Declassified E.O. 12356 Section 3.3/NND No. 785017

ACC

10000/109/862
(VOL. I)

Declassified E.O. 12356 Section 3.3/NND No. 785017

10000/109/862
(VOL. I)

MONTHLY REPORTS, FINANCE S/C
OCT. 1943 - JUNE 1944

Declassified E.O. 12356 Section 3.3/NND No. 785017

18 JUN 1944

SECRET

HEAD-QUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13071/F

17 June 1944

SUBJECT: Monthly Report of Finance Sub-Commission.

TO : Regional Commissioner
Region I
" II
" III
" IV
" V
" VI
" VII
" VIII
Rome Region
Senior Civil Affairs Officer
AMG Five Army
" Eight "

Regional Finance Officer
Region I
" II
" III
" IV
" V
" VI
" VII
" VIII
Senior Finance Officer
AMG Five Army
" Eight "
Rome Region

RC & MG Section. ✓
Administrative Section
Political Section
All Sub-Commission, HQ ACC

Forwarded herewith for your information (and guidance in the case of RCOs and SFOs) ~~1~~ are 3 ~~copy~~ copies of the monthly operations report for May 1944 of the Finance Sub-Commission, Headquarters, Allied Control Commission.

For Lieut-General MASON MACFARLANE

Colonel,
Joint Director,
Finance Sub-Commission.

2605

Declassified E.O. 12356 Section 3.3/NND No. 785017

501 Fin
19 MAY Rec'd

K.C. - M.G. Section

SECRET

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13071/F

16 May 1944

SUBJECT: Monthly Report of Finance Sub-Commission

TO:

Regional Commissioner
Region I
" II
" III
" IV
" V
" VI
" VII

Regional Finance Officer
Region I
" II
" III
" IV
" V
" VI
" VII

Senior Civil Affairs Officer
AAI Five Army
" Eight "

Senior Finance Officer
AAI Five Army
" Eight "

MG & MG Section
Administrative Section
Political Section
All Sub-Commissions, HQ ACC.

1. Forwarded herewith for your information (and guidance in the case of RFOs and SFOs) is/are 6 copy/copies of the monthly operations report for April 1944 of the Finance Sub-Commission, Headquarters Allied Control Commission.

2. It will be noted that the attached report embodies the Monthly Financial Review of Italy and the Allied Financial Agency monthly report, previously issued as separate documents. This procedure will also be followed in future monthly reports.

For Lieut-General MASON MACFARLANE

Colonel,
Joint Director,
Finance Sub-Commission.

MHLA/FSP

c.c. Get me copy back to go with the Anschluss monthly report.

250 3

5 copies passed to Info Div

Declassified E.O. 12356 Section 3.3/NND No. 785017

Col. A. P. Bratley-Smith (S))Joint Directors, Finance Sub-
Col. E. H. Foley (A)) Commission

Capt. E. T. L. Tiarks)
Capt. Andrew Kamarck, U.S.) Joint Editors
Lt. (jg) P.R. Hicks, USNR)

1. ORGANIZATION

A. Appointment of a New Minister of Finance and Under-Secretary

1. The formation of a new Italian Government, the third Badoglio Cabinet, was announced on 21 April, 1944. Lt. Col. Guido Jung resigned as Minister of Finance and was replaced by Ing. Quinto Quintieri, with Dott. Antonio Pesenti as Under-Secretary, a post that had not been filled under Lt. Col. Jung.

2. Quintieri, about 50 years of age, belongs to a very wealthy family of land owners from Catanzaro, and is regarded as one of the richest men in Southern Italy. He has been president of the Banco di Calabria for many years, living in Naples. The Banco di Calabria was originally a family enterprise, being registered as a corporation in 1910. Quintieri graduated in engineering at the University of Naples, and is generally reputed to have considerable banking and business ability. He speaks English fairly well, having usually spent three or four weeks each year in London before the war.

Quintieri was a member of the Fascist party but was not active. Since July 1943 he has not been identified with any party, but he is regarded as monarchist in sentiment. In the negotiations preceding the formation of the new government, the Six Parties took a firm position that Lt. Col. Guido Jung must go. Marshal Badoglio insisted on picking Lt. Col. Jung's successor. He chose Quintieri, apparently on the recommendation of Lt. Col. Jung and of Signore Mosciaghi, a Jung appointee to the Bank of Naples.

3. Pesenti was born at Trevino in 1910. He graduated at the University of Padua in 1931 and won a fellowship to continue his studies in economics abroad. He studied for three months at the London School of Economics. Pesenti has stated that at that time he had no political convictions except that he was anti-Fascist. He continued his studies in Vienna, where he became a Marxist. On his return to Italy he accepted a post as Professor of Finance at the University of Sassari, in Sardinia. He was arrested and tried in 1935 for subversive activities and was sentenced to 24 years in prison. Pesenti states that during his imprisonment he became a Communist. After his release from prison, in July 1943, he went to Verona, where he was at the time of the armistice. He escaped down the coast to Bari where, for a period of some months, he was employed by AMG. In Bari he resumed the direction of the Communist party and edited its newspaper.

2803

Declassified E.O. 12356 Section 3.3/NND No. 785017

B. Finance Sub-Commission Personnel

During April the Joint Director (B), Col. A. P. Geoffroy-Smith, was in London for discussions with the War Office.

II. PRICES AND THE COST OF LIVING

A. The Price of Wheat

1. Recommendations of the Agriculture Sub-Commission and of the Italian Government

Determination of the price to be paid for 1944 wheat delivered to the Ammasso was given much consideration during the month. The Agriculture Sub-Commission recommended to the Economic Section prices of 1100 lire per quintal for soft wheat and 1200 lire per quintal for hard wheat. Both the Italian Minister of Agriculture and the Italian Minister of Finance recommended prices of approximately 1200 lire per quintal. Both of these recommendations were supported with the contention that prices as high as these were necessary to provide a sufficient inducement to farmers.

2. Recommendations of the Finance Sub-Commission

The recommendations of the Finance Sub-Commission were made in a memorandum addressed to the Executive Officer, Economic Section, a copy of which is included in this report as Appendix A. This memorandum contains a complete statement of our views upon the subject. Briefly, the Finance Sub-Commission recommended:

(a) That the 1944 prices of soft and hard wheat be set at from 950 to 700 lire per quintal with inter-provincial variations within that range to reflect differences in costs of production.

(b) That, in order to make these prices amply cover costs of production, in order to prevent an entirely unnecessary and unjustified windfall to landowners, and in order to be consistent with the policy of the Italian Government and of AMG toward urban landowners, all rents be required to be paid in money with real rents converted into money payments at not more than last year's price of wheat. (This proposal is discussed in detail on pages 9 and 10 of the memorandum.)

(c) That the price of bread be fixed at not over 5 lire per kilo, the difference between the recommended price of wheat together with transportation, milling, baking, and retailing costs and the 5 lire price of bread being met by [redacted] Italian government subsidy.

(d) That the success of the planting programs be secured by the realistic use of compulsion under energetic, enthusiastic, imaginative, and tough-minded administration, but, nevertheless, measures comparable to the following be determined upon and begun:

(1) Fixation by local committees of a farm-by-farm acreage of all crops and of all available vast lots to finely size

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

determination of the price to be paid for 1946 wheat delivered to the Ammasso was given much consideration during the month. The Agriculture Sub-Commission recommended to the Economic Section prices of 1400 lire per quintal for soft wheat and 1200 lire per quintal for hard wheat. Both the Italian Minister of Agriculture and the Italian Minister of Finance recommended prices of approximately 1200 lire per quintal. Both of these recommendations were supported with the contention that prices as high as these were necessary to provide a sufficient inducement to sowing.

2. Recommendations of the Finance Sub-Commission

The recommendations of the Finance Sub-Commission were made in a memorandum addressed to the Executive Officer, Economic Section, a copy of which is included in this report as Appendix A. This memorandum contains a complete statement of our views upon the subject. Briefly, the Finance Sub-Commission recommend:

(a) That the 1946 prices of soft and hard wheat be set at from 550 to 700 lire per quintal with inter-provincial variations within that range to reflect differences in costs of production.

(b) That, in order to make these prices apply over costs of production, in order to prevent an entirely unnecessary and unjustified windfall to landowners, and in order to be consistent with the policy of the Italian Government and of ACC toward urban landowners, all rents be required to be paid in money with rural rents converted into money payments at not more than last year's price of wheat. (This proposal is discussed in detail on pages 9 and 10 of the memorandum.)

(c) That the price of bread be fixed at not over 5 lire per kilo, the difference between the recommended prices of wheat together with transportation, milling, baking, and retailing costs and a 5 lire price of bread being met by an Italian Government subsidy.

(d) That the success of the sowing program be assured by the realistic use of compulsion under energetic, enthusiastic, imaginative, and tough-minded administration. And, accordingly, measures comparable to the following be determined upon and begun:

(i) Tabulation by local committees of a farm-by-farm census of all crops and of all available seed data on fertility size, yields, and sowings.

