italian government in financing its deficit in recent years has been the sale of five and nine year bonds, (Buoni del Tesoro Poliennali). These bonds are customarily sold to the public and institutions having funds to invest through a consortium of banks headed by the Banca d'Italia.

b. The Buoni poliennali drew off purchasing power of the public and thus eased the upward pressure on prices. The term of the bonds is long enough to tie-up the funds of the investors for a number of years and thus, avoids the accumulation of a mass of short-term obligations as a constant threat to the credit position of the government. At the same time, if the bonds were sold now, the term is short enough to give the Italian Government the opportunity to re-finance the debt at lower rates of interest after the current emergency. The effective rates of interest paid on these bonds have been higher than 5% (the U.S. Government has been issuing similar bonds at rates of 2% or less). To borrow for a greater term than 9-years, the Italian government

... On 22 December a further advance of 290 million lire was, therefore, approved to bring the currency holdings of the Banca d'Italia in four provinces over the 400 million lire mark and to meet the anticipated heavy end-of-the-month government pay roll. This brought the total advances by AMFA to the Italian government to 450 million lire up to 31 December 1943.

4. Net Receipts from sale of short-term notes. (Buoni del Tesoro ordinari).

Although the sale of short-term notes has been one of the principal sources of funds to the Italian government, the excess of sales over redemptions of the short-term notes (Buoni del Tesoro ordinari) in the last quarter of 1943 were probably barely 10 million lire. In the first part of the period more money was paid out on this account than was received by the state. In the last half of December with the payment of the matured nine-year bonds, there was a net investment of 18 million lire in the Buoni del Tesoro ordinari. (Appendix, Table J).

B. Program for Financing the Government Deficit.

1. The sale of five or nine year bonds by the Italian Government appears to be the ideal method of financing its deficit but cannot be undertaken by the Badoglio Government now or in the immediate future, in the judgment of the Ministry of Finance.

a. The principal means of the Italian government in financing its deficit in recent years has been the sale of five and nine year bonds, (Buoni del Tesoro Poliennali). These bonds are customarily sold to the public and institutions having funds to invest through a consortium of banks headed by the Banca d'Italia.

b. The Buoni poliennali drew off purchasing power of the public and thus eased the upward pressure on prices. The term of the bonds is long enough to tie-up the funds of the investors for a number of years and thus, avoids the accumulation of a mass of short-term obligations as a constant threat to the credit position of the government. At the same time, if the bonds were sold now, the term is short enough to give the Italian Government the opportunity to re-finance the debt at lower rates of interest after the current emergency. The effective rates of interest paid on these bonds have been higher than 5% (the U.S. Government has been issuing similar bonds at rates of 2% or less). To borrow for a greater term than 9-years, the Italian government would have to pay still higher rates of interest and would find itself saddled with a high interest rate for a long period of years.

c. To set the stage for a possible future resumption of the sale of the Buoni poliennali to the public, the Italian Ministry of Finance was authorized by the Allied Control Commission to pay off the issue of nine-year bonds maturing on 15 December 1943. A credit with AMFA on which the government could draw if necessary was set up for the purpose in the Bari branch of the Banca d'Italia. In the King's four provinces to the end of 1943, 12 million lire par value of the nine-year bonds were redeemed. According to the figures presented to us, funds secured from the maturity appear to have been reinvested in the Treasury short-term notes (Buoni del Tesoro ordinari). This information is shown in Table J in the appendix. (In Sicily, less than 5 million lire par value, were redeemed. Complete figures are not available). In a further step the government was authorized to instruct the provincial sections of the State treasury in Liberated Italy to resume on 1 January 1944 the debt service on all the outstanding internal issues of bonds.

d. However, it is Colonel Jung's judgment that the Badoglio government cannot now, or for some time to come, successfully float an issue of these bonds because the "political, economic and financial background" is not suitable. Colonel Jung is convinced that any attempt to sell such an issue would be a complete failure. Therefore, he believes that the government must continue to rely for the financing of its deficit on advances from the Banca d'Italia (and AMFA) and on the sale of its notes (Buoni del Tesoro ordinari) which have a term of a year or less.

2. The principal means which the Italian government plans to use to finance the deficit other than advances from the Banca d'Italia or AMFA is by increasing its floating debt through the sale of short-term notes, B.T.O. (Buoni del Tesoro Ordinari). However, the Badoglio government is having difficulty in selling these apparently because of the desire of the banks and other potential purchasers to keep their funds in a still more liquid form.

a. In view of the impracticability of the sale of "poliennali" bonds, the government has been relying and plans to rely on the sale of its short-term notes, (Buoni del Tesoro Ordinari) as the principal alternative to securing advances from the Banca d'Italia and AMFA. The B.T.O., are short-term notes running from one month to one year and carrying rates of interest varying with the term from 3½% to 5%. The B.T.O. are always on sale as a form of "tap" issue at the Royal Treasury section of the Banca d'Italia and can be purchased through post offices and commercial banks. The principal investors in the B.T.O. are the banks but they are held by other firms and by private individuals with funds to invest.

b. The B.T.O., always on sale, are likewise always coming due. The government derives a net increase in the funds available to it only if a greater value of B.T.O. are sold than must be paid out in principal and interest on the B.T.O. coming due. That is, so long as the floating debt of the government represented by the B.T.O. is increasing, the government is deriving funds to meet its deficit. If, at any time, re-investment of the money secured from the maturing of B.T.O. stops and no other investment comes in to fill the gap, the government is immediately faced with a great demand for currency to pay off the maturity of its floating debt. It is obvious that relying on a continuous growth in the floating debt to finance a substantial part of the deficit of the government is unsound and increases the financial instability of the government.

c. However, since the Badoglio government cannot sell longer-term securities, the only other alternative to increasing the amounts of B.T.O. outstanding is to borrow from the Banca d'Italia or AMFA.

... because the "political, economic and financial background" is not suitable. Colonel Jung is convinced that any attempt to sell such an issue would be a complete failure. Therefore, he believes that the government must continue to rely for the financing of its deficit on advances from the Banca d'Italia (and AMFA) and on the sale of its notes (Buoni del Tesoro ordinari) which have a term of a year or less.

2. The principal means which the Italian government plans to use to finance the deficit other than advances from the Banca d'Italia or AMFA is by increasing its floating debt through the sale of short-term notes, B.T.O. (Buoni del Tesoro Ordinari). However, the Badoglio government is having difficulty in selling these apparently because of the desire of the banks and other potential purchasers to keep their funds in a still more liquid form.

a. In view of the impracticability of the sale of "polionnali" bonds, the government has been relying and plans to rely on the sale of its short-term notes, (Buoni del Tesoro Ordinari) as the principal alternative to securing advances from the Banca d'Italia and AMFA. The B.T.O., are short-term notes running from one month to one year and paying rates of interest varying with the term from 3½% to 5%. The B.T.O. are always on sale as a form of "tap" issue at the Royal Treasury section of the Banca d'Italia and can be purchased through post offices and commercial banks. The principal investors in the B.T.O. are the banks but they are held by other firms and by private individuals with funds to invest.

b. The B.T.O., always on sale, are likewise always coming due. The government derives a net increase in the funds available to it only if a greater value of B.T.O. are sold than must be paid out in principal and interest on the B.T.O. coming due. That is, so long as the floating debt of the government represented by the B.T.O. is increasing, the government is deriving funds to meet its deficit. If, at any time, re-investment of the money secured from the maturing of B.T.O. stops and no other investment comes in to fill the gap, the government is immediately faced with a great demand for currency to pay off the maturity of its floating debt. It is obvious that relying on a continuous growth in the floating debt to finance a substantial part of the deficit of the government is unsound and increases the financial instability of the government.

c. However, since the Badoglio government cannot sell longer-term securities, the only other alternative to increasing the amounts of B.T.O. outstanding is to borrow from the Banca d'Italia or AMFA.

d. To aid in increasing the sales of B.T.O., the Banca d'Italia throughout liberated Italy has been ordered to resume on 1 January 1944 the redemption of B.T.O. already ... and maturing. In the King's four provinces in Puglia, service on this debt has been continued throughout.

U. S. SECRET
Equals British MOST SECRET

e. To direct available bank funds into the purchase of B.T.O., the Banca d'Italia in Puglia through the "Ispettorato per la difesa del risparmio e per l'esercizio del credito" (Inspectorate for the defense of savings and the exercise of credit), has been attempting to prevent any investment of bank funds, except for urgently needed productive credit, outside of the purchase of B.T.O. and deposits in the Banca d'Italia. This has had some effect in causing a small net increase in the investment of bank funds in the Buoni del Tesoro Ordinari.

f. The great bulk of the available funds have gone, however, not into the purchase of B.T.O. but into deposits at the Banca d'Italia. The B.T.O. pay 3½% to 5% while the Banca d'Italia pays no interest on current accounts and 2% on interest-bearing accounts. Colonel Jung cannot give any explanation of why the banks prefer to receive 2% on a deposit with the Banca d'Italia rather than 5% from a B.T.O. other than that: "the banks have not realized that they can make 3% more by buying the Buoni Ordinari." It would appear that the main reason for this preference for deposits at the Banca d'Italia, which can be withdrawn on call, over the Buoni del Tesoro Ordinari, is the desire for maintaining as much liquidity as practicable.

g. The Badoglio government has been forced, therefore, to rely and will probably be forced to rely in the immediate future on advances from the Banca d'Italia and from AMFA for the largest part of the funds to meet its deficit.

3. Other forms of credit instrument, such as the "certificate of credits" formerly used to pay industrial firms, are not now being used nor does the government contemplate using them.

a. The Italian government formerly financed some of the claims of government contractors on the state by spreading payments over a period of years. The firms concerned could realize on their claims by securing special credit certificates from the Treasury and discounting them or in other cases by discounting their own notes secured by these claims.

b. Colonel Jung statesthat there are hundreds of million of lire owed by the government to industrial firms as a result of this type of financing and that the government is not honoring any of these pastclaims. Currently, the government is not making any use of this method of financing and doesnot intend to in the near future.

c. In Colonel Jung's judgment the government is already securing the use of the available bank fundseither through the sale of B.T.O. to the banks or through the bankers' deposits at the Banca d'Italia. If the government should try to finance itself through securing credit from industry, the firms concerned would discount their claims at commercial banks and would thus draw off funds which would otherwise be available to the government. Therefore, there would be no net gain so far as the supply of money available to the government is concerned and the problem of past-due claims would be raised.

4. The principal source of funds to meet the Italian government de-

accounts [illegible] on interest-bearing accounts. Colonel Jung cannot give any explanation of why the banks prefer to receive 2% on a deposit with the Banca d'Italia rather than 5% from a B.T.O. other than that: "the banks have not realized that they can make 3% more by buying the Buoni Ordinari." It would appear that the main reason for this preference for deposits at the Banca d'Italia, which can be withdrawn on call, over the Buoni del Tesoro Ordinari, is the desire for maintaining as much liquidity as practicable.

g. The Badoglio government has been forced, therefore, to rely and will probably be forced to rely in the immediate future on advances from the Banca d'Italia and from AMFA for the largest part of the funds to meet its deficit.

3. Other forms of credit instrument, such as the "certificate of credits" formerly used to pay industrial firms, are not now being used nor does the government contemplate using them.

a. The Italian government formerly financed some of the claims of government contractors on the state by spreading payments over a period of years. The firms concerned could realize on their claims by securing special credit certificates from the Treasury and discounting them or in other cases by discounting their own notes secured by these claims.

b. Colonel Jung states that there are hundreds of million of lire owed by the government to industrial firms as a result of this type of financing and that the government is not honoring any of these past claims. Currently, the government is not making any use of this method of financing and doesnot intend to in the near future.

c. In Colonel Jung's judgment the government is already securing the use of the available bank funds either through the sale of B.T.O. to the banks or through the bankers' deposits at the Banca d'Italia. If the government should try to finance itself through securing credit from industry, the firms concerned would discount their claims at commercial banks and would thus draw off funds which would otherwise be available to the government. Therefore, there would be no net gain so far as the supply of money available to the government is concerned and the problem of past-due claims would be raised.

4. The principal source of funds to meet the Italian government deficit has been, and indications are, will probably continue to be, advances from the Banca d'Italia.

a. Advances from the Banca d'Italia to the Italian government are now made up of two parts: one part represents the re-investment of funds on deposit with the Banca d'Italia, and the other represents the addition of currency to the total in circulation.

U. S. SECRET
Equals British MOST SECRET

b. The largest part of the advances made by the Banca d'Italia to the government has consisted of the transfer to the government of the funds deposited chiefly by banks with the Banca d'Italia.

(1) As mentioned previously, the government through the Ispettorato of the Banca d'Italia in Puglia has been preventing the use of available bank funds, except for urgently needed productive enterprises, for any purpose other than for the purchase of the Buoni del Tesoro Ordinari or for deposit in the Banca d'Italia. The bulk of the available bank funds in Puglia have been moving through this latter channel to the government. The government intends to continue this policy for the future and to finance as large a portion of the deficit as it can in this manner.

(2) It is evident that this method of securing money to meet the deficit of the government is even more unsound than relying on a continuous increase in the floating debt. If for any reason at any time the banks endeavor to withdraw their deposits from the Banca d'Italia, the Banca d'Italia may be faced with the necessity of meeting an enormous demand for currency far beyond its ability to supply from its own resources. On 31 December 1943, the Banca d'Italia in the King's provinces of Puglia held 1,660 million lire of current accounts or a third more than the Banca d'Italia held in all Italy on 31 December 1939.

c. A far smaller part of the funds used by the Banca d'Italia to meet the needs of the government has been coming from the investment of the postal savings which are deposited with the Banca d'Italia.

(1) The money of small savers in Italy have been mainly collected through the post office savings system. The post office collects funds by the use of three principal methods: postal savings accounts, the sale of postal savings bonds, and the current accounts. The first two are the principal means of collecting savings, the latter representing a popular means through which check transactions in Italy are made.

(2) The savings collected by the postal savings system were centralized in the Cassa dei Depositi e Prestiti. The Cassa used these funds to invest in government bonds or to make current advances to various governmental organizations. At the present time, the Cassa is not functioning and the usual mechanics whereby the funds collected by the Cassa were funneled into government deficit financing are not operating.

(3) All money received by each post office from all sources is deposited nightly as a lump sum with the Banca d'Italia. Every morning each post office withdraws sufficient funds to meet its anticipated needs for the day including anticipated withdrawals of savings as well as payments on government account. The post offices are used by the government to make payments of some salary and pension accounts.

(4) The funds now being received by the postal savings system are, therefore, being used to meet government expenditures either directly by the post office using the excess of savings over withdrawals to make payments on government account or indirectly by any residue being available to the Banca d'Italia as a source for funds to make advances to the government.

(2) It is evident that this method of securing money to meet the deficit of the government is even more unsound than relying on a continuous increase in the floating debt. If for any reason at any time the banks endeavor to withdraw their deposits from the Banca d'Italia, the Banca d'Italia may be faced with the necessity of meeting an enormous demand for currency far beyond its ability to supply from its own resources. On 31 December 1943, the Banca d'Italia in the King's provinces of Puglia held 1,660 million lire of current accounts or a third more than the Banca d'Italia held in all Italy on 31 December 1939.

c. A far smaller part of the funds used by the Banca d'Italia to meet the needs of the government has been coming from the investment of the postal savings which are deposited with the Banca d'Italia.

(1) The money of small savers in Italy have been mainly collected through the post office savings system. The post office collects funds by the use of three principal methods: postal savings accounts, the sale of postal savings bonds, and the current accounts. The first two are the principal means of collecting savings, the latter representing a popular means through which check transactions in Italy are made.

(2) The savings collected by the postal savings system were centralized in the Cassa dei Depositi e Prestiti. The Cassa used these funds to invest in government bonds or to make current advances to various governmental organizations. At the present time, the Cassa is not functioning and the usual mechanics whereby the funds collected by the Cassa were funneled into government deficit financing are not operating.

(3) All money received by each post office from all sources is deposited nightly as a lump sum with the Banca d'Italia. Every morning each post office withdraws sufficient funds to meet its anticipated needs for the day including anticipated withdrawals of savings as well as payments on government account. The post offices are used by the government to make payments of some salary and pension accounts.