(ii) A program of comparing week-by-week results of the sowing with the crop census, and a determination to use severe penalties in cases of delinquent or short delivery.

(iii) The collection of grain by the threshers at the time of threshing wherever wheat is threshed by machinery.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

	50	100	150
Naples	300	350	335

(b) The changes in these figures relative to each other result principally from the current seasonal shortage of local supplies of black market bread, a situation that favours (relatively) cities like Naples in which American flour is more readily obtainable through illicit channels, and that handicaps (relatively) cities like Rome that are in the heart of the grain growing area. All available evidence indicates that the price of black market bread is rising rapidly in all the Liberated towns of southern Italy.

III. [illegible]

A. The Italian Government Deficit

1. General

Since 1 July 1943, total gross disbursements made by the Italian Government and its agencies in the area now (excluding Liberated Italy) amount to around 22 billion lire. Only 4 billion of this was offset by cross revenues. The remainder, 24 billion lire, was financed by funds made available by the Banca d'Italia (12 billion lire); advances from the Allied Financial Agency (6 billion lire); funds supplied from Rome prior to our occupation (3 billion lire), funds on special advances (1 billion lire); and an increase in Government still outstanding, Buoni del Tesoro ordinari (1 billion lire).

In short, the excess of Government expenditures over receipts was around 3 billion lire. Almost the whole of this was met by the Banca d'Italia branches. As can be seen from Table II, the ability of the Banca d'Italia to do so came from the very large increase in bankers' deposits plus the repayment of outstanding advances. As we mention in the section on banking, the bankers' deposits arise from the increase in deposits of the public with the banks. As a matter of fact, the movement of funds into the Banca d'Italia was great enough during the month to enable the Bank to meet most of the Government's current deficit, and to increase its currency holdings by some 800 million lire (on the mainland and in Sardinia).

Less than one-tenth of the Government's current deficit for April was covered by the sale of government securities, Buoni del Tesoro, there being a net investment of 230 million in these securities during the month. While the figures for April have not yet been compiled, it is believed that they may have been larger. The creation of the new Government resulted in a strong upward movement in Government bond prices on the unofficial market, one security even going above par.

2. Statistics on the Italian Government deficit

The statistics available are all from the figures of the Government account with the Banca d'Italia. The "deficit", so measured, is the excess of gross disbursements over gross receipts shown in this account. According to the compilation of the reports from the branches of the Banca d'Italia in Liberated Italy, the total excess of Government gross disbursements over gross receipts for this area since 1 July 1943 amounts to 21 billion lire.

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 1.

Italian State Account at Banca d'Italia
1 July 1943 through 31 March 1944
(in millions of lire)

	SALERNO	LECCE	CALABRIA	PUGLIA less FOGGIA	SARDEGNA	SICILIA	TOTAL A.M.G.	CAGLIARI less SALERNO	FOGGIA
"Deficit" in State Account									
Total spesette less presente in account on front del Tesoro ordinari	783	507	2,463	8,971	4,612	1,909	19,250	4,700	333
Total receipts less receipts on account of front del Tesoro ordinari	61	53	177	1,453	365	563	2,673	779	99
Excess of disbursements	724	454	2,286	7,518	4,247	1,346	16,577	3,921	234
Less State "Deficit" met by Credit advanced by Banca d'Italia to State	205	-	912	3,795	1,733	-	6,951	1,602	-
Increase in balances held by State at Banca d'Italia on 1 July 1943	337	185	520	1,204	1,110	-	3,356	995	159
Advances Pres. APA and AMG	-	100	400	850	860	490	2,700	-	-
Lire supplied Pres ROSE	-	200	600	900	-	126	1,826	1,400	-
Net receipts or net payment (-) in front del Tesoro Ordinari account	-6	-50	3	210	85	581	823	-46	-7
Increase or decrease (-) in Contabilita Speciale accounts	192	18	-150	640	458	146	1,304	367	81
Increase in deposits of cash guarantee	-	1	1	9	3	3	17	3	1
TOTAL	724	454	2,286	7,518	4,249	1,346	16,577	3,921	234

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 1.

Italian State Account at Banca d'Italia
1 July 1943 through 31 March 1944
(in millions of lire)

BALESTRO	LUCANIA	CALABRIA	PUGLIA 1.353 PUGLIA	CAMPAGNA	SICILIA	TOTAL A & C	CAMPAGNA Less BALESTRO	PUGLIA	CAMPOBASSO	TOTAL A al G	
788	507	2,463	8,771	4,612	1,909	19,250	4,700	333	364	5,397	24,647
64	53	177	1,453	363	563	2,673	779	99	34	912	3,585
724	454	2,286	7,318	4,249	1,346	16,577	3,921	234	330	4,485	21,062
201	-	912	3,706	1,733	-	6,551	1,602	-	-	1,602	8,153
337	189	520	1,204	1,110	-	3,356	595	159	290	1,044	4,400
-	100	400	850	860	490	2,700	-	-	30	30	2,730
-	200	600	900	-	126	1,826	1,400	-	-	1,400	3,226
-6	-50	3	210	85	581	823	-46	-7	-6	-59	764
192	18	-150	640	450	146	1,304	367	81	14	462	1,766
-	1	1	9	3	5	17	3	1	2	6	23
724	454	2,286	7,318	4,249	1,346	16,577	3,921	234	330	4,485	21,062

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 2.

Italian State account at Banco d'Italia
months of March 1944
(millions of lire)

	SARDEGNA	LUCANIA	CALABRIA	PUGLIA less FOGGIA	SARDEGNA	SICILIA	TOTAL A C C	CALABRIA less SALERNO	PUGLIA	CAMPA
1. "Deficit" in State Account										
Total payments less payments on account of Buoni del Tesoro ordinari.	347	57	235	1,068	360	1,020	3,117	569	76	
Total receipts less receipts on account of Buoni del Tesoro ordinari	11	8	38	229	74	196	556	107	9	
Total excess of disbursements.	336	79	197	839	286	824	2,561	462	65	
2. How State "Deficit" was met.										
Credit of Banco d'Italia to State	129	-	76	971	154	n.d.	n.d.	306	-	
Decrease in balance held by State at Banco d'Italia on 1 July 1943.	-	31	85	-	-	n.d.	n.d.	63	56	
Advances from AFN and AAC	-	25	50	200	188	n.d.	n.d.	-	-	
Funds supplied from ROA	-	-	-	-	-	n.d.	n.d.	72	-	
Net receipts or repayments (-) on Buoni del Tesoro previously issued	9	1	4	68	12	n.d.	n.d.	-4	-1	
Increase or decrease (-) in Consolidated Special	166	22	-18	-246	-98	n.d.	n.d.	25	10	
Increase or decrease (-) in deposits of other Governments	-	-	-	-4	-	n.d.	n.d.	-	-	
TOTAL	336	79	197	839	286	n.d.	n.d.	462	65	

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 2.

Italian State account at Banca d'Italia
month of March 1964
(millions of lire)

SALERNO	LAZIO	CALABRIA	PUGLIA (see BASILICATA)	BASILICATA	SICILIA	TOTAL A C C	CAMPANIA (see SALERNO)	FOGGIA	CATANZARO	TOTAL A.I.T.	GRAND TOTAL (if created ITALY)
547	87	235	1,068	360	1,020	3,117	569	74	61	704	3,821
11	8	36	229	74	196	556	102	9	2	113	674
536	79	197	839	286	824	2,561	462	65	59	586	3,147
129	-	76	971	154	n.d.	n.d.	306	-	-	306	n.d.
-	31	85	-	-	n.d.	n.d.	63	56	89	208	n.d.
-	23	50	200	188	n.d.	n.d.	-	-	-	-	n.d.
-	-	-	-	-	n.d.	n.d.	72	-	-32	40	n.d.
9	1	4	68	12	n.d.	n.d.	-4	-1	2	-3	n.d.
156	22	-18	-396	-68	n.d.	n.d.	25	10	-32	3	n.d.
-	-	-	-4	-	n.d.	n.d.	-	-	32	32	n.d.
336	79	197	839	286	n.d.	n.d.	462	65	59	586	n.d.

2.565

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 2. (Contd.)

	Burundi	Rwanda	Congo (Kin)	Congo (Brz) Pygmies	Uganda	Zaire	Tanzania	Congo (Brz) Bantu	Zaire Pygmies
3. Net flows of family planning advice to state									
Increase or decrease (-) in voluntary control in relation	165	10	-90	30%	5	n.d.	n.d.	-536	20
Increase or decrease (-) in capacity	51	-11		431	150	n.d.	n.d.	739	7
Net replacement of advice	2	1	-	17	2	n.d.	n.d.	20%	12
Other explanations	11	20		536	79	n.d.	n.d.	133	-
Reversion of funds				56		n.d.	n.d.		
Total family planning	247	21	n.d.	1,124	252	n.d.	n.d.	936	47
Less funds provided to the State	129	31	n.d.	971	154	n.d.	n.d.	569	56
Net increase or decrease in family planning during the year	116	-10	-135	153	98	n.d.	n.d.	341	-9

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE 2. (Cont'd.)

BALERNO	TRIESTE	CAGLIARI	PISA, Isola POGLIA	GENOVA	SICILIA	TOTAL A.O.C.	CAGLIARI 1943 BALERNO	POGLIA	GIBRALTAR	TOTAL A.O.C.	DIRECT TOTAL ILLEGIBLE ITALY
183	10	-30	304	3	n.d.	n.d.	-336	26	n.d.	n.d.	n.d.
51	-11		431	158	n.d.	n.d.	759	7	n.d.	n.d.	n.d.
2	2	-	17	2	n.d.	n.d.	283	12	n.d.	n.d.	n.d.
11	20		356	79	n.d.	n.d.	233	-	n.d.	n.d.	n.d.
			36		n.d.	n.d.			n.d.	n.d.	n.d.
247	21	n.d.	1,124	242	n.d.	n.d.	920	47	n.d.	n.d.	n.d.
129	31	n.d.	971	154	n.d.	n.d.	369	58	n.d.	n.d.	n.d.
118	-10	-135	153	38	n.d.	n.d.	551	-9	n.d.	n.d.	n.d.

2769

(b) Repayment of 15 December 1943 bond maturity. In Table IV is shown the first complete tabulation for liberated Italy of the repayment through 31 March 1944 of the 15 December 1943, 4 per cent nine-year bond maturity. A total of 73.6 million lire had been paid, probably accounting for about one-quarter of the total amount of the issue which was outstanding in liberated Italy.

TABLE IV

Payment of 4 per cent Nine-year Bonds matured 15 December 1943

(in millions of lire)

	Total paid up to 31 March 1944	Total issued	per cent paid to issued
Bocanio	2.4	n.a.	n.a.
Calabria	2.9	17.0	17
Puglia (less Foggia)	6.9	n.a.	n.a.
Salerno	1.2	6.7	19
Sardegna	2.7	n.a.	n.a.
Sicilia	18.4	est 54.0	35
Total MMO	34.6	n.a.	n.a.
Campania (less Salerno)	30.5	136.5	22
Cerra Bruzzo	1.1	n.a.	n.a.
Foggia	1.1	n.a.	n.a.
Total AMG	37.6	n.a.	n.a.
Grand Total Liberated Italy	72.6	est 320.0	est 23-30
Total all Italy	n.a.	5,000.0	n.a.

(c) Prices of Government securities. The reports on the unofficial Government bond market show that a marked improvement in prices has taken place. The upward trend of prices quickly received a sharp impetus from the formation of the new Government incorporating the six parties. One security, the 3½ per cent Redo of 1906 is overselling above par. In explanation of the rise in this security it is usually said that there is a sort of "gold clause" in the bond which purchasers hope eventually to enforce, and that the Redo was issued prior to Fascism and, therefore, may be less subject to repudiation.

TABLE V

Prices of Government Securities
(In official market, lires a hundred)

	30 Dec 43	31 Jan 44	15 Feb 44	17 Mar 44	25 Apr 1944

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785C17

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

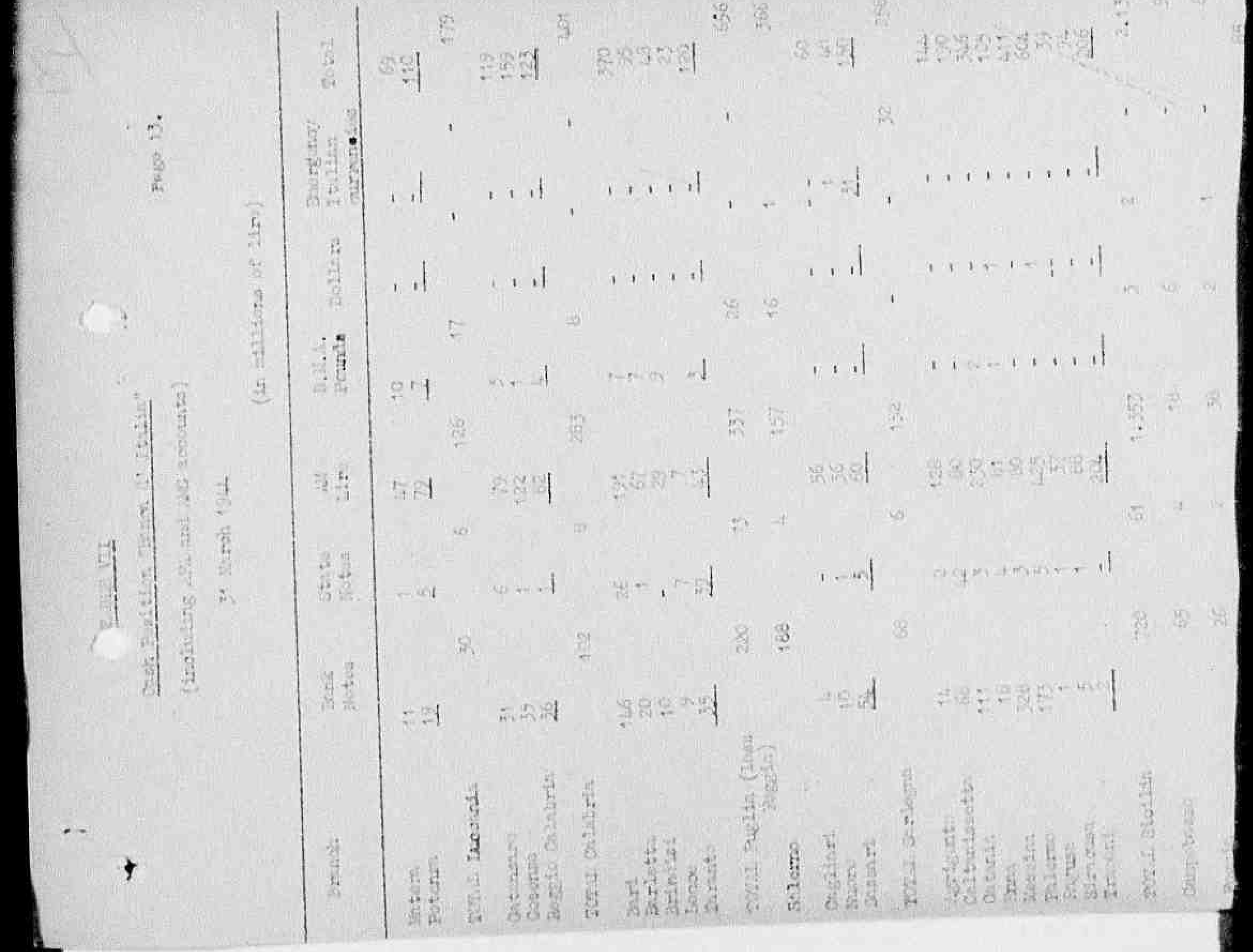
Declassified E.O. 12356 Section 3.3/NND No. 785017

PLATE VIII

Data from "Statistics relative to Cholera"

(Statistics relative to the Cholera epidemic of March 1854 in London)

(In millions of lbs.)



Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785C17

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE VIII

Total Revenue Receipts

(Cases Inside, Last Case X)

(millions of lire)