(4) The funds now being received by the postal savings system are, therefore, being used to meet government expenditures either directly by the post office using the excess of savings over withdrawals to make payments on government account or indirectly by any residue being available to the Banca d'Italia as a source for funds to make advances to the government.

(5) In Colonel Jung's opinion, it would not be wise to set up a provisional central office for the postal savings system but it would be better to wait until the government reaches Rome. As a result, a net increase in savings through the postal savings system which would normally have been transformed into the purchase of government bonds, now, merely becomes a part of the Banca d'Italia advances to the government.

(6) The government is trying to encourage savings through the postal savings system by resuming this service in those parts of liberated Italy where it has not been functioning. In some districts, notably in parts of Puglia, the post offices are running short of the necessary forms (postal savings books, postal savings bonds). The Finance Sub-Commission is aiding the government by interceding for it with the Psychological Warfare Board to secure the release of the necessary paper and printing facilities to print these forms.

(7) So far as the portion of the advances of the Banca d'Italia to the government is concerned which represents the investment of postal savings it is a good method of financing the deficit. The postal savings system collects genuine savings and puts them beyond the use of the people for some time.

5. <u>The residual of the deficit must be financed through the creation and issuance of new currency. Until new currency printing facilities are developed by the Italian government, the Banca d'Italia is able to issue only a substitute form of currency, vaglia stampigliati. The main burden of providing the currency necessary must fall on AMFA.</u>

a. The most undesirable method of financing the Italian deficit is through the creation and issuance of new currency. After as much of the deficit as can be is covered by the sale of Buoni del Tesoro Ordinari, and as much of the remainder is covered as can be by advances made by the Banca d'Italia representing the reinvestment of deposits and the investment of postal savings funds, then what is left must be covered by providing the government with new currency. There are two possible sources for new currency: the Banca d'Italia and AMFA.

b. At the present time the Banca d'Italia does not have the facilities to print its own currency. The Finance Sub-Commission is attempting to procure plates, paper and ink for the Italian government for this purpose. Pending the receipt of these supplies and the establishment of a government printing press, arrangements are being made for the printing of Italian currency by private companies under the supervision of the United States Treasury. So far as its own resources are concerned, the Banca d'Italia has been able to provide the government with the needed additional currency only by drawing down on its stocks and by the issuance of a substitute for currency, vaglia stampigliati. The first possibility is a limited one, obviously, and the Banca d'Italia in the four provinces probably has gone about as far as it was possible in this direction under current conditions.

The possibilities of the issuance of "vaglia stampigliati", that is, fixed denomination checks payable to bearer and having legal tender, is probably also limited due to public preference for regular currency. At the rate at which they are now being issued, Colonel Jung believes that the Banca

(7) So far as the portion of the advances of the Banca d'Italia to the government is concerned which represents the investment of postal savings it is a good method of financing the deficit. The postal savings system collects genuine savings and puts them beyond the use of the people for some time.

5. The residual of the deficit must be financed through the creation and issuance of new currency. Until new currency printing facilities are developed by the Italian government, the Banca d'Italia is able to issue only a substitute form of currency, vaglia stampigliati. The main burden of providing the currency necessary must fall on AMFA.

a. The most undesirable method of financing the Italian deficit is through the creation and issuance of new currency. After as much of the deficit as can be is covered by the sale of Buoni del Tesoro Ordinari, and as much of the remainder is covered as can be by advances made by the Banca d'Italia representing the reinvestment of deposits and the investment of postal savings funds, then what is left must be covered by providing the government with new currency. There are two possible sources for new currency: the Banca d'Italia and AMFA.

b. At the present time the Banca d'Italia does not have the facilities to print its own currency. The Finance Sub-Commission is attempting to procure plates, paper and ink for the Italian government for this purpose. Pending the receipt of these supplies and the establishment of a government printing press, arrangements are being made for the printing of Italian currency by private companies under the supervision of the United States Treasury. So far as its own resources are concerned, the Banca d'Italia has been able to provide the government with the needed additional currency only by drawing down on its stocks and by the issuance of a substitute for currency, vaglia stampigliati. The first possibility is a limited one, obviously, and the Banca d'Italia in the four provinces probably has gone about as far as it was possible in this direction under current conditions.

The possibilities of the issuance of "vaglia stampigliati", that is, fixed denomination checks payable to bearer and having legal tender, is probably also limited due to public preference for regular currency. At the rate at which they are now being issued, Colonel Jung believes that the Banca d'Italia possesses sufficient stocks for the immediate future.

c. The most important source of new currency for the government for the immediate future must remain AMFA. The provision of currency by AMFA to the government must depend on the residual of the deficit still to be met after all the sources of funds described above have been utilized to their fullest by the government.

U. S. SECRET
Equals British MOST SECRET

5369

U. S. SECRET
Equals British MOST SECRET

SECTION IV

Italian Currency

A. Present Situation.

According to the Armistice terms, the Italian Government is required to provide lire currency to the United Nations. Because of the Italian Government's lack of facilities, the United Nations have had to provide AM lire for their own use and for the Italian Government also.

1. The currency terms of the Armistice agreed to by the Italian Government are as follows:

The Italian Government shall:

a. Make available such Italian currency as the United Nations may require.

b. Withdraw and redeem in Italian currency, within such time-limits and on such terms as the United Nations may specify, all holdings in Italian territory of currencies issued by the United Nations during military operations or occupation.

2. No currency is normally printed south of Rome. Bank notes are printed at the "Officina Valori" of the Bank of Italy at Aquila near Rome, and then the State places its administrative countermark on each note at the "Istituto Poligrafico dello Stato" in Rome. At present the plates, paper, ink, and presses, are all in the hands of the Germans. There are no facilities in Liberated Italy which could be readily converted to the production of currency. As a result, the Italian Government has not been able to fulfill the currency terms of the Armistice.

3. In the meanwhile, on 24 September 1943, the King, through the Supreme Command of the Italian Armed Forces, issued an order, countersigned by the Head of the Government, Marshal Badoglio, (a) giving the right to the yellowseal dollars and to the British Military Authority Notes to circulate as currency within Italy; (b) giving Allied Military Lire full legal tender and giving it a value fully equal to Italian lire; (c) setting the exchange rate at one dollar equal to 100 lire, one pound sterling equal to 400 lire, and one pound sterling equal to four dollars.

4. The Allied Military Financial Agency (AMFA) has had to supply the needs of the United Nations for Italian currency and the needs of the Italian Government as well. (According to Intelligence reports, the Fascist government in German-occupied Italy is paying 5,000 million lire a month as occupation costs to the Germans.) In Table XI is presented a summary of the AM lire supplied by AMFA to the principal users up to 31 December 1943. (The detailed AMFA balance sheet is presented in Table X in the appendix).

[illegible] to the United Nations. Because of the Italian Government's lack of facilities, the United Nations have had to provide AM lire for their own use and for the Italian Government also.

1. The currency terms of the Armistice agreed to by the Italian Government are as follows:

The Italian Government shall.

a. Make available such Italian currency as the United Nations may require.

b. Withdraw and redeem in Italian currency, within such time-limits and on such terms as the United Nations may specify, all holdings in Italian territory of currencies issued by the United Nations during military operations or occupation.

2. No currency is normally printed south of Rome. Bank notes are printed at the "Officina Valori" of the Bank of Italy at Aquila near Rome, and then the State places its administrative countermark on each note at the "Istituto Poligrafico dello Stato" in Rome. At present the plates, paper, ink, and presses, are all in the hands of the Germans. There are no facilities in Liberated Italy which could be readily converted to the production of currency. As a result, the Italian Government has not been able to fulfill the currency terms of the armistice.

3. In the meanwhile, on 24 September 1943, the King, through the Supreme Command of the Italian Armed Forces, issued an order, countersigned by the Head of the Government, Marshal Badoglio, (a) giving the right to the yellowseal dollars and to the British Military Authority Notes to circulate as currency within Italy; (b) giving Allied Military Lire full legal tender and giving it a value fully equal to Italian lire; (c) setting the exchange rate at one dollar equal to 100 lire, one pound sterling equal to 400 lire, and one pound sterling equal to four dollars.

4. The Allied Military Financial Agency (AMFA) has had to supply the needs of the United Nations for Italian currency and the needs of the Italian Government as well. (According to Intelligence reports, the Fascist government in German-occupied Italy is paying 5,000 million lire a month as occupation costs to the Germans.) In Table XI is presented a summary of the AM lire supplied by AMFA to the principal users up to 31 December 1943. (The detailed AMFA balance sheet is presented in Table X in the appendix).

TABLE XI

AM Lire Supplied By AMFA
To Allied Armed Forces and Italian Government
(25 July to 31 December 1943)

		millions of lire
American armed forces	7,895	
British armed forces	3,715	
French armed forces	804	
Total Allied armed forces		12,410

U. S. SECRET
Equals British MOST SECRET

U. S. SECRET
Equals British MOST SECRET

Italian State and State Institutions	1,964		
Provinces and Communes	1,021		
Total Italian Government		2,985	
Funds held by accounting officers in the field, pending allocation to other accounts +		2,885	
Total of above			18,280

+Includes advances already made to the Italian Government which have not yet been classified.

B. PROGRAM.

In order that the Armistice terms be carried out, lire currency will be manufactured by American bank note companies for the Italian Government. Later, plates, paper and ink may be imported into Italy when printing facilities become available.

1. Discussions with Colonel Jung looking towards the discontinuance of Allied Military lire and the substitution of Italian Government lire have been taking place since 16 November 1943.

2. At first, it was intended to secure paper, ink, and plates from the United States and to print the notes in Naples. While the specifications were being prepared, Colonel Jung visited Naples and discovered that printing facilities were completely inadequate.

3. It has now been decided that the Italian lire currency should be manufactured in the United States by private bank-note companies under United States Treasury supervision. Colonel Jung is providing samples of notes, designs, and specifications. The order to be placed calls for a total of 100,000 million lire in Banca d'Italia notes in denominations 50 lire and higher, and 2800 million lire of State notes in denominations of 1, 5, and 10 lire.

4. Later, when printing facilities in Italy become available, plates, paper, and ink can be supplied from the United States, if necessary, for the production of lire currency in Italy.

5. The foregoing program will make it possible for the Italian Government to begin to carry out the currency terms of the Armistice.

*Includes advances already made to the Italian Government which have not yet been classified.

B. PROGRAM.

In order that the Armistice terms be carried out, lire currency will be manufactured by American bank note companies for the Italian Government. Later, plates, paper and ink may be imported into Italy when printing facilities become available.

1. Discussions with Colonel Jung looking towards the discontinuance of Allied Military lire and the substitution of Italian Government lire have been taking place since 16 November 1943.

2. At first, it was intended to secure paper, ink, and plates from the United States and to print the notes in Naples. While the specifications were being prepared, Colonel Jung visited Naples and discovered that printing facilities were completely inadequate.

3. It has now been decided that the Italian lire currency should be manufactured in the United States by private bank-note companies under United States Treasury supervision. Colonel Jung is providing samples of notes, designs, and specifications. The order to be placed calls for a total of 100,000 million lire in Banca d'Italia notes in denominations 50 lire and higher, and 2800 million lire of State notes in denominations of 1, 5, and 10 lire.

4. Later, when printing facilities in Italy become available, plates, paper, and ink can be supplied from the United States, if necessary, for the production of lire currency in Italy.

5. The foregoing program will make it possible for the Italian Government to begin to carry out the currency terms of the Armistice.

5368

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

SECTION V

General Conclusions

1. The Badoglio Government is not in a position to place governmental finances on a sound basis.

a. The government does not feel itself politically able to carry through the drastic changes necessary in the levying and the collection of taxes.

b. The Italian government does not have access to the rich revenue-producing north but controls only the poorer sections of Italy.

c. There is a war going on in the heart of the country. As new districts are liberated from the Germans, the scorched-earth policy of the enemy and the normal ravages of war make the country regained represent initially at least a net drain on funds.

d. Rome, the capital, with the central machinery of the government is not available for use. The Italian government is trying to operate a highly centralized governmental system while that government itself is cut off from the center. In addition, because of war conditions, the government is lacking the communication and transport facilities necessary to be able to gather up the severed threads and to weave them into an efficient new center. The Ministry of Finance lacks personnel, records, even bare necessities such as the paper for money-collecting material, postage stamps, and bonds.

2. The Italian Government is not able to finance its deficit on other than a hand-to-mouth basis. The Ministry of Finance does not dare attempt to sell long-term securities but must finance its deficit by increasing its floating debt and by depending on the Banca d'Italia and AMFA for advances. The deficit is met thus by measures which increase the potential danger to the government financial position or which are inflationary in result.

3. If any substantial ~~aid~~ volume of resources were provided to the Italian Government by the United Nations most of the problems of the Badoglio government would be solved for the present. (The provision of AM lire cannot be regarded, of course, as aid in this sense, as AM lire under the Armistice Terms are an obligation of the Italian government not of the United Nations). However, the basis on which we must operate is that the Italian government must in the main meet its difficulties with the resources available to it.

4. The mission of the Finance Sub-Commission must therefore be that of aiding the Badoglio government in conducting a rear-guard action. The best that we can do is:

(a) Assist the government in increasing its revenues within the narrow limits possible of the existing taxation system.

(b) Control expenditures by making sure that they are made for approved purposes and that there is a minimum of waste.

Declassified E.O. 12356 Section 3.3/NND No. 785015

c. There is a war going on in the heart of the country. As new districts are liberated from the Germans, the scorched-earth policy of the enemy and the normal ravages of war make the country regained represent initially at least a net drain on funds.

d. Rome, the capital, with the central machinery of the government is not available for use. The Italian government is trying to operate a highly centralized governmental system while that government itself is cut off from the center. In addition, because of war conditions, the government is lacking the communication and transport facilities necessary to be able to gather up the severed threads and to weave them into an efficient new center. The Ministry of Finance lacks personnel, records, even bare necessities such as the paper for money-collecting material, postage stamps, and bonds.

2. The Italian Government is not able to finance its deficit on other than a hand-to-mouth basis. The Ministry of Finance does not dare attempt to sell long-term securities but must finance its deficit by increasing its floating debt and by depending on the Banca d'Italia and AMFA for advances. The deficit is met thus by measures which increase the potential danger to the government financial position or which are inflationary in result.

3. If any substantial ~~aid~~ volume of resources were provided to the Italian Government by the United Nations most of the problems of the Badoglio government would be solved for the present. (The provision of AM lire cannot be regarded, of course, as aid in this sense, as AM lire under the Armistice Terms are an obligation of the Italian government not of the United Nations). However, the basis on which we must operate is that the Italian government must in the main meet its difficulties with the resources available to it.

4. The mission of the Finance Sub-Commission must therefore be that of aiding the Badoglio government in conducting a rear-guard action. The best that we can do is:

(a) Assist the government in increasing its revenues within the narrow limits possible of the existing taxation system.

(b) Control expenditures by making sure that they are made for approved purposes and that there is a minimum of waste.

(c) Assist the Italian government in re-habilitating its credit as best it can in view of the situation.

(d) Exercise as much of a drag as possible on inflation by holding down the issuance of new currency to the bare minimum.

(e) Use our influence through the Ministry of Finance to discourage increases in costs, prices, and incomes.