	1943			1944									1945					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Central Administration	2	2	11	7	2	7	4	14	7	7	11	9	5	6	5	4	5	6
	2	2	11	7	2	7	4	14	7	7	11	9	5	6	5	4	5	6
Customs	1	1	2	1	1	1	1	2	1	1	2	1	1	1	1	1	1	1
Excise	11	12	35	23	14	30	15	37	20	19	35	30	17	22	17	15	16	18
Tobacco	2	2	6	4	2	6	3	7	4	4	6	5	3	4	3	3	3	4
Salt	1	1	3	2	1	3	2	4	2	2	3	3	2	2	2	2	2	2
Lotto	1	1	3	2	1	3	2	4	2	2	3	3	2	2	2	2	2	2
Total	18	18	60	39	21	50	27	67	36	35	60	51	30	37	30	26	29	33
Special I Applic. Circulation	74																	
Cassia Tax	2	2	11	7	2	7	4	14	7	7	11	9	5	6	5	4	5	6
Meters	37	37	112	74	37	93	56	130	74	74	112	93	56	74	56	56	56	74
Patents	12	12	37	25	12	30	18	43	25	25	37	31	18	25	18	18	18	25
Total	125	129	360	245	123	300	178	414	242	241	360	304	179	242	179	178	180	238
Special II Registry	74																	
Publications	7	8	21	14	7	18	10	24	13	13	20	17	10	13	10	10	10	13
Excess Profits	81	88	240	163	82	200	118	276	161	161	240	203	119	161	119	118	120	159
Total	88	96	261	177	89	218	128	300	174	174	260	220	129	174	129	128	130	172
Special III Monopolies	3	3	9	6	3	8	4	10	6	6	9	7	4	6	4	4	4	6
Petroleum	145	165	439	293	146	359	213	495	290	289	431	365	215	290	215	213	216	286
Alcohol	9	9	31	21	10	25	15	35	20	20	30	25	15	20	15	15	15	20
Total	157	177	479	320	159	392	232	540	316	315	470	397	234	316	234	232	235	312
Special IV Sugar	2	2	6	4	2	5	3	7	4	4	6	5	3	4	3	3	3	4
Matches	19	21	58	38	19	47	28	65	38	38	57	48	28	38	28	28	28	38
Total	21	23	64	42	21	52	31	72	42	42	63	53	31	42	31	31	31	42
Special V Alcohol	2	2	6	4	2	5	3	7	4	4	6	5	3	4	3	3	3	4
Beverages	2	2	6	4	2	5	3	7	4	4	6	5	3	4	3	3	3	4
Total	4	4	12	8	4	10	6	14	8	8	12	10	6	8	6	6	6	8
Special VI Electric Energy	27	31	82	55	27	68	39	92	55	55	82	68	39	55	39	39	39	55
Gas	3	3	9	6	3	8	4	10	6	6	9	7	4	6	4	4	4	6
Total	30	34	91	61	30	76	43	102	61	61	91	75	43	61	43	43	43	61
Special VII Insurance	51	63	168	112	56	140	80	189	112	112	168	140	80	112	80	80	80	112
Stamps	5	5	14	9	5	12	7	16	9	9	14	12	7	9	7	7	7	9
Total	56	68	182	121	61	152	87	205	121	121	182	152	87	121	87	87	87	121
Special VIII Passports	1	1	3	2	1	2	1	3	2	2	3	2	1	2	1	1	1	2
Various	1	1	3	2	1	2	1	3	2	2	3	2	1	2	1	1	1	2
Total	2	2	6	4	2	4	2	6	4	4	6	4	2	4	2	2	2	4
Special IX Lotto	31	30	97	67	33	80	46	109	64	64	97	80	46	64	46	46	46	64
Total	31	30	97	67	33	80	46	109	64	64	97	80	46	64	46	46	46	64

	1945												1946					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Central Administration	4	4	13	8	6	63	5	5	15	8	6	63	5	5	15	8	6	63
	4	4	13	8	6	63	5	5	15	8	6	63	5	5	15	8	6	63
Customs	1	1	2	1	1	1	1	1	2	1	1	1	1	1	2	1	1	1
Excise	15	15	57	30	23	145	12	17	22	15	13	145	12	17	22	15	13	145
Tobacco	3	3	11	6	4	29	2	3	4	3	3	29	2	3	4	3	3	29
Salt	2	2	7	4	3	18	2	2	3	2	2	18	2	2	3	2	2	18
Lotto	2	2	7	4	3	18	2	2	3	2	2	18	2	2	3	2	2	18
Total	37	37	130	73	54	355	24	30	64	31	27	317	22	30	62	31	27	317
Special I Applic. Circulation																		
Cassia Tax	4	4	13	8	6	63	5	5	15	8	6	63	5	5	15	8	6	63
Meters	74	74	260	147	112	724	93	112	260	130	112	724	93	112	260	130	112	724
Patents	25	25	87	49	37	241	31	37	87	43	37	241	31	37	87	43	37	241
Total	178	178	620	352	268	1,724	222	268	620	309	268	1,724	222	268	620	309	268	1,724
Special II Registry																		
Publications	10	10	35	20	15	97	12	15	35	17	15	97	12	15	35	17	15	97
Excess Profits	118	118	413	234	178	1,149	148	178	413	206	178	1,149	148	178	413	206	178	1,149
Total	128	128	448	254	193	1,246	160	193	448	223	193	1,246	160	193	448	223	193	1,246
Special III Monopolies	4	4	15	8	6	42	5	6	15	7	6	42	5	6	15	7	6	42
Petroleum	213	213	744	422	321	2,070	267	321	744	371	321	2,070	267	321	744	371	321	2,070
Alcohol	15	15	52	30	22	145	18	22	52	26	22	145	18	22	52	26	22	145
Total	232	232	811	460	349	2,257	290	349	811	404	349	2,257	290	349	811	404	349	2,257
Special IV Sugar	3	3	11	6	4	29	3	4	11	5	4	29	3	4	11	5	4	29
Matches	28	28	97	55	42	270	34	42	97	48	42	270	34	42	97	48	42	270
Total	31	31	108	61	46	299	37	46	108	53	46	299	37	46	108	53	46	299
Special V Alcohol	3	3	11	6	4	29	3	4	11	5	4	29	3	4	11	5	4	29
Beverages	3	3	11	6	4	29	3	4	11	5	4	29	3	4	11	5	4	29
Total	6	6	22	12	8	58	6	8	22	10	8	58	6	8	22	10	8	58
Special VI Electric Energy	39	39	134	77	58	376	49	58	134	68	58	376	49	58	134	68	58	376
Gas	4	4	15	8	6	42	5	6	15	7	6	42	5	6	15	7	6	42
Total	43	43	149	85	64	418	54	64	149	75	64	418	54	64	149	75	64	418
Special VII Insurance	80	80	280	161	120	772	100	120	280	140	120	772	100	120	280	140	120	772
Stamps	7	7	24	14	10	67	8	10	24	12	10	67	8	10	24	12	10	67
Total	87	87	304	175	130	839	108	130	304	152	130	839	108	130	304	152	130	839
Special VIII Passports	1	1	4	2	2	11	1	2	4	2	2	11	1	2	4	2	2	11
Various	1	1	4	2	2	11	1	2	4	2	2	11	1	2	4	2	2	11
Total	2	2	8	4	4	22	2	4	8	4	4	22	2	4	8	4	4	22
Special IX Lotto	46	46	161	92	69	432	57	69	161	80	69	432	57	69	161	80	69	432
Total	46	46	161	92	69	432	57	69	161	80	69	432	57	69	161	80	69	432

Declassified E.O. 12356 Section 3.3/NND No. 785017

| | | |

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE X

Cash Disbursements for Liberated Italy (Naples Province excluded)

March 1944

(in millions of lire)

AGENCY	Sicilia	Puglie	Lucania	Calabria *	Campobasso	Puglie Servi
Finance	114.7	74.0	6.5	31.3	10.0	5.2
Justice	14.6	7.0	.6	4.7	.3	.3
Foreign Affairs	.	1.1		.3		
Italian Africa	.2	2.0		1.0		
Education	46.1	56.7	.6	21.0	.3	.4
Interior	243.3	213.4	.3	57.8	.3	.2
Public Works	18.6	11.0	.4	18.4	.	2.3
Communications	47.1	115.4		54.5		
War	21.0	1061.4	.	.7	.2	.
Navy	1.1	196.0	.	.2	.	.
Air Force	.	189.0	.	.	.	.
Agriculture	23.1	7.3	.1	1.5	.	.
Industry and Commerce	.8	.7	.	1.2	.	
Popular Culture		1.9				
Total Budget Disbursements	530.9	2836.5	8.5	192.6	11.1	8.4
Disbursements outside Budget	369.0	149.5	9.6	13.1	13.0	4.6
Autonomous Administration (Monopolies, post offices, state roads, etc.)	43.6	495.7	29.3	272.6	1.2	20.8
Total	943.5	3481.7	47.4	478.3	25.3	33.8
Payments in suspense and movement of funds	198.1	-2262.2	49.5	-46.3	48.5	57.6
Total General Payments	1141.6	1219.5	96.9	432.0	73.8	91.4
Special Accounts	565.6	1516.0	29.2	72.9	54.3	32.0
Temporary Cash Deposits (repayments)	27.3	2.0		.1		
Total	1734.5	2737.5	126.1	505.0	128.2	123.4

* Cosenza, Reggio excluded.

. Figure less than 100,000 lire.