U. S. SECRET
Equals British MOST SECRET

APPENDIX

TABLE A

ACTUAL REVENUES AND EXPENDITURES FOR THE ITALIAN STATE GOVERNMENT FOR THE YEARS 1930-31 to 1940-41
(Source: Rendiconto Generale della Amministrazione dello Stato)
Millions of Lire

Year	Actual Revenues: Category I (Actual Receipts)	Actual Revenues: Category II Movement of Capital	Actual Revenues: Total Receipts	Actual Expenditures: Cat. I (Actual Expenditures)	Actual Expenditures: Cat. II Movement of Cap.	Actual Expenditures: Total Expenditures	Surplus (+) or Deficit (-): Cat. I Effective (Actual)	Surplus (+) or Deficit (-): Cat. II Movement of Capital	Surplus (+) or Deficit (-): Total
1930-31	20,387	5,935	26,322	20,891	4,965	25,856	- 503	+ 970	+ 466
1931-32	19,324	5,001	24,325	23,191	2,044	25,235	-3,867	+ 2,957	- 909
1932-33	18,217	935	19,153	21,766	1,009	22,855	-3,548	- 153	- 3,702
1933-34	18,056	7,643	25,699	24,433	3,703	28,137	-6,376	+ 3,939	- 2,437
1934-35	18,817	2,752	21,570	20,847	1,024	21,871	-2,029	+ 1,728	- 301
1935-36	20,370	40,431	60,802	33,056 (1)	33,866	66,923	-12,686	+ 6,565	- 6,121
1936-37	24,702	12,710	37,412	40,932 (2)	7,133	48,065	-16,229	+ 5,576	- 10,65[illegible]
1937-38	24,468	3,629	31,097	38,642 (3)	1,990	40,632	-11,174	+ 1,639	- 9,53[illegible]
1938-39	27,575	3,016	30,591	39,853 (4)	2,773	42,627	-12,277	+ 242	- 12,03[illegible]
1939-40	32,350	30,284	62,635	60,388 (5)	9,166	69,555	-28,038	+21,118	- 6,92[illegible]
1940-41	34,234 (7)	21,614	55,848	98,233 (6)	7,436	105,659	-63,989	+14,178	- 49,81[illegible]

(1) Includes 11,136 exceptional expenditures "spese eccezionali"
(2) Includes 17,518 exceptional expenditures "spese eccezionali"
(3) Includes 9,027 exceptional expenditures "spese eccezionali"
(4) Includes 6,499 exceptional expenditures "spese eccezionali"
(5) Includes 21,890 exceptional expenditures "spese eccezionali"
(6) Includes 57,935 exceptional expenditures "spese eccezionali"
(7) Includes 200 special credit for refunds

- 27 -

U. S. SECRET
British MOST SECRET

5367

Declassified E.O. 12356 Section 3.3/NND No. 785015

APPENDIX

TABLE A

ACTUAL REVENUES AND EXPENDITURES FOR THE ITALIAN STATE GOVERNMENT FOR THE YEARS 1930-31 to 1940-41

(Source: Rendiconto Generale della Amministrazione dello Stato)

Millions of Lire

Revenues: Category II Movement of Capital	Revenues: Total Receipts	Actual Expenditures: Cat. I (actual expenditures)	Actual Expenditures: Cat. II Movement of Cap.	Actual Expenditures: Total Expenditures	Surplus (+) or Deficit (-): Cat. I Effective (actual)	Surplus (+) or Deficit (-): Cat. II Movement of Capital	Surplus (+) or Deficit (-): Total
5,935	26,322	20,891	4,965	25,856	- 503	+ 970	+ 466
5,001	24,325	23,191	2,044	25,235	-3,867	+ 2,957	- 909
935	19,153	21,766	1,009	22,855	-3,548	- 153	- 3,702
7,643	25,699	24,433	3,703	28,137	-6,376	+ 3,939	- 2,437
2,752	21,570	20,847	1,024	21,871	-2,029	+ 1,728	- 301
40,431	60,802	(1) 33,056	33,866	66,923	-12,686	+ 6,565	- 6,121
12,710	37,412	(2) 40,932	7,133	48,065	-16,229	+ 5,576	- 10,653
3,629	31,097	(3) 38,642	1,990	40,632	-11,174	+ 1,639	- 9,534
3,016	30,591	(4) 39,853	2,773	42,627	-12,277	+ 242	- 12,035
30,284	62,635	(5) 60,388	9,166	69,555	-28,038	+21,118	- 6,920
21,614	55,848	(6) 98,233	7,436	105,659	-63,989	+14,178	- 49,811

(1) Includes 11,136 exceptional expenditures "spese eccezionali"
(2) Includes 17,518 exceptional expenditures "spese eccezionali"
(3) Includes 9,027 exceptional expenditures "spese eccezionali"
(4) Includes 6,499 exceptional expenditures "spese eccezionali"
(5) Includes 21,890 exceptional expenditures "spese eccezionali"
(6) Includes 57,935 exceptional expenditures "spese eccezionali"
(7) Includes 200 special credit for refunds

U. S. SECRET
Equals British MOST SECRET
APPENDIX
TABLE A

APPENDIX

TABLE B

Distribution of "spese eccezionali"
(exceptional expenditures) among Ministries

Fiscal years 1938-39, 1939-40, 1940-41

(millions of lire)

Ministry	Fiscal year 1938-39	Fiscal year 1939-40	Fiscal year 1940-41	Total 1938-39 to 1940-41
Guerra (War)	1,955	9,763	37,758	49,476
Marina (Navy)	115	1,377	3,245	4,737
Aeronautica (Air)	2,190	4,015	4,904	11,109
Africa Italiana (Italian Africa)	1,820	5,238	3,024	10,082
Interno (Interior)	420	1,330	5,594	7,344
Finanze (Finance)	--	138	1,173	1,311
Affari Esteri (Foreign Affairs)	--	--	150	150
Educazione Nazionale (Education)	--	25	13	38
Lavori Pubblici (Public Works)	--	--	269	269
Communicazioni (Communications)	--	4	104	108
Agricoltura e Foreste (Agriculture)	--	--	1,281	1,281
Corporazioni (Industry and Commerce)	--	--	389	389
Cultura Popolare (Popular Culture)	--	--	31	31
TOTALS	6,500	21,990	57,935	86,325

Guerra (War)	1,955	9,763	37,758	49,476
Marina (Navy)	115	1,377	3,245	4,737
Aeronautica (Air)	2,190	4,015	4,904	11,109
Africa Italiana (Italian Africa)	1,820	5,238	3,024	10,082
Interno (Interior)	420	1,330	5,594	7,344
Finanze (Finance)	--	138	1.173	1,311
Affari Esteri (Foreign Affairs)	--	--	150	150
Educazione Nazionale (Education)	--	25	13	38
Lavori Pubblici (Public Works)	--	--	269	269
Communicazioni (Communications)	--	4	104	108
Agricoltura e Foreste (Agriculture)	--	--	1,281	1,281
Corporazioni (Industry and Commerce)	--	--	389	389
Cultura Popolare (Popular Culture)	--	--	31	31
TOTALS	6,500	21,890	57,935	86,325

U. S. SECRET
Equals British MOST SECRET

5366

Declassified E.O. 12356 Section 3.3/NND No. 785015

APPENDIX

TABLE C

Italian Direct and Indirect Revenues

Millions of Lire

Direct Taxes	Actual Results 1938-39	1939-40	1940-41	Budget Estimates 1941-42	1942-43	1943-44
On lands	150	150	151	149	150	210
In buildings	312	344	345	350	350	350
Income Tax	4,178	4,482	4,864	4,660	5,350	5,700
Complementary tax on total income	434	480	713	700	810	810
Bachelors	241	249	241	260	240	210
On patrimony	129	1	1,050	1,320	1,400	1,400
On dividents, etc.	174	184	295	285	540	450
On immoveable property	457	496	512	550	500	500
On capital	500	643	534	570	120	70
Special tax on salaries	---	---	194	160	240	350
War profits	---	---	---	130	350	1,000
Other taxes	7	5	15	66	70	70
Total Direct Taxes	6,625	7,234	8,214	9,000	10,020	11,120

Indirect Taxes	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Succession duty	206	210	229	210	270	380
Registry duty	1,005	1,388	1,504	1,200	1,540	1,270
Turnover tax	---	1,472	4,850	4,500	5,600	5,900
Stamp duty	864	863	928	830	950	1,250
In lieu of Registry and Stamp duty	436	471	506	460	500	650
On excess value of bonds etc.	---	---	---	---	350	200
Mortages	150	166	246	170	250	260
Radio taxes (various)	115	129	149	120	140	160
Concessions	206	210	208	225	255	400
Motor & Car taxes	136	132	105	100	60	60
Theatres, cinemas, spots, etc.	106	109	118	105	120	215
Invoice tax	2,476	1,846	193	---	---	---
Other taxes	309	301	244	338	261	317
Total Indirect Taxes	6,009	7,297	9,063	8,258	10,416	11,262

Direct Taxes						
On lands	150	150	151	149	150	210
In buildings	342	344	345	350	350	350
Income Tax	4,178	4,482	4,861	4,660	5,250	5,700
Complementary tax on total income	434	480	713	700	820	810
Bachelors	244	249	211	260	240	210
On patrimony	129	1	1,050	1,320	1,400	1,400
On dividends, etc.	274	184	295	285	540	450
On immoveable property	457	496	512	550	500	500
On capital	50	843	534	370	120	70
Special Tax on salaries	---	---	194	160	210	350
War profits	---	---	---	130	350	1,000
Other Taxes	7	5	15	66	70	70
Total Direct Taxes	6,625	7,234	8,914	9,000	10,020	11,120
Indirect Taxes						
Succession duty	206	210	229	210	270	380
Registry duty	1,085	1,388	1,304	1,200	1,540	1,270
Turnover tax	---	4,472	4,850	4,500	5,600	5,900
Stamp duty	864	863	928	830	950	1,250
In lieu of Registry and Stamp duty	436	471	506	460	580	850
On excess value of bonds etc.	---	---	---	---	350	200
Mortages	150	166	246	170	290	260
Radio taxes (various)	115	129	149	120	140	160
Concessions	206	210	208	225	255	400
Motor & Car taxes	136	132	105	100	60	60
Theatres, cinemas, spots, etc.	106	109	118	105	120	215
Invoice tax	2,476	1,846	193	---	---	---
Other taxes	309	301	214	338	261	317
Total Indirect Taxes	6,089	7,297	9,063	8,258	10,416	11,262

U. S. SECRET
Equals British MOST SECRET

5365

Declassified E.O. 12356 Section 3.3/NND No. 785015

2364

U. S. SECRET
Equals British MOST SECRET

APPENDIX

TABLE D

Revenues Within the Budget

Province of Bari

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sept	Oct	Nov	Dec	Total 6 Months
Manufacturing taxes	60047	5170	8359	4313	2058	1355	2240	24005
Customs	55359	569	2705	2696	589	241	124	6924
Local Finance	477	---	43	35	77	75	20	250
Monopoly	437054	27577	54856	43924	32555	40053	50372	249200
Lotteries	19143	74	729	419	208	247	68	1762
Direct Taxes	129417	1447	25231	934	25842	2829	21101	79380
State Lands	139	---	282	---	224	39	---	542
Indirect Taxes	124303	8105	12336	10462	7539	9237	10161	58809
Purch. Agent	490	10	52	3	65	6	169	305
Treasury	502629	2115	7586	5536	3919	13503	9485	59147
Other Ministeries	891	16	5	18	23	96	14	26
Total	1329849	43888	111724	68417	73112	67697	93754	458602
Total excluding Treasury	827220	41770	104138	62881	69193	54194	87269	447455

TABLE E

Revenues Within the Budget

Province of Brindisi

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sept	Oct	Nov	Dec	Total 6 Months
Manufacturing taxes	1934	91	337	16	220	61	240	965
Customs	1698	1	574	---	94	1450	---	2119
Local Finance	57	---	2	6	2	17	2	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	1546	19	123	57	38	69	37	333
Direct Taxes	29224	797	5824	936	5889	754	5678	19678
State Lands	32	---	367	---	---	---	---	367
Indirect Taxes	21886	1665	2088	1836	2879	2060	1666	11221
Purch. Agent	39	1	1	2	16	---	---	20
Treasury	110716	93	518	19915	584	304	400	22189
Other Ministeries	7	---	---	1	---	---	---	1
Total	167159	2669	9834	22796	8528	5215	8092	56922

Total excluding

Manufacturing taxes	60047	3178	8399	4521	2090	1355	2240	21063
Customs	55359	565	2705	2690	589	342	124	6924
Local Finance	477	---	45	35	77	75	20	250
Monopoly	437054	27577	94856	43984	32555	40053	50572	249200
Lotteries	19143	74	729	415	266	207	68	1761
Direct Taxes	129417	443	25231	934	25842	2829	24101	79380
State Lands	139	---	282	---	224	36	---	542
Indirect Taxes	124303	8105	12336	10451	7529	9237	10141	58809
Purch. Agent	490	10	52	3	65	6	169	305
Treasury	502629	2115	7586	5536	3919	13503	9485	39147
Other Ministeries	891	16	5	48	23	95	14	26
Total	1329849	43885	111774	60417	73112	67697	97754	458602
Total excluding Treasury	827220	42770	104138	62881	69193	54194	87269	417455

TABLE [illegible]

Revenues Within the Budget

Province of Brindisi

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sept	Oct	Nov	Dec	Total 6 Months (Thousands of Lire)
Manufacturing taxes	1934	91	357	16	220	51	240	965
Customs	1696	1	574	---	96	1450	---	2119
Local Finance	57	---	2	6	2	17	2	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	1546	19	127	57	56	69	27	355
Direct Taxes	29224	757	5821	936	5689	754	5678	19678
State Lands	32	---	367	---	---	---	---	367
Indirect Taxes	21886	1068	2088	1836	1879	2060	1665	11221
Purch. Agent	59	1	1	2	16	---	---	20
Treasury	110716	88	518	19315	384	304	400	22139
Other Ministeries	7	---	---	1	---	---	---	1
Total	167159	2662	9834	22796	8522	5215	8092	56922
Total excluding Treasury	56443	2574	9316	2981	7928	4411	7614	34733

U. S. [illegible]
[illegible] British [illegible]

U. S. SECRET
Equals British MOST SECRET

APPENDIX

TABLE F

Revenues Within the Budget

Province of Lecce

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sept	Oct	Nov	Dec	Total 6 Months
Mfg. Taxes	2,812	163	606	280	315	122	323	1,809
Customs	12	—	—	—	—	—	—	—
Local Finance	35	—	—	3	—	32	—	35
Monopoly	—	—	—	—	—	—	—	—
Lottery	3,670	51	281	165	101	184	44	824
Direct Taxes	46,583	373	8,886	200	9,445	164	8,960	28,034
State Lands	93	1	2	1	1	2	—	7
Indirect Taxes	41,211	2,412	3,346	2,934	3,625	4,659	3,875	20,831
Purch. Agent	124	1	3	2	1	14	2	23
Treasury	190,432	227	1,037	322	387	1,646	2,422	6,041
Other Ministries	412	16	444	22	26	—	33	541
Total	285,386	3,247	14,605	3,929	13,901	6,825	15,667	59,174
Total Excluding Treasury	94,954	3,020	13,568	3,607	13,514	5,179	13,225	53,133

TABLE G

Revenues Within the Budget

Province of Taranto

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Months
Mfg. Taxes	7,834	106	365	47	366	91	232	1,225
Customs	83,161	25	68	95	2	4	23	217
Local Finance	39	—	6	6	6	5	6	29
Monopoly	—	—	—	—	—	—	—	—
Lottery	3,779	51	194	131	42	126	58	602
Direct Taxes	36,857	61	7,857	129	6,635	470	8,343	24,495
State Lands	55	—	8	3	2	—	1	14
Indirect Taxes	34,775	2,277	2,388	2,745	2,610	4,128	2,532	16,680
Purch. Agent	818	—	134	2	79	35	92	392
Treasury	253,234	1,609	1,885	13,262	1,047	421	2,450	20,672
Other Ministries	64	1	2	—	5	—	2	10
Total	420,616	4,130	12,973	16,420	11,794	5,280	13,739	64,336

	[illegible],612	163	506	280	315	122	323	1,809
Customs	12	---	---	---	---	---	---	---
Local Finance	35	---	---	3	---	32	---	35
Monopoly	---	---	---	---	---	---	---	---
Lottery	3,670	51	281	163	101	184	44	824
Direct Taxes	46,583	373	8,886	200	9,445	164	8,966	28,034
State Lands	93	1	2	1	1	2	---	7
Indirect Taxes	41,211	2,412	3,346	2,934	3,625	4,659	3,875	20,831
Purch. Agent	124	1	3	2	1	14	2	23
Treasury	190,432	227	1,037	322	387	1,646	2,422	6,041
Other Ministries	412	16	44	22	26	---	33	541
Total	285,386	3,247	14,605	3,929	13,901	6,825	15,667	59,174
Total Excluding Treasury	94,954	3,020	13,568	3,607	13,514	5,179	13,225	53,133