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE X

Cash Disbursements for Liberated Italy (Naples Province excluded)

March 1944

(In millions of lire)

TEY	Sicilia	Puglie	Lucania	Calabria *	Campobasso	Foggia	Sardegna	Calabria	TOTAL
	114.7	74.0	6.5	31.3	10.0	5.2	20.8	13.5	276.0
	14.6	7.0	.6	4.7	.3	.3	5.1	2.2	34.8
	.	1.1		.3				.	1.4
	.2	2.0		1.0			.	1.0	4.2
	46.1	56.7	.6	21.0	.3	.4	12.2	1.6	138.9
	243.3	213.4	.3	57.8	.3	.2	2.7	1.0	512.0
	18.6	11.0	.4	18.4	.	2.3	4.1	.3	55.7
	47.1	115.4		54.5			1.0	.4	218.4
	21.0	1951.4	.	.7	.2	.	202.9	.4	2185.7
	1.1	196.0	.	.2	.	.	26.6	.	223.9
	.	189.0	.	.	.	.	.	.	189.0
	25.4	7.3	.1	1.5	.	.	2.4	.3	35.0
	.8	.7	.	1.2	.		.2	.	2.9
		1.5							1.5
	539.9	2836.5	8.5	192.6	11.1	8.4	277.7	20.7	3884.4
	309.0	119.5	9.6	13.1	13.0	4.6	5.1	12.3	503.2
	43.6	185.7	29.3	272.6	1.2	20.8	79.7	80.5	1023.4
	943.5	3141.7	47.4	478.3	25.3	33.8	362.5	120.5	5493.0
	190.1	-2262.2	49.5	-46.3	44.5	57.6	2.6	134.2	-1831.0
	1171.6	1219.5	96.9	432.8	73.8	91.4	365.1	254.7	3675.2
	595.6	1516.0	29.2	78.9	32.6	32.0	434.1	75.0	2775.3
	27.3	2.0		.1			.1	80.1	109.6
	1734.5	2737.5	126.1	509.8	130.3	123.4	799.3	407.8	6559.9

* Figure less than 100,000 lire.

Naples excluded.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785C17

of funds from the public into the banks. The banks have become so liquid that they not only have reduced the amount of money they owe to the central bank but have likewise deposited large sums. As the table on current liabilities of the Banca d'Italia shows, bankers' deposits at the Banca d'Italia increased by over 2 billion lire during the month. At the end of March, the amount of funds which banks could draw upon at the Banca d'Italia totalled over 11 billion lire.

3. There are two principal ways in which central bank credit is extended in Italy:

(a) rediscount of eligible paper, Buoni del Tesoro, and coupons, of four months' maturity or less; and

(b) advances secured by Government securities or merchandise.

The practice of banks appears to be to hold relatively permanently at the Banca d'Italia, a fixed amount of Government securities and to have a line of credit in the form of a current account agreed upon based on the security of these Government bonds. Interest of 4½ per cent per annum is paid on the amount of this credit that is actually used. The difference between the amount of Banca d'Italia credit used (the debit to the account) and the maximum of the credit available thus represents a kind of reserve for the commercial banks. Rediscounting is available only to banks, but individuals and firms may obtain advances from the Banca d'Italia. This accounts for the category in the tables on central bank credit "Residual available on advances to others".

C. Commercial Banking

1. From the compilation of the balance sheets of the principal banks in Naples, Bari and Cagliari, it is clear that the banks in liberated Italy are doing little more than collecting funds from the public and passing them on to the Banca d'Italia (where the funds are used to meet the government deficit). Loans and investments, except for a certain amount of financing of agricultural commercial, are stagnant. There has been very little buying of Government securities in the period from September 1943 through February 1944. Some purchases of Buoni del Tesoro ordinari by some of the banks, the Banco di Roma in particular, were reported under the "Portafoglio" classification and largely account for the increase shown in this item. The Banco di Napoli since February has made large purchases of Buoni del Tesoro ordinari which are not included in the period for which statistics are available.

2. Since September there has been a continual flow of money into the banks from the public. More than half of the increase is in the business and commercial deposits (current account deposits and current accounts of correspondents) and the remainder in time and savings deposits. However, a part of the explanation may be due to the desire to hold funds in a more liquid form than savings and time deposits. The cash reserves held by the banks are small, and the bulk of the available money coming in is re-deposited at the Banca d'Italia. Bankers' deposits of the principal banks of Naples at the Banca d'Italia increased from under 500-million in September to around 2 billion at the end of February 1944.

3. By far the most important bank in Southern Italy is the Banco di Napoli. Over half of the total banking assets reported in Naples and Bari belong to the branches of this bank.

4. Table XV presents the statistics of the balance sheets of the branches of the principal banks in Naples, Bari, and Cagliari. As this is the first time such

Declassified E.O. 12356 Section 3.3/NND 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

D. Currency in Circulation in Sardinia

According to a study made by the Regional Finance Officer in Sardinia, there has been an increase of 30 to 35 per cent in the currency in circulation in Sardinia in the last six months. This is a rate of increase somewhat below the average rate of increase of currency in circulation which took place under the former Mussolini government during the war. The statistics for Sardinia follow:

TABLE XVI

Currency in circulation in Sardinia
1 October 1943 - 31 March 1944

(millions of lire)

Currency supplied by AFHQ:		
To Italian Treasury and Carabinieri - (translated coin mines)	205	
To Allied Finance officers and paymasters, less holdings on 31 March	390	
Increase of Vaglia and cheques put into circulation by Sardinian banks	261	
Total		1,366
Less: Increase in cash reserves held by banks	330	
Estimate of increase in Italian Paymaster holdings and other official accounts and for cancelled notes withdrawn	36	
	366	
Net increase in circulation		1,000

Estimate of currency in circulation, October 1943 3,000 - 3,500
Estimate of currency in circulation, 31 March 1944 4,000 - 4,500
Percent increase in currency in circulation in six months 30 - 35.

E. Postal Savings

1. The known late statistics available on postal savings offices demonstrate that a shift from less liquid to more liquid assets is going on. The amount of highly spendable assets held by civilians is constantly increasing. The figures available (see Tables XVII and XVIII) on 21 provinces out of 26 for February and for 17 provinces out of 19 for March show that there was a continued net drain of funds out of postal savings banks (varied by offices) for each month, which was only partially offset by an increase in postal savings deposits (by conservatively 20 million lire each month). However, the increase in current accounts was large enough to result in a net increase in money held at the post offices in both months.

2. There appear to be two factors responsible for the outflow of funds in postal savings banks. One is that this is the preferred form in which savings of the poor are absorbed in Italy. At the present time, due to the high cost of living, some

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XI

BANCA D'ITALIA CREDIT
31 DECEMBER 1942

CENTRAL BANK CREDIT (in millions of lire)

	PALERMO	PUGLIE	CALABRIA	PUGLIE less FOGGIA	SARDEGNA	SICILIA	TOTAL KING'S ITALY	CALABRIA less PALERMO
Rediscounts (Portafoglio su piazze Italiane)	27	n.d.	85	291	51	108	462	330
Advances (Anticipazioni)	28	n.d.	84	236	29	330	707	805
T O T A L	55	n.d.	169	527	80	438	1,169	555

CENTRAL BANK CREDIT — 31 DECEMBER 1943

Rediscounts (Portafoglio su piazze Italiane)	12	n.d.	91	116	23	15	259	78
Advances (Anticipazioni)	52	n.d.	112	263	28	195	650	786
T O T A L	64	n.d.	203	381	51	210	909	864

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XI

BANCA D'ITALIA CREDIT
31 DECEMBER 1942

(In millions of lire)

	PALERMO	MESSINA	CATANIA	PUGLIE Less PUGGLA	SARDEGNA	SICILY	TOTAL KING'S ITALY	C. PUGL. less PUGGLA SALERNO	PUGGLA	CAMPANIA	TOTAL	GRAND TOTAL Liberated Italy
Foggia	27	n.d.	85	291	51	109	482	330	n.d.	54	384	866
(cont.)	28	n.d.	84	236	29	330	707	225	n.d.	19	244	951
	55	n.d.	169	527	80	438	1,169	555	n.d.	73	628	1,797
					31 DECEMBER 1943							
Foggia	12	n.d.	91	148	23	15	289	78	233	34	345	634
(cont.)	52	n.d.	112	253	28	295	690	786	77	12	875	1,565
	64	n.d.	203	381	51	210	909	864	310	46	1,220	2,129

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XII

BANCA D'ITALIA CREDIT
29 FEBRUARY 1944

(In millions of lire)

CENTRAL BANK CREDIT USED

	SARDEGNA	UMBRIA	CALABRIA	PUGLIE Less FOGGIA	BASILICATA	SICILIA	TOTAL KING'S ITALY	CAMP... (Incl... SALE...
Rediscounts	9	12	55	56	20	49	201	61
Advances	35	9	75	251	22	163	555	493
TOTAL	44	21	130	307	42	212	756	554

CENTRAL BANK CREDIT AVAILABLE

Rediscounts available on advances to Banks	40	21	134	389	4	1,444	2,032	469
Rediscounts available on advances to others	42	14	40	139	33	109	383	133
TOTAL	82	35	174	528	37	1,553	2,415	598

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XII

BANCA D'ITALIA CREDIT
29 FEBRUARY 1944

(In millions of Lire)

	CALABRIA	LUCANIA	CALABRIA	PUGLIE less FOGGIA	SARDEGNA	SICILIA	TOTAL KESS'S ITALY	CAMPAGNA less SALERNO	FOGGIA	CAGLIARI METRO A M G	TOTAL	GRAND TOTAL Liberated Italy
USED	9	12	55	56	20	49	201	61	198	13	272	473
	35	9	75	251	22	163	555	293	58	11	362	917
	44	21	130	307	42	212	756	354	256	24	634	1,390
AVAILABLE												
on	40	21	134	359	4	1,464	2,032	465	50	16	483	2,515
on	48	14	40	139	33	109	383	133	16	18	311	494
	88	35	174	498	37	1,573	2,415	598	66	34	594	3,009

Declassified E.O. 12356 Section 3.3/NND No. 785017

Page 25.