TABLE G

Revenues Within the Budget

Province of Taranto

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Months
Mfg. Taxes	7,834	106	383	47	366	91	232	1,225
Customs	83,161	25	68	95	2	4	23	217
Local Finance	39	---	6	6	6	5	6	29
Monopoly	---	---	---	---	---	---	---	---
Lottery .	3,779	51	194	131	42	126	58	602
Direct Taxes	36,857	61	7,857	129	6,635	470	8,343	24,495
State Lands	55	---	8	3	2	---	1	14
Indirect Taxes	34,775	2,277	2,388	2,745	2,610	4,128	2,532	16,680
Purch. Agent	618	---	134	2	79	35	92	392
Treasury	253,234	1,609	1,883	13,262	1,047	421	2,450	20,672
Other Ministries	64	1	2	---	5	---	2	10
Total	420,616	4,130	12,973	16,420	11,794	5,280	13,739	64,336
Total excluding Treasury	167,382	2,521	11,090	3,158	10,747	4,859	11,389	43,664

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785015

U. S. SECRET
Equals British MOST SECRET

APPENDIX

TABLE H

Deposits payable at Sight
Banca d'Italia, King's Four Provinces
31 December 1943

(In millions of lire)

In favor of banks	1,388	
In favor of private individuals and firms	271	
Total		1,659

TABLE I

Money in the Vault
Banca d'Italia, King's Four Provinces
31 December 1943
(In millions of Lire)

AM Lire Notes	245	
Banca d'Italia Notes	155	
State (Italian Gov't) Notes	74	
Vaglia stampigliati (1)	19	
BMA Notes (2)	4	
Dollars	---(3)	
Total		497

(1) Bearer checks in fixed denominations having the character of legal tender.
(2) British Military Authority Notes
(3) Less than half-a-million lire ($460.00)

TABLE J

Redemption of Italian Government Nine-Year 4% bonds maturing on 15 December 1943

King's Four Provinces
15 December - 31 December 1943
(In Lire)

Province	9-Year 4% Bonds Redeemed	Net Investment in short-term notes (Buoni del Tesoro Ordinari, 5%)

In favor of private individuals and firms	271	
Total		1,659

TABLE I

Money in the Vault
Banca d'Italia, King's Four Provinces
31 December 1943
(In millions of Lire)

AM Lire Notes	245	
Banca d'Italia Notes	155	
State (Italian Gov't) Notes	74	
Vaglia stampigliati (1)	19	
BMA Notes (2)	4	
Dollars	---(3)	
Total		497

(1) Bearer checks in fixed denominations having the character of legal tender.
(2) British Military Authority Notes
(3) Less than half-a-million lire ($460.00)

TABLE J

Redemption of Italian Government Nine-Year 4% bonds Maturing on 15 December 1943

King's Four Provinces
15 December - 31 December 1943
(In Lire)

Province	9-Year 4% Bonds Redeemed	Net Investment in short-term notes (Buoni del Tesoro Ordinari, 5%)
Bari	8,461,500	13,203,000
Brindisi	905,500	1,797,500
Lecce	2,057,500	2,510,000
Taranto	528,500	866,500
Total	11,952,500	18,377,000

U. S. SECRET
Equals British MOST SECRET

APPENDIX

TABLE K

Allied Military Financial Agency
consolidated Statement of Assets and
Liabilities at close of business
31 December 1943

ASSETS		Millions of Lire	
1. Cash on hand and in banks		19,889	
2. Other balances with banks			
a. Provision against unutilized credits totaling 1,186 million lire granted to banks by AMFA (See 7 a)	452		
b. Funds deposited by banks with AMFA (See 12 a)	1,263		
c. Funds deposited by U.S. Army units (See 12 c)	14		
		1,730	
3. Funds held by accounting officers in the field (pending allocation to expenditure or other accounts)		2,885	
4. AM Stamps		87	
5. Payments for account of AMG Economic and Supply Division		46	
6. Advances (no date specified for repayment and no interest rate fixed in advance)			
a. To Italian armed forces, State Treasury and State Institutions	1,964		
b. To Provinces	370		
c. To Communes	651		
d. To Others	12		
		2,997	
7. Loans (Date of repayment or interest rate specified)			
a. To banks (drawn against credits - See 2 a)	556		
b. To others	(1)---		
		556	
8. AMFA Headquarters general account		---	
9. Payments on account of occupation costs		12,717	
Total			40,906

Declassified E.O. 12356 Section 3.3/NND No. 785015

ASSETS		Millions of Lire	
1. Cash on hand and in banks		19,889	
2. Other balances with banks			
a. Provision against unutilized credits totaling 1,186 million lire granted to banks by AMFA (See 7 a)	452		
b. Funds deposited by banks with AMFA (See 12 a)	1,263		
c. Funds deposited by U.S. Army units (See 12 c)	14	1,730	
3. Funds held by accounting officers in the field (pending allocation to expenditure or other accounts)		2,885	
4. AM Stamps		87	
5. Payments for account of AMG Economic and Supply Division		46	
6. Advances (no date specified for repayment and no interest rate fixed in advance)			
a. To Italian armed forces, State Treasury and State Institutions	1,964		
b. To Provinces	370		
c. To Communes	651		
d. To Others	12	2,997	
7. Loans (Date of repayment or interest rate specified)			
a. To banks (drawn against credits - See 2 a)	556		
b. To others	(1)---	556	
8. AMFA Headquarters general account		---	
9. Payments on account of occupation costs		12,717	
Total			40,906

(1) Less than 500,000 lire.

U. S. SECRET
Equals British MOST SECRET

5363

U. S. SECRET
Equals British MOST SECRET

LIABILITIES		Millions of Lire	
10. Deposits by AMG Divisions (pending allocation to revenue or other accounts)			
a. Economic and Supply	80		
b. Public Health	1		
c. Legal	(1)---		
		81	
11. Funds obtained from banks and others by accounting officers in the field		18	
12. Deposits:			
a. By banks with AMFA (See 2 b)	1,263		
b. By Controller of Property	6		
c. By U.S. Army units (See 2 c)	14		
d. By others	(1)---		
		1,283	
13. Receipts for account of AMG Economic and Supply Division		45	
14. Receipts for account of AMG Public Health Division		(1)---	
15. AMFA Headquarters		---	
16. New AM lire notes received		39,392	
17. New AM stamps received		87	
Total			40,906

(1) Less than 500,000 lire.

11.	Funds obtained from banks and others by accounting officers in the field		81	
12.	Deposits:		18	
	a. By banks with AMFA (See 2 b)	1,263		
	b. By Controller of Property	6		
	c. By U.S. Army units (See 2 c)	14		
	d. By others	(1)---		
13.	Receipts for account of AMG Economic and Supply Division		1,283	
14.	Receipts for account of AMG Public Health Division		45	
15.	AMFA Headquarters		(1)---	
16.	New AM lire notes received		---	
17.	New AM stamps received		39,392	
	Total		87	40,906

(1) Less than 500,000 lire.

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785015

Subject: Report on Activities of Financial Division - September, 43.

S E C R E T

AMGOT/2051/F.

AMGOT H.Q. SICILY.

C.C.A.O.

15 Oct. 43.

INTRODUCTION.

1. As stated in the report of the Chief Financial Officer for the period ending 31 Aug. the Financial Division started the month of September with 22 officers assigned to the Provinces and 28 to Headquarters, the latter including 13 Accountants and 5 on the staff of A.M.F.A. This distribution in Sicily has not varied materially, the number of new officers added being equal to the number supplied by the Division for Regions 2 and 3. The number on duty at the end of the month was not adequate for the increasing volume of work, as reports poured in, as investigations disclosed new problems, and as the number of exceptional cases and petitions on the part of Sicilian individuals and concerns mounted. The Accounting Section, coping with the large number of accounts received from officers in the field and the demands of other Divisions for accountants, was faced with the need of additional personnel. Requests for this has been made.

2. The handicap of dispersion of the Division in three different buildings has been in part overcome by daily morning meetings inaugurated by the C.F.O. during the month, at which he and the D.C.F.O. and Heads of Sections discuss matters of general interest and those which require coordinated action. Financial officers in the field have come to Headquarters to report on local matters and Headquarters officers have visited the Provincial capitals. These visits both ways have not been as frequent as could be desired, due to the press of work, and this fact, together with the slowness of communications, has impeded the remedying of some inevitable lack of uniformity throughout the Island, arising out of unpredictable situations.

3. In making this report, in the absence of the C.F.O. on a trip in the field, I can confidently repeat the statement in his report of a month ago that the staff, "from the jack-of-all-trades in the Province to the specialist at Headquarters, have applied themselves tirelessly to their various tasks".

PUBLIC FINANCES.

4. During the month of September the Revenue Section has changed its emphasis from the investigation of the machinery of taxation and budgetary operations to the stimulation of tax collections. In spite of continuing difficulties, such as lack of communications, damage to

1. As stated in the report of the Chief Financial Officer for the period ending 31 Aug, the Financial Division started the month of September with 22 officers assigned to the Provinces and 28 to Headquarters, the latter including 13 Accountants and 5 on the staff of A.M.F.A. This distribution in Sicily has not varied materially, the number of new officers added being equal to the number supplied by the Division for Regions 2 and 3. The number on duty at the end of the month was not adequate for the increasing volume of work, as reports poured in, as investigations disclosed new problems, and as the number of exceptional cases and petitions on the part of Sicilian individuals and concerns mounted. The Accounting Section, coping with the large number of accounts received from officers in the field and the demands of other Divisions for accountants, was faced with the need of additional personnel. Requests for this has been made.

2. The handicap of dispersion of the Division in three different buildings has been in part overcome by daily morning meetings inaugurated by the C.F.O. during the month, at which he and the D.C.F.O. and Heads of Sections discuss matters of general interest and those which require coordinated action. Financial officers in the field have come to Headquarters to report on local matters and Headquarters officers have visited the Provincial capitals. These visits both ways have not been as frequent as could be desired, due to the press of work, and this fact, together with the slowness of communications, has impeded the remedying of some inevitable lack of uniformity throughout the island, arising out of unpredictable situations.

3. In making this report, in the absence of the C.F.O. on a trip in the field, I can confidently repeat the statement in his report of a month ago that the staff, "from the jack-of-all-trades in the Province to the specialist at Headquarters, have applied themselves tirelessly to their various tasks".

PUBLIC FINANCES.

4. During the month of September the Revenue Section has changed its emphasis from the investigation of the machinery of taxation and budgetary operations to the stimulation of tax collections. In spite of continuing difficulties, such as lack of communications, damage to office buildings and records and delay in the revival of business, progress has been made in revenue collections by the State, Provinces and Communes. Information has come in only sporadically and a comprehensive statement on revenues is not yet available. Revenue officers in the field and the Headquarters officers have called on the tax authorities in many cities and towns together with the Finance officers in the Provinces, and have forcefully impressed on them the necessity of making the Communal, Provincial and State bodies as self supporting as possible. A number of the more prosperous and undamaged communes have reported collections of taxes as restored almost to normal. In many others it has been necessary to grant the partial postponements to taxpayers permitted by Italian law.

5. Large deficits continue to prevail generally throughout the various governmental subdivisions. Advances by AMGOT for normal recurrent expenditures, relief and grain payments have pretty widely kept up the pace set in July and August, although through closer control relief payments have been perceptibly reduced. Other needs have developed, such as the financing

5362

5. (Contd).

of the State Railway payrolls and the Italian Red Cross whose financial requirements have been supplied to the Palermo headquarters of the organisations for their island wide organisations. Instructions have been issued during the month that arrears of salaries of officials who are still acting should be paid. Similar action has been taken with regard to pensions. Authority has been given for new pensioners to receive 75% of their anticipated pension, upon certification of their rights by appropriate superior governmental officers. Restrictions on the payment of family allowances to the dependants of Italian military personnel should now, I think, be reconsidered, as it is now planned to make funds available for the payment of Italian troops.

6. Petitions, often seconded by AMGOT officers, have continued to arrive in growing volume pleading for increases in the salaries of government employees in the face of the high cost of living. I some of the Provinces, the S.C.A.Os and F.Os have proposed that Sindacos, hitherto unpaid, be granted salaries. It has also been recommended that the pay of Prefects, which suffers by comparison with that of some laborers, should be supplemented by grants. Court officials have urgently asked that the present 'additionals', some of a temporary nature granted because of bombing exodus from towns, be continued on a permanent basis. Insofar as permitted by Italian law, these are being paid. The general question of salary increases is before the Executive Committee and is being studied and will be reported upon by the Labor Division. Many appeals have been received urging resumption of service on the Italian State debt and the Postal Savings Bonds.

7. Control of expenditures is considered to be one of our most pressing problems. In the early stages of the occupation it was obviously necessary to allow C.A.Os a fairly free hand in meeting emergency requirements, but more insistence is now being placed on keeping expenses down. Finance Officers are required to report their monetary income and outgo twice a month, and are requested to come to Headquarters to explain the reasons for their applications for funds. Instructions have been sent out to S.C.A.Os and F.Os to direct Communal and Provincial authorities to prepare budgets for the coming year.

8. The Tobacco Monopoly in Sicily is being re-established. Operations commenced in the last week of September, though the problems of electric power and coal supply are a deterrent. There is sufficient tobacco for three to six months' operations. A schedule of prices to be revised sharply upward, is being prepared with the double aim of producing revenue and of absorbing excess purchasing power. The Lottery has been put in readiness to operate. Its resumption has been urged from various sources. At present its numerous agents are receiving no income, as this was derived only from commissions.

9. The Customs buildings have been destroyed or damaged almost everywhere on the island, but this is not an urgent matter for the present.

personnel should now, I think, be reconsidered, as it is now planned to make funds available for the payment of Italian troops.

6. Petitions, often seconded by AMGOT officers, have continued to arrive in growing volume pleading for increases in the salaries of government employees in the face of the high cost of living. I some of the Provinces, the S.C.A.Os and P.Os have proposed that Sindacos, hitherto unpaid, be granted salaries. It has also been recommended that the pay of Prefects, which suffers by comparison with that of some laborers, should be supplemented by grants. Court officials have urgently asked that the present "additionals", some of a temporary nature granted because of bombing exodus from towns, be continued on a permanent basis. Insofar as permitted by Italian law, these are being paid. The general question of salary increases is before the Executive Committee and is being studied and will be reported upon by the Labor Division. Many appeals have been received urging resumption of service on the Italian State debt and the Postal Savings Bonds.

7. Control of expenditures is considered to be one of our most pressing problems. In the early stages of the occupation it was obviously necessary to allow C.A.Os a fairly free hand in meeting emergency requirements, but more insistence is now being placed on keeping expenses down. Finance Officers are required to report their monetary income and outgo twice a month, and are requested to come to Headquarters to explain the reasons for their applications for funds. Instructions have been sent out to S.C.A.Os and P.Os to direct Communal and Provincial authorities to prepare budgets for the coming year.

8. The Tobacco Monopoly in Sicily is being re-established. Operations commenced in the last week of September, though the problems of electric power and coal supply are a deterrent. There is sufficient tobacco for three to six months' operations. A schedule of prices to be revised sharply upward, is being prepared with the double aim of producing revenue and of absorbing excess purchasing power. The Lottery has been put in readiness to operate. Its resumption has been urged from various sources. At present its numerous agents are receiving no income, as this was derived only from commissions.

9. The Customs buildings have been destroyed or damaged almost everywhere on the island, but this is not an urgent matter for the present. The buildings of the Intendanti have been completely destroyed in Palermo, and seriously damaged at Trapani, Messina and Catania.

BANKING.

10. Under the provisions of General Order No. 6, published 1st Sept. the Banks in Palermo Province were opened on a restricted withdrawal basis on 6th Sept., and in all the rest of Sicily on 15th Sept. During the first few days withdrawals by depositors exceeded new deposits, then the trend was reversed. By about the middle of the month new deposits in Palermo City were 50% above withdrawals. Total credit lines of 1,639,000,000 Lire were placed by A.M.F.A. at the disposal of the banks to enable them to meet the 5,000 lire per account withdrawals. At the close of business on 30th Sept. loans to banks against these credit lines totalled only 124,000,000 lire Credit agreements were signed with about 50 banks. This phase of operations is more fully discussed later in the Section on A.M.F.A.