TABLE XIII

BANCA D'ITALIA CREDIT

31 MARCH 1944

(In millions of Lire)

	SALERNO	LUCANIA	CALABRIA	PUGLIE Less FOGGIA	SARDEGNA	SICILIA	TOTAL KING'S ITALY	CAMPANIA Less SALERNO	FOGGIA	CAMP
CENTRAL BANK CREDIT USED										
Bonds outside	9	12	(Fed) 55	62	7	61	212	33	196	
Advances	34	8	(Fed) 75	213	23	206	557	181	47	
T O T A L	43	20	(Fed) 130	275	30	271	769	214	243	
CENTRAL BANK CREDIT AVAILABLE										
Residual available on advances to banks	41	22		146	450	124	1,443	2,205	751	61
Residual available on advances to others	49	14		41	143	33	110	390	116	17
T O T A L	90	36		187	600	157	1,523	2,595	867	78

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XIII

BANCA D'ITALIA CREDIT

31 MARCH 1944

(in millions of Lire)

2763

LIGURIA	CALABRIA	PUGLIE Less PUGLIA	SARDEGNA	SICILIA	TOTAL KING'S ITALY	CAMPANIA Less SALERNO	PUGLIA	CAMPOBASSO	TOTAL A M G	G R A N D T O T A L Liberated Italy
ALLIED										
12	(Pro) 55	62	7	67	212	33	198	13	244	456
8	(Pob) 75	213	23	204	557	181	47	11	239	796
20	(Pob)130	275	30	271	769	214	245	24	483	1,252
AXIS										
22	146	459	124	1,413	2,265	751	61	16	828	3,093
14	41	143	33	110	390	116	17	20	153	543
36	187	602	157	1,523	2,655	867	78	36	981	3,636

TABLE XIV

Current Liabilities of the Banca d'Italia
29 February and 31 March 1944
(in millions of lire)

By Regions	29 February	31 March	By Type	29 February	31 March
Salerno	246	299	Due to banks -		
Lucania	236	226	Current Accounts		
Calabria	656	532	Non-interest bearing	229	1
Puglia (less Foggia)	2,111	2,364	Interest bearing	3,856	3,020
Sardinia	996	1,155	Residual available on advances	2,647	2,991
Sicily	2,927	3,426	Total	6,732	11,012
Total King's Italy	7,174	8,222	Due to others -		
Campania (less Salerno)	2,566	4,202	Current Accounts		
Foggia	89	148	Non-interest bearing	754	967
Campobasso	69	128	Interest bearing	210	288
Total A.G	3,825	4,468	Residual available on advances	502	493
			Total	1,466	1,678
Grand total	10,198	12,690	Grand total	10,198	12,690

Declassified E.O. 12356 Section 3.3/NND 785017

of the poor have found it necessary to call on their post savings. Secondly, new savings of other people are not invested in postal savings bonds because no new bonds are available. That is, the inflationary potential in Italy is being increased because of the situation that savings cannot be converted into relatively non-liquid assets simply because no bonds are available for sale. Personal certificates have been made available to the post offices but these are not accepted readily by the public. The attempt to secure the printing of new postal savings bonds has now lasted six months. Finally by the middle of April enough progress had been made so that proofs were being printed. At this point, the Posts and Tele-communications Sub-Commission reports that the psychological Warfare Board stopped the work of the printer. An appeal was made to higher authority and after some delay work was resumed.

F. Sales of Real Estate

1. The statistics on real estate purchases and sales collected by the Italian Government, while still very inadequate, appear to show that there has been no increase in real estate transfers. The information we have been given is to the effect that, while the demand for real estate is very great, the present holders on the whole are not willing to sell at any price. The average value of the real estate changing hands seems to have risen by around 30 to 40 per cent from the autumn of 1942 to the first part of 1943 and then rose sharply again in southern Italy in the summer of 1943 but fell back to the early 1945 levels after our occupation of southern Italy.

2. The statistics available are given in Table XIX. All real estate transfers have to be registered to have legal validity and the table shows the reports of the Bari and Palermo offices. No reports have been received from the Naples, Naples, and Sardinian offices. The Italian Minister of Finance has been requested to provide current data from all five offices in liberated Italy.

G. Miscellaneous Financing Arrangements

1. Discussions were held with the Director of Property Control and the Minister of Finance covering financing of the operations of the Director of Property Control and the use of Italian facilities. The Minister of Finance agreed that the Italian Government would provide funds to pay for normal repairs and taxes for property of United Nations and French nationals. He also agreed to provide funds to pay for repairs, essential to avoid further deterioration or damage caused by the war. Ultimate financial responsibility for these sums to await the final settlement. It was agreed that German assets and accounts, blocked by AMG, would remain blocked. The Minister further agreed to notify all Intendenze and Questure that the War Act of 1938 would be so construed that any transfer of title to property of United Nations or French nationals would be null and void.

2. A conference was held with a representative of the Commando Section and the Minister of Finance concerning the provision of motor transport for food supplies in Potenza and Matera districts. It was arranged that the trucks should be operated by a local Italian corporation and the Italian government agreed to provide all the necessary financing and checking through the local Intendenze.

3. The Minister of Finance agreed that the financing of labour costs and supplies purchased by Peninsular Base Section for construction of a power line from Naples to Anzio will be financed through a credit in the budget of the State railways. Actual issuance of payment orders and maintenance of accounting controls will be

Declassified E.O. 12356 Section 3.3/NND NO. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE XV

Situation of Principal Banks
(in millions of lire)

	30 Sept 1943	31 Dec 1943	31 Jan 1944	29 Feb 1944
A. Naples				
Assets				
Cash	172	287	331	421
Deposits with other banks	263	919	1,574	2,039
Discounts (Portafoglio)	403	380	459	596
Secured Advances	360	360	364	363
Over-drafts	1,621	1,631	1,667	1,664
Special loans on securities (Riporti)	224	215	210	209
Other loans (Mutui)	352	354	354	356
Investments	93	175	185	189
Other assets	10,181	10,081	9,827	10,347
Total	13,668	14,414	14,981	16,189
Liabilities				
Current Account deposits	448	595	704	778
Savings and Time deposits	1,640	1,939	2,027	2,323
Current accounts of correspondence	1,370	1,557	1,803	2,040
Bank Drafts	6	37	72	77
Other liabilities	10,204	10,286	10,378	10,971
Total	13,668	14,414	14,981	16,109
B. Bari				
Assets				
Cash	74	53	67	58
Deposits with other banks	75	274	331	391
Portafoglio (discounts)	147	221	266	268
Secured Advances	77	81	80	77
Over-drafts	83	84	89	92
Special loans on securities (Riporti)	3	3	3	3
Other loans (Mutui)	66	68	68	68
Investments	64	64	65	89
Other assets	1,796	1,752	1,950	2,330
Total	2,385	2,600	2,921	3,396
Liabilities				
Current Account deposits	55	63	75	84
Savings and time deposits	572	776	887	962
Current accounts of correspondence	304	469	497	521
Bank Drafts	13	47	57	52
Other liabilities	1,361	1,245	1,435	1,777
Total	2,385	2,600	2,921	3,396
C. Cagliari				
Assets				
Cash	32	71	96	62
Deposits with other banks	95	165	175	174
Discounts (Portafoglio)	42	38	49	51

Declassified E.O. 12356 Section 3.3/NND No. 785017

Drafts	308	360	364	363
Special loans on securities (Riporti)	1,621	1,631	1,647	1,664
Other loans (Mutui)	224	215	210	209
Investments	352	354	354	356
Other assets	93	175	185	189
Total	10,161	10,691	9,837	10,547
	13,668	14,414	14,981	16,189

Liabilities

Current Account deposits	648	595	701	776
Savings and Time deposits	1,640	1,939	2,027	2,323
Current accounts of correspondence	1,370	1,587	1,883	2,060
Bank Drafts	6	37	72	77
Other liabilities	10,204	10,256	10,378	10,671
Total	13,668	14,414	14,981	16,189

B. Bari

Assets

Cash	74	53	67	58
Deposits with other banks	75	274	333	391
Portafoglio (discounts)	147	221	266	258
Secured Advances	77	81	80	77
Over-drafts	83	84	89	92
Special loans on securities (Riporti)	3	3	3	3
Other loans (Mutui)	66	68	68	68
Investments	64	64	65	89
Other assets	1,796	1,752	1,950	2,330
Total	2,325	2,600	2,921	3,396

Liabilities

Current Account deposits	55	63	75	84
Savings and time deposits	572	776	857	962
Current accounts of correspondence	324	469	497	521
Bank Drafts	13	47	57	52
Other liabilities	1,361	1,245	1,435	1,777
Total	2,325	2,600	2,921	3,396

C. Cagliari

Assets

Cash	32	71	96	62
Deposits with other banks	95	165	175	174
Discounts (Portafoglio)	42	38	40	41
Secured Advances	41	39	37	37
Over-drafts	38	31	240	346
Special loans on securities (Riporti)	-	-	-	-
Mutui (other loans)	5	5	5	5
Investments	1	6	6	6
Other assets	894	970	919	982
Total	1,148	1,325	1,518	1,653

Liabilities

Current Account deposits	55	69	38	42
Savings and time deposits	205	237	292	319
Current accounts of correspondence	262	371	406	466
Bank Drafts	3	32	40	19
Other liabilities	623	616	740	807
Total	1,148	1,325	1,518	1,653

Declassified E.O. 12356 Section 3.3/NND NO. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

T A B L E XVII

Postal Savings
February 1944

(in thousands of lire)

	Postal Saving Bonds	Postal Saving Books	Current Accounts.	Total
Salerno	-606	637	-674	-643
Potenza	-6,737	2,316	578	-3,903
Bari	-3,680	7,531	112,788	116,639
Matera	-1,470	588	n.d.	- 882
Taranto	-2,083	2,410	1,398	1,325
Brindisi	-1,495	1,574	16,156	16,035
Lecce	-2,386	3,768	13,197	14,579
Potenza	-5,910	868	n.d.	-5,042
Cosenza	-6,941	1,562	n.d.	-5,379
Catanzaro	-10,047	232	n.d.	-9,815
Reggio Di Calabria	-14,496	1,021	-290	-13,765
Palermo	-	n.d.	847	847
Messina	-	-844	5,685	4,841
Siracusa & Ragusa	-	-9,491	4,227	-5,264
Agrigento	-	79	6,548	6,627
Sassari	429	2,490	n.d.	2,919
Nuoro	-195	1,500	n.d.	1,305
Cagliari	850	7,006	24,126	31,982

	Postal Saving Bonds	Postal Saving Books	Current Accounts.	Total
Salerno	-606	637	-674	-643
Potenza	-6,797	2,816	578	-3,963
Bari	-3,680	7,531	112,788	116,639
Matera	-1,470	588	n.d.	- 882
Brindisi	-2,983	2,011	1,398	1,326
Reggio di Calabria	-1,495	1,374	16,156	16,035
Lecce	-2,386	3,768	13,197	14,579
Taranto	-5,910	868	n.d.	-5,042
Cosenza	-6,941	1,562	n.d.	-5,379
Catanzaro	-10,047	232	n.d.	-9,815
Reggio di Calabria	-14,496	1,021	-290	-13,765
Palermo	-	n.d.	847	847
Messina	-	-844	5,685	4,841
Siracusa & Ragusa	-	-9,491	4,227	-5,264
Agrigento	-	79	6,548	6,627
Sassari	429	3,490	n.d.	3,919
Nuoro	-135	1,500	n.d.	1,365
Cagliari	850	1,006	29,124	31,980
Benevento	n.d.	-457	n.d.	-457
Avellino	n.d.	-1,720	51	-1,669
TOTALS	-54,837	20,472	184,633	150,270

2788

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785013

T A B L E XVIII

POSTAL SAVINGS.

March 1944

(in thousands of Lire)

	Postal Savings Bonds	Postal Savings Books	Current Accounts	Total
Salerno	-8,302	-3,139	-281	-11,722
Bari	-3,453 *	1,440 *	20,911 *	18,898
Matera	-702	525	n.d.	-177
Taranto	-1,434 *	1,076 *	5,744	5,386
Brindisi	-4,667	1,201	26,217	22,751
Lecce	-5,475	3,793	8,777	6,585
Potenza	-4,546	2,073	n.d.	-2,473
Cosenza	-5,021	1,177	n.d.	-3,844
Catanzaro	-6,169	1,974	n.d.	-4,195
Reggio di Calabria	-9,304	4,503	n.d.	-4,801
Palermo	n.d.	n.d.	10,077	10,077
Messina	n.d.	-1,084	8,127	7,043
Sassari	-776	4,369	n.d.	3,593
Nuoro	-1,064	1,851	n.d.	787
Cagliari	-514	4,731	-2,519	1,698
Benevento	-215	-205	n.d.	-420
Avellino	-398	-2,840	198	-3,040
TOTALS	-52,040	20,935	77,251	46,146

* Incomplete

	Savings Bonds	Savings Books	Accounts	
Palermo	-8,302	-3,139	-281	-11,722
Bari	-3,453 *	1,440 *	20,911 *	18,898
Matera	-702	525	n.a.	-177
Taranto	-1,434 *	1,076 *	5,744	5,386
Brindisi	-4,667	1,201	26,217	22,751
Lecce	-5,475	3,283	8,777	6,585
Potenza	-4,546	2,073	n.a.	-2,473
Cosenza	-5,021	1,177	n.a.	-3,844
Catanzaro	-6,169	1,974	n.a.	-4,195
Reggio di Calabria	-9,304	4,503	n.a.	-4,801
Palermo	n.a.	n.a.	10,077	10,077
Messina	n.a.	-1,084	8,127	7,043
Siracusa	-776	4,369	n.a.	3,593
Nuoro	-1,064	1,851	n.a.	787
Cagliari	-514	4,731	-2,515	1,698
Benevento	-215	-205	n.a.	-420
Avellino	-398	-2,840	198	-3,040
TOTALS	-52,040	30,935	77,251	46,146

* Incomplete

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Month	Number of sales	Total dollar amount of sales	Average sales price	Number of sales	Total dollar amount of sales	Average sales price
	Reported to F.H.L.B.B. Office			Reported to F.H.L.B.B. Office		
	Reported sales			Revised sales		
1962						
December	1910	15,298,938	8,010	2620	14,303,667	5460
November	2462	22,190,326	9,013	2765	18,934,171	6847
December	1861	13,691,946	7,459	2327	15,639,845	6720
1963						
January	1839	20,282,614	11,029	2374	22,636,484	9535
February	2456	24,621,447	10,027	2829	17,430,378	6161
March	2457	25,564,754	10,279	2993	15,262,648	5100
April	2272	27,245,365	11,032	2337	24,812,857	10,617
May	2556	31,634,080	11,252	2713	15,654,297	5768
June	1783	23,447,452	13,054	1886	15,873,435	8416
July	1956	22,876,323	16,316	2601	21,224,262	8162
August	1274	27,497,137	21,586	2639	2,230,438	8453
September	1813	17,671,900	11,822	2377	11,315,253	4761
October	418	4,347,254	11,647	2316	23,467,280	10,132
November	952	14,161,902	14,876	n.a.	n.a.	n.a.
December	656	8,862,443	12,820	n.a.	n.a.	n.a.
1964						
January	729	6,683,691	11,867	n.a.	n.a.	n.a.
February	1160	13,705,410	14,115	n.a.	n.a.	n.a.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Year	Value of exports	Value of imports	Value of trade
1940			
October	5,096,930	5,040	4,823,663
November	5,927	2620	14,823,663
December	7,459	2765	16,394,471
1941		2537	15,639,845
January	11,485	2374	22,036,485
February	10,257	2229	17,430,370
March	10,279	2883	15,562,648
April	11,932	2377	21,812,857
May	14,502	2218	18,654,296
June	13,554	1606	15,675,435
July	16,316	661	8,824,362
August	21,515	263	2,356,453
September	11,502	207	1,215,353
October	21,837	296	2,463,520
November	14,876	n.a.	n.a.
December	12,696	n.a.	n.a.
1942			
January	11,469	n.a.	n.a.
February	11,695	n.a.	n.a.

Year		
1942		
October	1910	
November	2852	
December	1961	
1943		
January	1639	
February	2455	
March	2487	
April	2272	
May	2568	
June	1783	
July	1966	
August	1274	
September	1247	
October	418	
November	952	
December	636	
1944		
January	749	
February	1160	

n.a. = Source: Yearbook of International Organizations

one person charged with correlating their efforts, the activities of the various Sub-Commissions both at Headquarters and in the Regions were not always in accord. A memorandum report of the situation recommending the appointment of a suitable officer to correlate the efforts of the Italian Government Ministries and the various interested groups in ACC was prepared and forwarded to the Chief Commissioner for action.

6. Consiglio Provinciale dell' Economia. This organization, which appeared to have been the provincial keystone of Fascist control had been abolished in Region II but revived by the Minister of Interior in the second Badoglio cabinet. In other places attempts to revive it were stopped by our control of funds. Certain Sub-Commissions, not aware of the nature of the Consiglio, desired to use it. [illegible] were prepared setting the background of this organization and a meeting was held with the interested Sub-Commissions which resulted in the withdrawal of their support of the Consiglio.