11. Banca Agricola Popolare di Ragusa was not immediately reopened, due to the need of ousting the Fascist-influenced management and of further investigation. Upon the installation of a new manager, supplied by Bank of Sicily, and of some directors, the bank was granted a credit by A.M.F.A. and was reopened with satisfactory results.

12. The Banca Nazionale del Lavoro had been carefully investigated and its reopening was effected simultaneously with the reopening of the other banks. A continuous checking of its operations has been maintained.

13. A Blocked Account Section has been set up and a system of licensing withdrawals from blocked accounts put into effect.

14. A.M.F.A's credit lines to banks, referred to above, were restricted to the coverage of withdrawals of deposits. In view of some demand for loans from banks' customers to finance the movements and processing of crops and the reconditioning of mines, it was deemed advisable to offer additional credit to the banks to enable them to make such loans. These were covered by special credit agreements, requiring the Approval of the Chief of Financial Institutions in each case. A small number of such loans have been made.

15. The Bank of Sicily has functioned entirely satisfactorily as agent for A.M.F.A., both in connection with the distribution of funds in its branches in all the Provincial capitals and Caltagirone, and in carrying other accounts required by A.M.F.A's operations. The officers in charge of banking matters have maintained offices in the Bank of Sicily's Head Office building and have received appreciable assistance from that Bank.

16. Toward the end of the month the banking situation was considered such as to justify steps being taken to prepare for the removal of all restrictions on deposit withdrawals and the resumption of normal operations. The date for such action was fixed for approximately the 6th October. The resumption of normal operations is to include payment of assegni circolari and vagli bancari, which will afford relief to a large number of holders. A new General Order No.10 has been drafted to provide the authority for the above changes. No additional credit from A.M.F.A. is considered necessary by the banks for the proposed resumption of normal operations. Further discussion of this subject is presented in the Section on A.M.F.A.

17. The Bank of Italy, under the contemplated new General Order, would be permitted to continue to conduct only its Royal Treasury Section and pay its outstanding vagli bancari. Finance Officers in all Provinces have been instructed to repay to the Bank of Italy all funds received from its various branches, so as to put it in the position in which it was found on occupation. It is expected that its own funds on hand will meet its requirements for the payment of its vagli.

18. The Bank of Italy has been selected as AMGOT depositary in

[illegible] Account Section has been set up and a system of licensing withdrawals from blocked accounts put into effect.

14. A.M.F.A's credit lines to banks, referred to above, were restricted to the coverage of withdrawals of deposits. In view of some demand for loans from banks' customers to finance the movements and processing of crops and the reconditioning of mines, it was deemed advisable to offer additional credit to the banks to enable them to make such loans. These were covered by special credit agreements, requiring the approval of the Chief of Financial Institutions in each case. A small number of such loans have been made.

15. The Bank of Sicily has functioned entirely satisfactorily as agent for A.M.F.A., both in connection with the distribution of funds in its branches in all the Provincial capitals and Caltagirone, and in carrying other accounts required by A.M.F.A's operations. The officers in charge of banking matters have maintained offices in the Bank of Sicily's Head Office building and have received appreciable assistance from that Bank.

16. Toward the end of the month the banking situation was considered such as to justify steps being taken to prepare for the removal of all restrictions on deposit withdrawals and the resumption of normal operations. The date for such action was fixed for approximately the 6th October. The resumption of normal operations is to include payment of assegni circolari and vagli bancari, which will afford relief to a large number of holders. A new General Order No.10 has been drafted to provide the authority for the above changes. No additional credit from A.M.F.A. is considered necessary by the banks for the proposed resumption of normal operations. Further discussion of this subject is presented in the Section on A.M.F.A.

17. The Bank of Italy, under the contemplated new General Order, would be permitted to continue to conduct only its Royal Treasury Section and pay its outstanding vagli bancari. Finance Officers in all Provinces have been instructed to repay to the Bank of Italy all funds received from its various branches, so as to put it in the position in which it was found on occupation. It is expected that its own funds on hand will meet its requirements for the payment of its vagli.

18. The Bank of Italy has been selected as AMGOT depositary in Region 2. The Senior Finance Officer despatched to that area reported as of 27th September that the Bank of Italy branch in Reggio had in its possession 140,000,000 lire and the branch in Potenza 45,000,000 lire. He had previously reported his decision to reopen the banks in Catanzaro Province on a free withdrawal basis, and proposed to reopen them in the Provinces of Reggio, Cosenza, Potenza and Matera upon the receipt of A.M.F.A. funds requested in amount sufficient to deposit 100,000,000 lire in each of the branches of the Bank of Italy in the Provinces mentioned.

19. The provision requiring the presence of an AMGOT representative at the initial opening of Safe Deposit boxes and the handing out of articles in safe custody by the banks has been maintained and will be continued in force in the proposed terms of General Order No.10.

19 (Contd).

We have requested M.G.S. to ask C.C.S. for instructions as to the disposition of gold, foreign exchange and foreign securities found in opened Safe deposit boxes which AMGOT officers have impounded against receipt to the owner. A quantity of such items have been sent in to A.M.F.A. for safe-keeping.

20. As of the end of September reports on the position of the Postal Savings deposits have been received only from Palermo province. It is planned to expedite the submission of such returns as well as the figures concerning Postal Current accounts, so as to permit the reopening of the Postal Savings and Postal Current Accounts of the Post offices simultaneously with the resumption of normal operations of the banks. Many requests have come in from the Provinces that this be accomplished. Plans have been discussed with the Chief Inspector of the Post Offices for Sicily, whose headquarters is in Palermo, in preparation for the resumption of Postal Savings activities at an early date. No action is contemplated regarding Postal Savings Bonds, service on these being suspended in accordance with the directives of C.C.S.

21. As regards Private Insurance, no new facts have been disclosed to alter the principle laid down in the C.F.O's report for July-August, that no financial assistance be granted to private insurance companies.

SOCIAL INSURANCE.

22. Sufficient financial data has been gathered to recommend the resumption of activities by the Social Insurance Institutions in the Province of Palermo. The position of the five principal organisations shows total financial requirements for the period up to the end of September of 25,600,000 lire for benefit payments and 1,400,000 lire for administration costs. Deducting 1,900,000 cash on hand, leaves about 25,000,000 to be advanced by A.M.F.A. for the 5 Institutions in Palermo Province. Deficits were normally covered by remittances from the Italian Government. In several provinces the social insurance organizations have resumed operations and have received advances from AMGOT Finance Officers to make this possible. It has been planned to make the resumption general, starting with Palermo Province possibly by 20th October. Information is still awaited from the Istituto di Previdenza Sociale as to the supply of stamps which are used in its industrial branch for the payment of premiums. The problem of printing a supply would be a formidable task. If it should happen that the supply is inadequate prior to access to Rome, an alternative method of effecting premium payments will have to be devised.

23. An amalgamation authorised by Italian Law, of two of the social insurance companies has been completed with the help of AMGOT Officers. The two institutions concerned are the Cassa Mutua Infortuni Agricoli and the Istituto Assicurazioni Infortuni sul Lavoro, both [illegible] accident compensation insurance. The

...planned to expedite the submission of such returns as well as the figures concerning Postal Current accounts, so as to permit the reopening of the Postal Savings and Postal Current Accounts of the Post Offices simultaneously with the resumption of normal operations of the banks. Many requests have come in from the Provinces that this be accomplished. Plans have been discussed with the Chief Inspector of the Post Offices for Sicily, whose headquarters is in Palermo, in preparation for the resumption of Postal Savings activities at an early date. No action is contemplated regarding Postal Savings Bonds, service on these being suspended in accordance with the directives of C.C.S.

21. As regards Private Insurance, no new facts have been disclosed to alter the principle laid down in the C.F.O's report for July-August, that no financial assistance be granted to private insurance companies.

SOCIAL INSURANCE.

22. Sufficient financial data has been gathered to recommend the resumption of activities by the Social Insurance Institutions in the Province of Palermo. The position of the five principal organisations shows total financial requirements for the period up to the end of September of 25,600,000 lire for benefit payments and 1,400,000 lire for administration costs. Deducting 1,900,000 cash on hand, leaves about 25,000,000 to be advanced by A.M.F.A. for the 5 Institutions in Palermo Province. Deficits were normally covered by remittances from the Italian Government. In several provinces the social insurance organisations have resumed operations and have received advances from AMGOT Finance Officers to make this possible. It has been planned to make the resumption general, starting with Palermo Province possibly by 20th October. Information is still awaited from the Istituto di Providenza Sociale as to the supply of stamps which are used in its industrial branch for the payment of premiums. The problem of printing a supply would be a formidable task. If it should happen that the supply is inadequate prior to access to Rome, an alternative method of effecting premium payments will have to be devised.

23. An amalgamation authorised by Italian Law, of two of the social insurance companies has been completed with the help of AMGOT Officers. The two institutions concerned are the Cassa Mutua Infortuni Agricoli and the Istituto Assicurazioni Infortuni sul Lavoro, both covering obligatory workmens' accident compensation insurance. The last mentioned is a better run organisation and the fusion should produce economies. The combining of these may also serve as a model for future necessary amalgamations in the social insurance field, where high administrative costs are the rule. The Istituto Assicurazioni Infortuni sul Lavoro also insures State employees on a basis of no premiums, but by reimbursement of actual claims paid out plus an administrative charge. This organisation has operated continuously, even in Palermo, and has not applied for financial assistance. It has pursued a firm policy of collecting contributions. The other social insurance organisations have likewise actively pressed for collection of contributions due them. The reopening of the financial side of the post-offices will facilitate their operations. Investigations by our insurance officers have disclosed cases in which the payments of premiums, as shown by lack of stamps in workmens' booklets, have been in arrears since January, 1943.

24. In connection with the collections of Contributi Unificati, various amounts of arrears of contributi sindacali (due before Aug 10, when they were abolished) have been collected by the Esattori and turned over to the Banco di Sicilia as Ricevitore Provinciale. We have instructed that these be segregated in special earmarked account subject to AMGOT's order, pending their ultimate disposition.

POSTAL SERVICES.

25. Resumption of post-card deliveries in Palermo City was inaugurated in August, as previously reported. On 17th September an inter-Province delivery service was instituted, for unsealed letters weighing up to 30 grams. The trunk services to provincial capitals are handled by bus lines, and by a newspaper delivery firm in Messina, Catania and Siracusa, under a contract arranged by the officer in charge of Postal matters. Deliveries to the distant communes are left to the devices of the postal authorities in the capital towns. The Lipari Islands are reached by periodical boat connections arranged by Civil Affairs Officers who come in for supplies. Lampedusa and Pantelleria, though now under AMGOT Palermo jurisdiction, have not yet established contact with us. Some prisoner of war mail has been received and despatched, and further such mail is expected from North Africa for distribution in Sicily. The Army Censorship Branch maintains censors at each of the provincial capitals. The B.G.S.(I) 15 Army Group has been asked for **his** advance views on the subject of restoring foreign mails, particularly to and from Tripolitania, the Administration of the latter having approached us on the matter.

26. Request has been sent to Washington for instructions on the possibility of setting up the mechanism for enabling residents in the United States to remit funds to relatives in the occupied parts of Italy, the payments to be arranged by A.M.F.A. at this end.

A.M.F.A. AND CURRENCY.

27. The Statement of A.M.F.A's Assets and Liabilities as at the close of business on 30th Sept. is as follows (in principal headings).

ASSETS.	Expressed in thousands of Lire.	
Cash on hand.	8,238.	
Reserve Cash.	1,308,416.	
Current Accounts - Banks +	888.350.	2,205,005.
Funds held by AMGOT Officers in the field.		1,055,690.
Balances with Banco di Sicilia as a provision against credits granted by A.M.F.A.		1,639,964.
A.M. Stamps. ++		54,290.
Payments on Account of AMGOT Civilian Supplies Division.		5,348.
Advances to State Institutions.		46,902.
[illegible]		124,470.

an Inter-Province delivery service was instituted, for [illegible] weighing up to 30 grams. The trunk services to provincial capitals are handled by bus lines, and by a newspaper delivery firm in Messina, Catania and Siracusa, under a contract arranged by the officer in charge of Postal matters. Deliveries to the distant communes are left to the devices of the postal authorities in the capital towns. The Lipari Islands are reached by periodical boat connections arranged by Civil Affairs Officers who come in for supplies. Lampedusa and Pantelleria, though now under AMGOT Palermo jurisdiction, have not yet established contact with us. Some prisoner of war mail has been received and despatched, and further such mail is expected from North Africa for distribution in Sicily. The Army Censorship Branch maintains censors at each of the provincial capitals. The B.G.S.(I) 15 Army Group has been asked for his advance views on the subject of restoring foreign mails, particularly to and from Tripolitania, the Administration of the latter having approached us on the matter.

26. Request has been sent to Washington for instructions on the possibility of setting up the mechanism for enabling residents in the United States to remit funds to relatives in the occupied parts of Italy, the payments to be arranged by A.M.F.A. at this end.

A.M.F.A. AND CURRENCY.

27. The Statement of A.M.F.A's Assets and Liabilities as at the close of business on 30th Sept. is as follows (in principal headings).

ASSETS.	Expressed in thousands of Lire.	
Cash on hand.	8,238.	
Reserve Cash.	1,308,476.	
Current Accounts - Banks +	888,350.	2,205,005.
Funds held by AMGOT Officers in the field.		1,055,690.
Balances with Banco di Sicilia as a provision against credits granted by A.M.F.A.		1,639,964.
A.M. Stamps. ++		54,290.
Payments on Account of AMGOT Civilian Supplies Division.		5,348.
Advances to State Institutions.		46,902.
Loans to Banks.		124,470.
Payments on Account of Occupation Costs.		
To: United States Army.		3,431,296.
To: United States Navy.		45,906.
To: British Army.		1,247,680.
AMGOT Expenditures, less revenue.		736.
		9,857,289.

+ Banco di Sicilia. 786,590.
Banco di Napoli. 101,760.

++ Including delivered to Post Offices 2,100.

5360

LIABILITIES.

New A.M. Lire Notes Received.	9,772,184.
New A.M. Stamps Received.	54,290.
Deposits by AMGOT Divisions (pending allocation to revenue or other accounts).	
Civilian Supplies Div.	304.
Others.	510.
Deposits by Banks.	30,000.
	9,857,289.

Total assets and liabilities of 9,857,289,479 Lire as shown above compare with totals of 2,164,077,974 lire at the end of August.

28. It is not possible to construct a detailed statement of receipts and disbursements. Monthly reports from Civil Affairs Officers covering August are in the process of being reviewed and summarized in the Chief Accountant's Section. When this has been completed, AMGOT receipts and disbursements will be allocated to proper accounts ("advances", "AMGOT expenditures", etc.) except insofar as they represent cash still held by officers in the field. It is understood that approximately 90 per cent of all expenditures by AMGOT officers in the field constitutes advances. In an effort to expedite the final classification of revenues and expenditures, arrangements have already been made for a substantial reduction in the number of C.A.Os making accounting reports. Accounting has now been centralized in Provincial F.Os. Moreover a plan is being formulated to have all advances made directly by A.M.F.A. on advices from the field. If this plan is adopted, it will result in about 90 per cent of those A.M.F.A. disbursements which are now temporarily shown as "Funds held by AMGOT Officers in the Field", being classified and carried to final accounts as and when made.

29. <u>The increase in liabilities during September</u> was principally due to an increase of 7,600 million lire in new A.M. lire received. The only other changes of importance in A.M.F.A. liabilities during the month are: (a) Deposits of 30,000,000 lire by banks. This represents deposits by banks in A.M.F.A's No.4 account in the Banco di Sicilia. A.M.F.A. accepts such deposits during the life of the existing Credit Agreements concluded with banks to give them cash reserves to meet deposit withdrawals. These deposits represent temporarily unused drawings against the Agreements on which the banks are paying to A.M.F.A. a rate of interest equalling that paid by A.M.F.A. on the deposits. These deposits may be compared with loans to banks amounting, on 30th September, to 124,470,457 lire. (b) New A.M. stamps received, amounting to 54,290,000. During September the method of showing A.M. stamps on A.M.F.A's balance sheet was changed so as to show the cumulative total of A.M. stamps received as a liability, and to show the same figure as an asset, sub-divided into "reserve", "in hands of Postal Section of AMGOT", and "delivered to Post Offices, etc". The proceeds received by the Sicilian

...posits by Banks. 30,000.

9,857,289.

Total assets and liabilities of 9,857,289,479 lire as shown above compare with totals of 2,164,077,974 lire at the end of August.

28. It is not possible to construct a detailed statement of receipts and disbursements. Monthly reports from Civil Affairs Officers covering August are in the process of being reviewed and summarized in the Chief Accountant's Section. When this has been completed, AMGOT receipts and disbursements will be allocated to proper accounts ("advances", "AMGOT expenditures", etc.) except insofar as they represent cash still held by officers in the field. It is understood that approximately 90 per cent of all expenditures by AMGOT officers in the field constitutes advances. In an effort to expedite the final classification of revenues and expenditures, arrangements have already been made for a substantial reduction in the number of C.A.Os making accounting reports. Accounting has now been centralized in Provincial F.Os. Moreover a plan is being formulated to have all advances made directly by A.M.F.A. on advices from the field. If this plan is adopted, it will result in about 90 per cent of these A.M.F.A. disbursements which are now temporarily shown as "Funds held by AMGOT Officers in the Field", being classified and carried to final accounts as and when made.

29. The increase in liabilities during September was principally due to an increase of 7,600 million lire in new A.M. lire received. The only other changes of importance in A.M.F.A. liabilities during the month are: (a) Deposits of 30,000,000 lire by banks. This represents deposits by banks in A.M.F.A's No.4 account in the Banco di Sicilia. A.M.F.A. accepts such deposits during the life of the existing Credit Agreements concluded with banks to give them cash reserves to meet deposit withdrawals. These deposits represent temporarily unused drawings against the Agreements on which the banks are paying to A.M.F.A. a rate of interest equalling that paid by A.M.F.A. on the deposits. These deposits may be compared with loans to banks amounting, on 30th September, to 124,470,457 lire. (b) New A.M. stamps received, amounting to 54,290,000. During September the method of showing A.M. stamps on A.M.F.A's balance sheet was changed so as to show the cumulative total of A.M. stamps received as a liability, and to show the same figure as an asset, sub-divided into "reserve", "in hands of Postal Section of AMGOT", and "delivered to Post Offices, etc". The proceeds received by the Sicilian Post Office from the sale of A.M. stamps are retained by it as postal revenue and does not enter A.M.F.A's accounts.

30. AMGOT receipts are not, for reasons explained in paragraph 28, reported at this time.

AMGOT disbursements, major items, are:

(a) Additional transfers to AMGOT Officers in the field amounting to 445,594,723 lire. Of this increase, 237,552,000 lire were paid to AMGOT Officers on the Mainland of Italy.

30 (Cont'd).

(b) Additional payments on account of purchases in Sicily of surplies for export to the United States, 3,323,800 lire. This represents a further transaction in connection with the export of citric and tartaric acid, as explained in the preceding report.

(c) Additional advances to the State Railways, amounting to 16,902,035 lire, and shown under "Advance to State Institutions".

(d) Loans to banks totaling 124,479,457 lire. These loans represent drawings against the Credit Agreements signed with some 50 banks to enable them to reopen. The balance of A.M.F.A's commitment under these agreements amounts to 1,639,964,543, and is carried as a 100 per-cent reserve in the form of a deposit with the Banco di Sicilia in the various provincial centres - 10 in number.

(e) Payments to the Armed Forces. The disbursements of A.M. lire currency to the Armed Forces during September were as follows:

United States Army......................	Lire	2,290,112,000.
United States Navy......................		15,640,000.
British Army...........................		1,135,616,000.
Total Armed Forces.	Lire	3,441,368,000.

31. Currency statement. During the month of September currency movement in the accounts of A.M.F.A. was as follows:

Cash on hand and in bank, including mutilated, Aug. 31	238,105,331.
New A.M. Lire received during September..........	7,608,984,000.
Total, available during September.	7,847,089,331.
Cash on hand and in banks, including mutilated, 30 September......................	2,205,005,133.
Total disbursements during September.	5,642,084,198*

*Including deposits in No.2 and 3 Accounts in Banco di Sicilia against commitment under Credit Agreement.

No currency was destroyed during September, but mutilated currency (dollars, BMA pounds, and lire) redeemed and held by A.M.F.A. increased from 1,705 lire at the end of August to 39,605 lire at the end of September.

Holdings of dollars and B.M.A. pounds (other than mutilated) received By A.M.F.A. (or by the Banco di Sicilia for A.M.F.A. account) in exchange for lire increased from $3,192 and £145. 9s. on 31 August

... drawings against the Credit Agreements signed with some 50 banks to enable them to reopen. The balance of A.M.F.A's commitment under these agreements amounts to 1,639,964,543, and is carried as a 100 per-cent reserve in the form of a deposit with the Banco di Sicilia in the various provincial centres - 10 in number.

(e) Payments to the Armed Forces. The disbursements of A.M. lire currency to the Armed Forces during September were as follows:

United States Army....................	Lire	2,290,112,000.
United States Navy		15,640,000.
British Army...........................		1,135,616,000.
Total Armed Forces.	Lire	3,441,368,000.

31. Currency statement. During the month of September currency movement in the accounts of A.M.F.A. was as follows:

Cash on hand and in bank, including mutilated, Aug. 31	238,105,331.
New A.M. Lire received during September.........	7,608,984,000.
Total available during September.	7,847,089,331.
Cash on hand and in banks, including mutilated, 30 September..............................	2,205,005,133.
Total disbursements during September.	5,642,084,198*

*Including deposits in No.2 and 3 Accounts in Banco di Sicilia against commitment under Credit Agreement.

No currency was destroyed during September, but mutilated currency (dollars, BMA pounds, and lire) redeemed and held by A.M.F.A. increased from 1,705 lire at the end of August to 39,605 lire at the end of September.

Holdings of dollars and B.M.A. pounds (other than mutilated) received By A.M.F.A. (or by the Banco di Sicilia for A.M.F.A. account) in exchange for lire increased from $3,192 and £145. 9s. on 31 August to $79,425 and £1,572 6s. on 30 September.

The total amount of A.M. lire outstanding as of 30 September was 7,575,794,302 lire. This figure is arrived at by deducting from "New A.M. Lire received" the amount of 2,196,389,698 lire. This latter figure is the total lire held by A.M.F.A. in current cash, reserve cash, and in its No.1 accounts in the Banco di Sicilia and Banco di Napoli.

32. The new A.M. Lire received from the War Department during the month of September amounted to 7,608,984,000 lire.

33. In addition to the activities revealed by the above paragraphs A.M.F.A. continued, during September, its planning and policy activities. These were primarily concerned with:

33 (Contd).

(a) Completion of Bank Credit Agreements, and provision of funds to reopen the banks throughout Sicily. During the first 10 days of September much of the attention of A.M.F.A. Officers was given to the completion of the pending Credit Agreements signed with some 50 banks, with the setting up of appropriate facilities in the Banco di Sicilia, and with the physical transport of cash to 10 points in the Island to implement the Agreements.

(b) The further development of a loan policy. A.M.F.A. participated in discussions leading to the drafting of a General Order removing restrictions on bank deposits (other than under the general blocking program). In connection therewith, A.M.F.A. and the Controller of Financial Institutions joined in a letter to all banks having Credit Agreements with A.M.F.A. The letter advises the banks that they may draw freely on the credit lines set up by the Credit Agreement, but warns them that the credit Agreement has only some 60 days to run, and advises resort to the credit facilities offered by A.M.F.A. in those cases where banks need funds for making "productive loans" to their clients. The banks are also advised that any Credit Agreements concluded on the expiration of those now in force are likely to contain new provisions. Finally, the attention of the banks is called to the desirability of confirming all lending operations to "productive" rather than "speculative" purposes.

(c) Receiving and safeguarding new shipments of A.M. Lire from Washington, and estimating future requirements for A.M. Lire. The extension of military operations to the mainland of Italy brought increased responsibilties to A.M.F.A. for the provision of currency in the new areas. A.M.F.A. Officers on several occasions made trips throughout Sicily and to the mainland of Italy to deliver funds, open bank accounts, and review the developing financial situation.

ACCOUNTS.

34. The principal activity of the Accounting Section during the first half of September consisted in visiting Accounting officers in the field. The remainder of the month was largely devoted to examining and sorting out the Reports of Receipts and Disbursements received from C.A.Os, Finance and other Officers. To the end of September about 100 such reports have come in. As was to be expected, a majority of these leave much to be desired and explanations and further details have been requested.

35. Complete storekeeping and accounting instructions have been designed and issued to the Public Health Division for the recording of large quantities of medical supplies coming from America.

36. Accounting directives have been issued during the month covering:

(b) The further development of a loan policy. A.M.F.A. participated in discussions leading to the drafting of a General Order removing restrictions on bank deposits (other than under the general blocking program). In connection therewith, A.M.F.A. and the Controller of Financial Institutions joined in a letter to all banks having Credit Agreements with A.M.F.A. The letter advises the banks that they may draw freely on the credit lines set up by the Credit Agreement, but warns them that the credit Agreement has only some 60 days to run, and advises resort to the credit facilities offered by A.M.F.A. in those cases where banks need funds for making "productive loans" to their clients. The banks are also advised that any Credit Agreements concluded on the expiration of those now in force are likely to contain new provisions. Finally, the attention of the banks is called to the desirability of confirming all lending operations to "productive" rather than "speculative" purposes.

(c) Receiving and safeguarding new shipments of A.M. Lire from Washington, and estimating future requirements for A.M. Lire. The extension of military operations to the mainland of Italy brought increased responsibilities to A.M.F.A. for the provision of currency in the new areas. A.M.F.A. Officers on several occasions made trips throughout Sicily and to the mainland of Italy to deliver funds, open bank accounts, and review the developing financial situation.

ACCOUNTS.

34. The principal activity of the Accounting Section during the first half of September consisted in visiting Accounting officers in the field. The remainder of the month was largely devoted to examining and sorting out the Reports of Receipts and Disbursements received from C.A.Os, Finance and other Officers. To the end of September about 100 such reports have come in. As was to be expected, a majority of these leave much to be desired and explanations and further details have been requested.

35. Complete storekeeping and accounting instructions have been designed and issued to the Public Health Division for the recording of large quantities of medical supplies coming from America.

36. Accounting directives have been issued during the month covering:

(a) Handing and Taking over of Cash Records, Stores, etc.
(b) Payrolls;
(c) Provincial Accounting Organization;
(d) Sale or Issue of Confiscated or Captured Supplies;
(e) Transactions between Armies and AMGOT;
(f) Submission of Reports of Receipts and Disbursements for Region 2.

37. The Section has taken over the handling of A.M.F.A's accounts, and has brought its records, in the new books, up to date. The new system is working smoothly.

38. Arrangements have been made for placing on record for future reference the cost of rations, pay and allowances of British and American personnel of AMGOT.

39. Two Accounting officers and two trained non-commissioned officers proceeded to Region 2 late in September, to advise and assist accounting officers in the field. Complete accounting kits have been despatched for the officers in Region 3.

R.B. MENAPACE.
Lieut-Colonel.,
Deputy Chief Finance Officer.

5358

Subject: Report on Activities of Financial Division - September, 43.

S E C R E T

ANCOT/2051/F.

AMGOT H.Q. SICILY.

15 Oct. 43.

C.C.A.O.

INTRODUCTION:

1. As stated in the report of the Chief Financial Officer for the period ending 31 Aug. the Financial Division started the month of September with 22 officers assigned to the Provinces and 28 to Headquarters, the latter including 13 Accountants and 5 on the staff of A.M.F.A. This distribution in Sicily has not varied materially, the number of new officers added being equal to the number supplied by the Division for Regions 2 and 3. The number on duty at the end of the month was not adequate for the increasing volume of work, as reports poured in, as investigations disclosed new problems, and as the number of exceptional cases and petitions on the part of Sicilian individuals and concerns mounted. The Accounting Section, coping with the large number of accounts received from officers in the field and the demands of other Divisions for accountants, was faced with the need of additional personnel. Requests for this has been made.

2. The handicap of dispersion of the Division in three different buildings has been in part overcome by daily morning meetings inaugurated by the C.F.O. during the month, at which he and the D.C.F.O. and Heads of Sections discuss matters of general interest and those which require coordinated action. Financial officers in the field have come to Headquarters to report on local matters and Headquarters officers have visited the Provincial capitals. These visits both ways have not been as frequent as could be desired, due to the press of work, and this fact, together with the slowness of communications, has impeded the remedying of some inevitable lack of uniformity throughout the island, arising out of unpredictable situations.

3. In making this report, in the absence of the C.F.O. on a trip in the field, I can confidently repeat the statement in his report of a month ago that the staff, "from the jack-of-all-trades in the Province to the specialist at Headquarters, have applied themselves tirelessly to their various tasks".

PUBLIC FINANCES.

4. During the month of September the Revenue Section has changed its emphasis from the investigation of the machinery of taxation and budgetary operations to the stimulation of tax collections. In spite of continuing difficulties, such as lack of communications, damage to

1. As stated in the report of the Chief Financial Officer for the period ending 31 Aug, the Financial Division started the month of September with 22 officers assigned to the Provinces and 26 to Headquarters, the latter including 13 Accountants and 5 on the staff of A.M.F.A. This distribution in Sicily has not varied materially, the number of new officers added being equal to the number supplied by the Division for Regions 2 and 3. The number on duty at the end of the month was not adequate for the increasing volume of work, as reports poured in, as investigations disclosed new problems, and as the number of exceptional cases and petitions on the part of Sicilian individuals and concerns mounted. The Accounting Section, coping with the large number of accounts received from officers in the field and the demands of other Divisions for accountants, was faced with the need of additional personnel. Requests for this has been made.

2. The handicap of dispersion of the Division in three different buildings has been in part overcome by daily morning meetings inaugurated by the C.F.O. during the month, at which he and the D.C.F.O. and Heads of Sections discuss matters of general interest and those which require coordinated action. Financial officers in the field have come to Headquarters to report on local matters and Headquarters officers have visited the Provincial capitals. These visits both ways have not been as frequent as could be desired, due to the press of work, and this fact, together with the slowness of communications, has impeded the remedying of some inevitable lack of uniformity throughout the island, arising out of unpredictable situations.

3. In making this report, in the absence of the C.F.O. on a trip in the field, I can confidently repeat the statement in his report of a month ago that the staff, "from the jack-of-all-trades in the Province to the specialist at Headquarters, have applied themselves tirelessly to their various tasks".

PUBLIC FINANCES.

4. During the month of September the Revenue Section has changed its emphasis from the investigation of the machinery of taxation and budgetary operations to the stimulation of tax collections. In spite of continuing difficulties, such as lack of communications, damage to office buildings and records and delay in the revival of business, progress has been made in revenue collections by the State, Provinces and Communes. Information has come in only sporadically and a comprehensive statement on revenues is not yet available. Revenue officers in the field and the Headquarters officers have called on the tax authorities in many cities and towns together with the Finance officers in the Provinces, and have forcefully impressed on them the necessity of making the Communal, Provincial and State bodies as self supporting as possible. A number of the more prosperous and undamaged communes have reported collections of taxes as restored almost to normal. In many others it has been necessary to grant the partial postponements to taxpayers permitted by Italian law.

5357

5. Large deficits continue to prevail generally throughout the various governmental subdivisions. Advances by AMGOT for normal recurrent expenditures, relief and grain payments have pretty widely kept up the pace set in July and August, although through closer control relief payments have been perceptibly reduced. Other needs have developed, such as the financing

5. (Contd).

of the State Railway payrolls and the Italian Red Cross whose financial requirements have been supplied to the Palermo headquarters of the organizations for their island wide organizations. Instructions have been issued during the month that arrears of salaries of officials who are still acting should be paid. Similar action has been taken with regard to pensions. Authority has been given for new pensioners to receive 75% of their anticipated pension, upon certification of their rights by appropriate superior govermental officers. Restrictions on the payment of family allowances to the dependants of Italian military personnel should now, I think, be reconsidered, as it is now planned to make funds available for the payment of Italian troops.

6. Petitions, often seconded by AMGOT officers, have continued to arrive in growing volume pleading for increases in the salaries of government employees in the face of the high cost of living. I some of the Provinces, the S.C.A.Os and P.Os have proposed that Sindacos, hitherto unpaid, be granted salaries. It has also been recommended that the pay of Prefects, which suffers by comparison with that of some laborers, should be supplemented by grants. Court officials have urgently asked that the present "additionals", some of a temporary nature granted because of bombing exodus from towns, be continued on a permanent basis. Insofar as permitted by Italian law, these are being paid. The general question of salary increases is before the Executive Committee and is being studied and will be reported upon by the Labor Division. Many appeals have been received urging resumption of service on the Italian State debt and the Postal Savings Bonds.

7. Control of expenditures is considered to be one of our most pressing problems. In the early stages of the occupation it was obviously necessary to allow C.A.Os a fairly free hand in meeting emergency requirements, but more insistence is now being placed on keeping expenses down. Finance Officers are required to report their monetary income and outgo twice a month, and are requested to come to Headquarters to explain the reasons for their applications for funds. Instructions have been sent out to S.C.A.Os and P.Os to direct Communal and Provincial authorities to prepare budgets for the coming year.

8. The Tobacco Monopoly in Sicily is being re-established. Operations commenced in the last week of September, though the problems of electric power and coal supply are a deterrent. There is sufficient tobacco for three to six months' operations. A schedule of prices to be revised sharply upward, is being prepared with the double aim of producing revenue and of absorbing excess purchasing power. The Lottery has been put in readiness to operate. Its resumption has been urged from various sources. At present its numerous agents are receiving no income, as this was derived only from commissions.

9. The Customs buildings have been destroyed or damaged almost everywhere on the island, but this is not an urgent matter for the present. The buildings of the Intendenti have been completely destroyed in Palermo, and seriously damaged at Trapani, Messina and Catania.

make funds available for the payment of Italian troops.

6. Petitions, often seconded by AMGOT officers, have continued to arrive in growing volume pleading for increases in the salaries of government employees in the face of the high cost of living. I some of the Provinces, the S.C.A.Os and F.Os have proposed that Sindacos, hitherto unpaid, be granted salaries. It has also been recommended that the pay of Prefects, which suffers by comparison with that of some laborers, should be supplemented by grants. Court officials have urgently asked that the present "additionals", some of a temporary nature granted because of bombing exodus from towns, be continued on a permanent basis. Insofar as permitted by Italian law, these are being paid. The general question of salary increases is before the Executive Committee and is being studied and will be reported upon by the Labor Division. Many appeals have been received urging resumption of service on the Italian State debt and the Postal Savings Bonds.

7. Control of expenditures is considered to be one of our most pressing problems. In the early stages of the occupation it was obviously necessary to allow C.A.Os a fairly free hand in meeting emergency requirements, but more insistence is now being placed on keeping expenses down. Finance Officers are required to report their monetary income and outgo twice a month, and are requested to come to Headquarters to explain the reasons for their applications for funds. Instructions have been sent out to S.C.A.Os and F.Os to direct Communal and Provincial authorities to prepare budgets for the coming year.

8. The Tobacco Monopoly in Sicily is being re-established. Operations commenced in the last week of September, though the problems of electric power and coal supply are a deterrent. There is sufficient tobacco for three to six months' operations. A schedule of prices to be revised sharply upward, is being prepared with the double aim of producing revenue and of absorbing excess purchasing power. The Lottery has been put in readiness to operate. Its resumption has been urged from various sources. At present its numerous agents are receiving no income, as this was derived only from commissions.

9. The Customs buildings have been destroyed or damaged almost everywhere on the island, but this is not an urgent matter for the present. The buildings of the Intendenti have been completely destroyed in Palermo, and seriously damaged at Trapani, Messina and Catania.

BANKING.

10. Under the provisions of General Order No. 6, published 1st Sept. the Banks in Palermo Province were opened on a restricted withdrawal basis on 6th Sept., and in all the rest of Sicily on 15th Sept. During the first few days withdrawals by depositors exceeded new deposits, then the trend was reversed. By about the middle of the month new deposits in Palermo City were 50% above withdrawals. Total credit lines of 1,639,000,000 Lire were placed by A.M.F.A. at the disposal of the banks to enable them to meet the 5,000 lire per account withdrawals. At the close of business on 30th Sept. loans to banks against these credit lines totalled only 124,000,000 lire. Credit agreements were signed with about 50 banks. This phase of operations is more fully discussed later in the Section on A.M.F.A.

11. Banca Agricola Popolare di Ragusa was not immediately reopened, due to the need of ousting the Fascist-influenced management and of further investigation. Upon the installation of a new manager, supplied by Bank of Sicily, and of some directors, the bank was granted a credit by A.M.F.A. and was reopened with satisfactory results.

12. The Banca Nazionale del Lavoro had been carefully investigated and its reopening was effected simultaneously with the reopening of the other banks. A continuous checking of its operations has been maintained.

13. A Blocked Account Section has been set up and a system of licensing withdrawals from blocked accounts put into effect.

14. A.M.F.A's credit lines to banks, referred to above, were restricted to the coverage of withdrawals of deposits. In view of some demand for loans from banks' customers to finance the movements and processing of crops and the reconditioning of mines, it was deemed advisable to offer additional credit to the banks to enable them to make such loans. These were covered by special credit agreements, requiring the approval of the Chief of Financial Institutions in each case. A small number of such loans have been made.

15. The Bank of Sicily has functioned entirely satisfactorily as agent for A.M.F.A., both in connection with the distribution of funds in its branches in all the Provincial capitals and Caltagirone, and in carrying other accounts required by A.M.F.A's operations. The officers in charge of banking matters have maintained offices in the Bank of Sicily's Head Office building and have received appreciable assistance from that Bank.

16. Toward the end of the month the banking situation was considered such as to justify steps being taken to prepare for the removal of all restrictions on deposit withdrawals and the resumption of normal operations. The date for such action was fixed for approximately the 5th October. The resumption of normal operations is to include payment of assegni circolari and vagli bancari, which will afford relief to a large number of holders. A new General Order No.10 has been drafted to provide the authority for the above changes. No additional credit from A.M.F.A. is considered necessary by the banks for the proposed resumption of normal operations. Further discussion of this subject is presented in the Section on A.M.F.A.

17. The Bank of Italy, under the contemplated new General Order, would be permitted to continue to conduct only its Royal Treasury Section and pay its outstanding vagli bancari. Finance Officers in all Provinces have been instructed to repay to the Bank of Italy all funds received from its various branches, so as to put it in the position in which it was found on occupation. It is expected that its own funds on hand will meet its requirements for the payment of its vagli.

18. The Bank of Italy has been selected as AMGOT depositary in Region 2. The Senior Finance Officer despatched to that area reported as of 27th September that the Bank of Italy branch in Reggio had in its

14. A.M.F.A's credit lines to banks, referred to above, were restricted to the coverage of withdrawals of deposits. In view of some demand for loans from banks' customers to finance the movements and processing of crops and the reconditioning of mines, it was deemed advisable to offer additional credit to the banks to enable them to make such loans. These were covered by special credit agreements, requiring the approval of the Chief of Financial Institutions in each case. A small number of such loans have been made.

15. The Bank of Sicily has functioned entirely satisfactorily as agent for A.M.F.A., both in connection with the distribution of funds in its branches in all the Provincial capitals and Caltagirone, and in carrying other accounts required by A.M.F.A's operations. The officers in charge of banking matters have maintained offices in the Bank of Sicily's Head Office building and have received appreciable assistance from that Bank.

16. Toward the end of the month the banking situation was considered such as to justify steps being taken to prepare for the removal of all restrictions on deposit withdrawals and the resumption of normal operations. The date for such action was fixed for approximately the 6th October. The resumption of normal operations is to include payment of assegni circolari and vagli bancari, which will afford relief to a large number of holders. A new General Order No.10 has been drafted to provide the authority for the above changes. No additional credit from A.M.F.A. is considered necessary by the banks for the proposed resumption of normal operations. Further discussion of this subject is presented in the Section on A.M.F.A.

17. The Bank of Italy, under the contemplated new General Order, would be permitted to continue to conduct only its Royal Treasury Section and pay its outstanding vagli bancari. Finance Officers in all Provinces have been instructed to repay to the Bank of Italy all funds received from its various branches, so as to put it in the position in which it was found on occupation. It is expected that its own funds on hand will meet its requirements for the payment of its vagli.

18. The Bank of Italy has been selected as AMGOT depositary in Region 2. The Senior Finance Officer despatched to that area reported as of 27th September that the Bank of Italy branch in Reggio had in its possession 140,000,000 lire and the branch in Potenza 45,000,000 lire. He had previously reported his decision to reopen the banks in Catanzaro Province on a free withdrawal basis, and proposed to reopen them in the Provinces of Reggio, Cosenza, Potenza and Matera upon the receipt of A.M.F.A. funds requested in amount sufficient to deposit 100,000,000 lire in each of the branches of the Bank of Italy in the Provinces mentioned.

19. The provision requiring the presence of an AMGOT representative at the initial opening of Safe Deposit boxes and the handing out of [illegible] in safe custody by the banks has been maintained and will be continued in force in the proposed terms of General Order No.10.

5356

4.

19 (Contd).

We have requested M.G.S. to ask C.C.S. for instructions as to the disposition of gold, foreign exchange and foreign securities found in opened Safe deposit boxes which AMGOT officers have impounded against receipt to the owner. A quantity of such items have been sent in to A.M.F.A. for safe-keeping.

20. As of the end of September reports on the position of the Postal Savings deposits have been received only from Palermo province. It is planned to expedite the submission of such returns as well as the figures concerning Postal Current accounts, so as to permit the reopening of the Postal Savings and Postal Current Accounts of the Post offices simultaneously with the resumption of normal operations of the banks. Many requests have come in from the Provinces that this be accomplished. Plans have been discussed with the Chief Inspector of the Post Offices for Sicily, whose headquarters is in Palermo, in preparation for the resumption of Postal Savings activities at an early date. No action is contemplated regarding Postal Savings Bonds, service on these being suspended in accordance with the directives of C.C.S.

21. As regards Private Insurance, no new facts have been disclosed to alter the principle laid down in the C.F.O's report for July-August, that no financial assistance be granted to private insurance companies.

SOCIAL INSURANCE.

22. Sufficient financial data has been gathered to recommend the resumption of activities by the Social Insurance Institutions in the Province of Palermo. The position of the five principal organisations shows total financial requirements for the period up to the end of September of 25,600,000 lire for benefit payments and 1,400,000 lire for administration costs. Deducting 1,900,000 cash on hand, leaves about 25,000,000 to be advanced by A.M.F.A. for the 5 Institutions in Palermo Province. Deficits were normally covered by remittances from the Italian Government. In several provinces the social insurance organisations have resumed operations and have received advances from AMGOT Finance Officers to make this possible. It has been planned to make the resumption general, starting with Palermo Province possibly by 20th October. Information is still awaited from the Istituto di Previdenza Sociale as to the supply of stamps which are used in its industrial branch for the payment of premiums. The problem of printing a supply would be a formidable task. If it should happen that the supply is inadequate prior to access to Rome, an alternative method of effecting premium payments will have to be devised.

23. An amalgamation authorised by Italian Law, of two of the social insurance companies has been completed with the help of AMGOT Officers. The two institutions concerned are the Cassa Mutua Infortuni Agricoli and the Istituto Assicurazioni Infortuni sul Lavoro, both covering obligatory workmens' accident compensation insurance. The

the [illegible] concerning Postal Current accounts, so as to [illegible] reopening of the Postal Savings and Postal Current Accounts of the Post Offices simultaneously with the resumption of normal operations of the banks. Many requests have come in from the Provinces that this be accomplished. Plans have been discussed with the Chief Inspector of the Post Offices for Sicily, whose headquarters is in Palermo, in preparation for the resumption of Postal Savings activities at an early date. No action is contemplated regarding Postal Savings Bonds, service on these being suspended in accordance with the directives of C.C.S.

21. As regards Private Insurance, no new facts have been disclosed to alter the principle laid down in the C.F.O's report for July-August, that no financial assistance be granted to private insurance companies.

SOCIAL INSURANCE.

22. Sufficient financial data has been gathered to recommend the resumption of activities by the Social Insurance Institutions in the Province of Palermo. The position of the five principal organisations shows total financial requirements for the period up to the end of September of 25,600,000 lire for benefit payments and 1,400,000 lire for administration costs. Deducting 1,900,000 cash on hand, leaves about 25,000,000 to be advanced by A.M.F.A. for the 5 Institutions in Palermo Province. Deficits were normally covered by remittances from the Italian Government. In several provinces the social insurance organisations have resumed operations and have received advances from AMGOT Finance Officers to make this possible. It has been planned to make the resumption general, starting with Palermo Province possibly by 20th October. Information is still awaited from the Istituto di Previdenza Sociale as to the supply of stamps which are used in its industrial branch for the payment of premiums. The problem of printing a supply would be a formidable task. If it should happen that the supply is inadequate prior to access to Rome, an alternative method of effecting premium payments will have to be devised.

23. An amalgamation authorised by Italian Law, of two of the social insurance companies has been completed with the help of AMGOT Officers. The two institutions concerned are the Cassa Mutua Infortuni Agricoli and the Istituto Assicurazioni Infortuni sul Lavoro, both covering obligatory workmens' accident compensation insurance. The last mentioned is a better run organisation and the fusion should produce economies. The combining of these may also serve as a model for future necessary amalgamations in the social insurance field, where high administrative costs are the rule. The Istituto Assicurazioni Infortuni sul Lavoro also insures State employees on a basis of no premiums, but by reimbursement of actual claims paid out plus an administrative charge. This organisation has operated continuously, even in Palermo, and has not applied for financial assistance. It has pursued a firm policy of collecting contributions. The other social insurance organisations have likewise actively pressed for collection of contributions due them. The reopening of the financial side of the post-offices will facilitate their operations. Investigations by our insurance officers have disclosed cases in which the payments of premiums, as shown by lack of stamps in workmens' booklets, have been in arrears since January, 1943.

24. In connection with the collections of Contributi Unificati, various amounts of arrears of contributi sindacali (due before Aug 10, when they were abolished) have been collected by the Esattori and turned over to the Banco di Sicilia as Ricevitore Provinciale. We have instructed that these be segregated in special earmarked account subject to AMGOT's order, pending their ultimate disposition.

POSTAL SERVICES.

25. Resumption of post-card deliveries in Palermo City was inaugurated in August, as previously reported. On 17th September an inter-Province delivery service was instituted, for unsealed letters weighing up to 30 grams. The trunk services to provincial capitals are handled by bus lines, and by a newspaper delivery firm in Messina, Catania and Siracusa, under a contract arranged by the officer in charge of Postal matters. Deliveries to the distant communes are left to the devices of the postal authorities in the capital towns. The Lipari Islands are reached by periodical boat connections arranged by Civil Affairs Officers who come in for supplies. Lampedusa and Pantelleria, though now under AMGOT Palermo jurisdiction, have not yet established contact with us. Some prisoner of war mail has been received and despatched, and further such mail is expected from North Africa for distribution in Sicily. The Army Censorship Branch maintains censors at each of the provincial capitals. The B.G.S.(I) 15 Army Group has been asked for his advance views on the subject of restoring foreign mails, particularly to and from Tripolitania, the Administration of the latter having approached us on the matter.

26. Request has been sent to Washington for instructions on the possibility of setting up the mechanism for enabling residents in the United States to remit funds to relatives in the occupied parts of Italy, the payments to be arranged by A.M.F.A. at this end.

A.M.F.A. AND CURRENCY.

27. The Statement of A.M.F.A's Assets and Liabilities as at the close of business on 30th Sept. is as follows (in principal headings).

ASSETS.	Expressed in thousands of Lire.	
Cash on hand.	8,238.	
Reserve Cash.	1,308,416.	
Current Accounts - Banks +	888,350.	2,205,005.
Funds held by AMGOT Officers in the field.		1,055,690.
Balances with Banco di Sicilia as a provision against credits granted by A.M.F.A.		1,639,964.
A.M. Stamps. ++		54,290.
Payments on account of AMGOT Civilian		

resumption of post-card deliveries in Palermo City was inaugurated in August, as previously reported. On 17th September an inter-Province delivery service was instituted, for unsealed letters weighing up to 30 grams. The trunk services to provincial capitals are handled by bus lines, and by a newspaper delivery firm in Messina, Catania and Siracusa, under a contract arranged by the officer in charge of Postal matters. Deliveries to the distant communes are left to the devices of the postal authorities in the capital towns. The Lipari Islands are reached by periodical boat connections arranged by Civil Affairs Officers who come in for supplies. Lampedusa and Pantelleria, though now under AMGOT Palermo jurisdiction, have not yet established contact with us. Some prisoner of war mail has been received and despatched, and further such mail is expected from North Africa for distribution in Sicily. The Army Censorship Branch maintains censors at each of the provincial capitals. The B.G.S. (I) 15 Army Group has been asked for his advance views on the subject of restoring foreign mails, particularly to and from Tripolitania, the Administration of the latter having approached us on the matter.

26. Request has been sent to Washington for instructions on the possibility of setting up the mechanism for enabling residents in the United States to remit funds to relatives in the occupied parts of Italy, the payments to be arranged by A.M.F.A. at this end.

A.M.F.A. AND CURRENCY.

27. The Statement of A.M.F.A's Assets and Liabilities as at the close of business on 30th Sept. is as follows (in principal headings).

ASSETS.		Expressed in thousands of Lire.
Cash on hand.	8,238.	
Reserve Cash.	1,308,416.	
Current Accounts - Banks +	888,350.	2,205,005.
Funds held by AMGOT Officers in the field.		1,055,690.
Balances with Banco di Sicilia as a provision against credits granted by A.M.F.A.		1,639,964.
A.M. Stamps. ++		54,290.
Payments on Account of AMGOT Civilian Supplies Division.		5,348.
Advances to State Institutions.		46,902.
Loans to Banks.		124,470.
Payments on account of Occupation Costs.		
To: United States Army.		3,431,296.
To: United States Navy.		45,986.
To: British Army.		1,247,680.
AMGOT Expenditures, less revenue.		736.
		9,857,269.

+ Banco di Sicilia. 786,590.
Banco di Napoli. 101,760.

++ Including delivered to Post Offices 2,100.

5355

LIABILITIES.

New A.M. Lire Notes Received.	9,772,184.
New A.M. Stamps Received.	54,290.
Deposits by AMGOT Divisions (pending allocation to revenue or other accounts).	
Civilian Supplies Div.	304.
Others.	510.
Deposits by Banks.	30,000.
	9,857,289.

Total assets and liabilities of 9,857,289,479 Lire as shown above compare with totals of 2,164,077,974 lire at the end of August.

28. It is not possible to construct a detailed statement of receipts and disbursements. Monthly reports from Civil Affairs Officers covering August are in the process of being reviewed and summarized in the Chief Accountant's Section. When this has been completed, AMGOT receipts and disbursements will be allocated to proper accounts ("advances", "AMGOT expenditures", etc.) except insofar as they represent cash still held by officers in the field. It is understood that approximately 90 per cent of all expenditures by AMGOT officers in the field constitutes advances. In an effort to expedite the final classification of revenues and expenditures, arrangements have already been made for a substantial reduction in the number of C.A.Os making accounting reports. Accounting has now been centralized in Provincial F.Os. Moreover a plan is being formulated to have all advances made directly by A.M.F.A. on advices from the field. If this plan is adopted, it will result in about 90 per cent of those A.M.F.A. disbursements which are now temporarily shown as "Funds held by AMGOT Officers in the Field", being classified and carried to final accounts as and when made.

29. The increase in liabilities during September was principally due to an increase of 7,600 million lire in new A.M. lire received. The only other changes of importance in A.M.F.A. liabilities during the month are: (a) Deposits of 30,000,000 lire by banks. This represents deposits by banks in A.M.F.A's No.4 account in the Banco di Sicilia. A.M.F.A. accepts such deposits during the life of the existing Credit Agreements concluded with banks to give them cash reserves to meet deposit withdrawals. These deposits represent temporarily unused drawings against the Agreements on which the banks are paying to A.M.F.A. a rate of interest equalling that paid by A.M.F.A. on the deposits. These deposits may be compared with loans to banks amounting, on 30th September, to 124,470,457 lire. (b) New A.M. stamps received, amounting to 54,290,000. During September the method of showing A.M. stamps on A.M.F.A's balance sheet was changed so as to show the cumulative total of A.M. stamps received as a liability, and to show the same figure as an asset, sub-divided into "reserve", "in hands of Postal Section of AMGOT", and "delivered to Post Offices, etc". The proceeds received by the

9,857,289.

Total assets and liabilities of 9,857,289,479 lire as shown above compare with totals of 2,164,077,574 lire at the end of August.

28. It is not possible to construct a detailed statement of receipts and disbursements. Monthly reports from Civil Affairs Officers covering August are in the process of being reviewed and summarized in the Chief Accountant's Section. When this has been completed, AMGOT receipts and disbursements will be allocated to proper accounts ("advances", "AMGOT expenditures", etc.) except insofar as they represent cash still held by officers in the field. It is understood that approximately 90 per cent of all expenditures by AMGOT officers in the field constitutes advances. In an effort to expedite the final classification of revenues and expenditures, arrangements have already been made for a substantial reduction in the number of C.A.Os making accounting reports. Accounting has now been centralized in Provincial F.Os. Moreover a plan is being formulated to have all advances made directly by A.M.F.A. On advices from the field. If this plan is adopted, it will result in about 90 per cent of those A.M.F.A. disbursements which are now temporarily shown as "Funds held by AMGOT Officers in the Field", being classified and carried to final accounts as and when made.

29. The increase in liabilities during September was principally due to an increase of 7,600 million lire in new A.M. lire received. The only other changes of importance in A.M.F.A. Liabilities during the month are: (a) Deposits of 30,000,000 lire by banks. This represents deposits by banks in A.M.F.A's No.4 account in the Banco di Sicilia. A.M.F.A. accepts such deposits during the life of the existing Credit Agreements concluded with banks to give them cash reserves to meet deposit withdrawals. These deposits represent temporarily unused drawings against the Agreements on which the banks are paying to A.M.F.A. a rate of interest equalling that paid by A.M.F.A. on the deposits. These deposits may be compared with loans to banks amounting, on 30th September, to 124,470,457 lire. (b) New A.M. stamps received, amounting to 54,290,000. During September the method of showing A.M. stamps on A.M.F.A's balance sheet was changed so as to show the cumulative total of A.M. stamps received as a liability, and to show the same figure as an asset, sub-divided into "reserve", "in hands of Postal Section of AMGOT", and "delivered to Post Offices, etc". The proceeds received by the Sicilian Post Office from the sale of A.M. stamps are retained by it as postal revenue and does not enter A.M.F.A's accounts.

30. AMGOT receipts are not, for reasons explained in paragraph 28, reported at this time.

AMGOT disbursements, major items, are:

(a) Additional transfers to AMGOT Officers in the field amounting to 445,594,723 lire. Of this increase, 232,552,000 lire were paid to AMGOT Officers on the Mainland of Italy.

Declassified E.O. 12356 Section 3.3/NND No. 785015

30 (Contd).

(b) Additional payments on account of purchases in Sicily of supplies for export to the United States, 3,323,800 lire. This represents a further transaction in connection with the export of citric and tartaric acid, as explained in the preceding report.

(c) Additional advances to the State Railways, amounting to 16,902,035 lire, and shown under "Advance to State Institutions".

(d) Loans to banks totaling 124,470,457 lire. These loans represent drawings against the Credit Agreements signed with some 50 banks to enable them to reopen. The balance of A.M.F.A's commitment under these agreements amounts to 1,639,984,543, and is carried as a 100 per-cent reserve in the form of a deposit with the Banco di Sicilia in the various provincial centres - 10 in number.

(e) Payments to the Armed Forces. The disbursements of A.M. lire currency to the Armed Forces during September were as follows:

United States Army....................	Lire	2,290,112,000.
United States Navy.		15,640,000.
British Army..........................		1,135,616,000.
Total Armed Forces.	Lire	3,441,368,000.

31. Currency statement. During the month of September currency movement in the accounts of A.M.F.A. was as follows:

Cash on hand and in bank, including mutilated, Aug. 31	238,105,331.
New A.M. Lire received during September..........	7,608,984,000.
Total available during September.	7,847,089,331.
Cash on hand and in banks, including mutilated, 30 September........................	2,205,005,133.
Total disbursements during September.	5,642,084,198*

*Including deposits in No.2 and 3 Accounts in Banco di Sicilia against commitment under Credit Agreement.

No currency was destroyed during September, but mutilated currency (dollars, BMA pounds, and lire) redeemed and held by A.M.F.A. increased from 1,705 lire at the end of August to 39,605 lire at the end of September.

Holdings of dollars and B.M.A. pounds (other than mutilated) received By A.M.F.A. (or by the Banco di Sicilia for A.M.F.A. account) in exchange for lire increased from $3,192 and £145. 5s. on 31 August represent drawings against the Credit Agreements signed with some 50 banks to enable them to reopen. The balance of A.M.F.A.'s commitment under these agreements amounts to 1,639,964,543, and is carried as a 100 per-cent reserve in the form of a deposit with the Banco di Sicilia in the various provincial centres - 10 in number.

(e) Payments to the Armed Forces. The disbursements of A.M. lire currency to the Armed Forces during September were as follows:

United States Army....................	Lire	2,290,112,000.
United States Navy....................		15,640,000.
British Army..........................		1,135,616,000.
Total Armed Forces.	Lire	3,441,368,000.

31. Currency statement. During the month of September currency movement in the accounts of A.M.F.A. was as follows:

Cash on hand and in bank, including mutilated, Aug. 31	238,105,331.
New A.M. Lire received during September.........	7,608,984,000.
Total available during September.	7,847,089,331.
Cash on hand and in banks, including mutilated, 30 September.....................	2,205,005,133.
Total disbursements during September.	5,642,084,198*

*Including deposits in No.2 and 3 Accounts in Banco di Sicilia against commitment under Credit Agreement.

No currency was destroyed during September, but mutilated currency (dollars, BMA pounds, and lire) redeemed and held by A.M.F.A. increased from 1,705 lire at the end of August to 39,605 lire at the end of September.

Holdings of dollars and B.M.A. pounds (other than mutilated) received by A.M.F.A. (or by the Banco di Sicilia for A.M.F.A. account) in exchange for lire increased from $3,192 and £145. 9s. on 31 August to $79,425 and £1,572 6s. on 30 September.

The total amount of A.M. lire outstanding as of 30 September was 7,575,794,302 lire. This figure is arrived at by deducting from "New A.M. Lire received" the amount of 2,196,389,698 lire. This latter figure is the total lire held by A.M.F.A. in current cash, reserve cash, and in its No.1 accounts in the Banco di Sicilia and Banco di Napoli.

32. The new A.M. Lire received from the War Department during the month of September amounted to 7,608,984,000 lire.

33. In addition to the activities revealed by the above paragraphs A.M.F.A. continued, during September, its planning and policy activities. These were primarily concerned with:

5354

33 (Contd).

(a) Completion of Bank Credit Agreements, and provision of funds to reopen the banks throughout Sicily. During the first 10 days of September much of the attention of A.M.F.A. Officers was given to the completion of the pending Credit Agreements signed with some 50 banks, with the setting up of appropriate facilities in the Banco di Sicilia, and with the physical transport of cash to 10 points in the Island to implement the Agreements.

(b) The further development of a loan policy. A.M.F.A. participated in discussions leading to the drafting of a General Order removing restrictions on bank deposits (other than under the general blocking program). In connection therewith, A.M.F.A. and the Controller of Financial Institutions joined in a letter to all banks having Credit Agreements with A.M.F.A. The letter advises the banks that they may draw freely on the credit lines set up by the Credit Agreement, but warns them that the credit Agreement has only some 60 days to run, and advises resort to the credit facilities offered by A.M.F.A. in those cases where banks need funds for making "productive loans" to their clients. The banks are also advised that any Credit Agreements concluded on the expiration of those now in force are likely to contain new provisions. Finally, the attention of the banks is called to the desirability of confirming all lending operations to "productive" rather than "speculative" purposes.

(c) Receiving and safeguarding new shipments of A.M. Lire from Washington, and estimating future requirements for A.M. Lire. The extension of military operations to the mainland of Italy brought increased responsibilities to A.M.F.A. for the provision of currency in the new areas. A.M.F.A. Officers on several occasions made trips throughout Sicily and to the mainland of Italy to deliver funds, open bank accounts, and review the developing financial situation.

ACCOUNTS.

34. The principal activity of the Accounting Section during the first half of September consisted in visiting Accounting officers in the field. The remainder of the month was largely devoted to examining and sorting out the Reports of Receipts and Disbursements received from C.A.Os, Finance and other Officers. To the end of September about 100 such reports have come in. As was to be expected, a majority of these leave much to be desired and explanations and further details have been requested.

35. Complete storekeeping and accounting instructions have been designed and issued to the Public Health Division for the recording of large quantities of medical supplies coming from America.

36. Accounting directives have been issued during the month covering:

(b) The further development of a loan policy. A.M.F.A. participated in discussions leading to the drafting of a General Order removing restrictions on bank deposits (other than under the general blocking program). In connection therewith, A.M.F.A. and the Controller of Financial Institutions joined in a letter to all banks having Credit Agreements with A.M.F.A. The letter advises the banks that they may draw freely on the credit lines set up by the Credit Agreement, but warns them that the credit Agreement has only some 60 days to run, and advises resort to the credit facilities offered by A.M.F.A. in those cases where banks need funds for making "productive loans" to their clients. The banks are also advised that any Credit Agreements concluded on the expiration of those now in force are likely to contain new provisions. Finally, the attention of the banks is called to the desirability of confirming all lending operations to "productive" rather than "speculative" purposes.

(c) Receiving and safeguarding new shipments of A.M. Lire from Washington, and estimating future requirements for A.M. Lire. The extension of military operations to the mainland of Italy brought increased responsibilties to A.M.F.A. for the provision of currency in the new areas. A.M.F.A. Officers on several occasions made trips throughout Sicily and to the mainland of Italy to deliver funds, open bank accounts, and review the developing financial situation.

ACCOUNTS.

34. The principal activity of the Accounting Section during the first half of September consisted in visiting Accounting officers in the field. The remainder of the month was largely devoted to examining and sorting out the Reports of Receipts and Disbursements received from C.A.Os, Finance and other Officers. To the end of September about 100 such reports have come in. As was to be expected, a majority of these leave much to be desired and explanations and further details have been requested.

35. Complete storekeeping and accounting instructions have been designed and issued to the Public Health Division for the recording of large quantities of medical supplies coming from America.

36. Accounting directives have been issued during the month covering:

(a) Handling and Taking over of Cash Records, Stores, etc.
(b) Payrolls;
(c) Provincial Accounting Organization;
(d) Sale or Issue of Confiscated or Captured Supplies;
(e) Transactions between Armies and AMGOT;
(f) Submission of Reports of Receipts and Disbursements for Region 2.

37. The Section has taken over the handling of A.M.F.A.'s accounts, and has brought its records, in the new books, up to date. The new system is working smoothly.

38. Arrangements have been made for placing on record for future reference the cost of rations, pay and allowances of British and American personnel of AMGOT.

39. Two Accounting officers and two trained non-commissioned officers proceeded to Region 2 late in September, to advise and assist accounting officers in the field. Complete accounting kits have been despatched for the officers in Region 3.

R.B. MENAPACE.
Lieut-Colonel.,
Deputy Chief Finance Officer.

5353

0705