H. Monthly Financial Review and Report of AFA

1. In order to simplify Finance Sub-Commission reports and to present a single, integrated picture of financial developments in Italy, it has been decided to embody the Monthly Financial Review in the main report of the Finance Sub-Commission. Therefore, this month the material usually presented in the Monthly Financial Review and the AFA Report has been incorporated in the text of this Report.

V. OUTLOOK AND PROBLEMS CONFRONTING ACC OPERATIONS IN THE ALLIED FINANCIAL FIELD

A. Plans for the occupation of Rome

Discussions have taken place with the Senior Finance Officer, AGF 5th Army regarding occupation of Rome. A member of Finance Sub-Commission Headquarters will accompany the CFO into Rome as special adviser on currency, foreign exchange, and banking. Special measures regarding the control of bank deposits, bank records and safe deposit boxes, are being developed in cooperation with the CFO. It is hoped that information of considerable importance to the financial stabilization programme will be obtained in Rome soon after liberation.

B. Currency conversion

An outline of a comprehensive programme to convert the Italian currency has been prepared by the Finance Sub-Commission as part of the stabilization programme. Currency has been linked with bank deposits and Government securities in order to provide a far-reaching programme for the removal of liquid [illegible] accumulated during the period of war inflation. Since conversion will constitute an integral part of the tax programme and can only be used once, it must be carefully timed to obtain the maximum of effect. It is anticipated that the programme will not be put into effect until all Italy is liberated. Postponement of currency conversion until such time as the distribution of imported supplies and local products assures a Nazi [illegible] in the whole area of Italy, will [illegible]. On the other hand, [illegible] conversion [illegible] into effect [illegible] a relatively short period of time, provided a necessary quantity of

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

...held with the interested Sub-Commission which resulted in the withdrawal of their support of the Committee.

H. Monthly Financial Review and Report of AFA

1. In order to simplify Finance Sub-Commission reports and to present a single, integrated picture of financial developments in Italy, it has been decided to embody the Monthly Financial Review in the main report of the Finance Sub-Commission. Therefore, this month the material usually presented in the Monthly Financial Review and the AFA Report has been incorporated in the text of this Report.

V. [illegible] AND PROGRESS REPORTS AND OPERATIONS OF [illegible] ALLIED FINANCIAL AGENCY

A. Plans for the Occupation of Rome

Discussions have taken place with the Deputy Finance Officer, AAI 5th Army regarding occupation of Rome. A member of Finance Sub-Commission Headquarters will accompany the AFO into Rome as special adviser on currency, foreign exchange, and banking. Special measures regarding the control of bank deposits, bank records and safe deposit boxes, are being developed in cooperation with the AFO. It is hoped that information of considerable importance to the financial stabilization programme will be obtained in Rome soon after liberation.

B. Currency conversion

An outline of a comprehensive programme for currency [illegible] Italian currency has been prepared by the Finance Sub-Commission as part of the stabilization programme. Currency has been linked with bank deposits and Government securities in order to provide a far-reaching programme for the [illegible] of liquid [illegible] during the period of war inflation. Since conversion will constitute an integral part of the tax programme and can only be used once, it must be carefully timed to obtain the maximum of effect. It is anticipated that the programme will not be put into effect until all Italy is liberated. Postponement of currency conversion until such time has the disadvantage of depriving ourselves of counter measures against a Nazi attempt to [illegible] Italian currency. However, so long as the Army holds [illegible] of Italy, this is not likely to occur. On the other hand, an evacuation of all Italy [illegible] conversion scheme into effect within a relatively short period of time, provided the necessary quantity of new currency is available. In this connection, it is important that printing of the new Italian currency be expedited.

C. Blue Seal Dollars

1. Further measures were taken during April to suppress the market in blue seal dollars. There is no positive evidence that the Germans are disposing of looted dollars. There is no dollar currency in liberated Italy. On the contrary, the Nazis may be attempting to obtain dollars in that area for use elsewhere. Since the Germans have printing facilities from which to obtain all the Italian lire required to finance their activities in liberated Italy, there is no incentive for them to dispose of blue seal dollars here.

2. Local supplies of blue seal dollars [illegible] in the hands of the Italians and their imports on the part of allied personnel. In order to [illegible] territory, proclamation is to be [illegible] to provide specifically that all Italians are required to surrender dollar currency [illegible] as well as other foreign exchange.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...blue seal dollars on the part of Allied personnel. The Navy and Merchant Marine authorities have advised ... that the use or sale of unlawful money in Italy is a violation of local and U.S. laws. Notices are issued to vessels on arrival which list the moneys that are legal tender in Italy, state that the use of any other currency is a violation of military law subject to trial by military court, and stress in bold print that violations will be dealt with. In addition, the procedure for exchanging money has been simplified for ships' masters. In the normal course of their business, ship masters must report to offices of PMG and MTP. Exchange facilities will be provided in these offices. Ships' masters must also inform all members of crews before disembarking that no blue seal currency may be taken ashore. Port security officers spot check seamen as they disembark to enforce regulation. Ship masters have been recently warned in Naples that they must cooperate fully in the controls of local Italian shipping (for general security reasons as well as to check the possibility of shipments of blue seal dollars to enemy occupied territory). Reference is made in this connection to Natousa Circular Number 47 dated 5 April, 1944, requiring Army personnel and merchant seamen to surrender all holdings of regular U.S. currency in excess of one dollar.

4. Detailed discussions with CIC and CID have also taken place. Security officers are quite conscious of the blue seal dollar problem and are cooperating fully. Arrangements have been made through CIC to have posters placed in all airports used for travel between other areas and Italy, warning all personnel and passengers to turn in blue seal dollars to Army Finance officers and other recognized agencies at the legal rate. In addition, vigorous measures are being adopted in the Naples area to prosecute transactions in dollars and foreign exchange under the existing language of Proclamation 10. In cooperation with Region III, a large ring operating in blue seal dollars has been smashed. Further arrests have been made and others are imminent. Attempted forgery of blue seal dollars by skillful colouring of the yellow seal on sperrbund dollars has also been checked. CID has made a number of significant arrests of persons engaged in this type of activity.

D. Remittances from the U.S. and the Sterling Area

1. As of 30 March, 1944, the U.S. Treasury amended General License 32A, salient parts of which were quoted in the February report of the Finance Sub-Commission, to permit remittances via AFA and the Banco di Napoli to Sardinia and to the following provinces of the mainland:

Reggio Calabria	Foggia	Salerno
Catanzaro	Bari	Naples
Cosenza	Brindisi	Avellino
Potenza	Lecce	Benevento
Matera	Taranto	

On 25 April, the first list of remittances to be paid was handed to the Banco di Napoli. Some additional documents required by the correspondents of the Banco di Napoli were being assembled by AFA at the end of the month, to add to those which have been held since early March awaiting the text of the amendment to the General License, which was received by AFA on 25 April.

2. It has been discovered that certain U.S. banks have mailed schedules directly to the Banco di Sicilia by Italian civilian post without using the APO address which is required. Further, some U.S. banks have issued letters of credit to American citizens which certain Italian banks have cashed, [illegible] is not permitted by AMG or by Italian regulations.

2783

3. It has been agreed in principle that remittances from the United States to persons who are not American citizens may be permitted in amounts not exceeding fifty

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

dependents. Under specific licenses from the respective Treasuries, organizations are also transferring funds to Sicily, Sardinia, and the specified provinces of southern Italy.

4. Pensions due from the U.S. Veterans Bureau are to be handled through the consular offices of the United States. All inquiries should be addressed to one of the following addresses, via civilian post:

Consul General, U.S.A.,
15 Via Caiaeppi Verdi,
NAPOLI

or

Consul General, U.S.A.,
Palermo,
SICILY.

5. While inspecting the Palermo branch early in April, the Chief of AFA and a member of his staff obtained the following report from the U.S. Consul General, on the results of tests applied by the consulate to persons who have requested financial assistance from State Department funds, via AFA:

"Under the scheme of advances to needy U.S. nationals the Consulate has assisted AFA with respect to determining the citizenship status of these applicants.

It will be remembered that original plans called for payment to those persons in need who were in possession of documentary proof of their citizenship as of December 7, 1941 (extended to June 30, 1942).

As far as Sicily is concerned, it should be noted that only in rare instances have documents been presented having a validity of even 1940, let alone 1941. If, therefore, payments had been made in strict adherence to instructions, no more than three applicants would have received any assistance.

For the most part, applicants have furnished passports as evidence of citizenship or birth certificates. The travel documents as noted above were seldom valid, and in fact only in a few cases did the applicant even present the document for renewal after the usual two years from the date of issuance. Many of these documents belonged to children born in the United States, and in most cases where birth certificates were submitted. In the cases of naturalized citizens submitting expired passports it was found that most of them had lost their citizenship under the U.S. Nationality Act of 1940.

There is given below a breakdown of all applications submitted to the Consulate by AFA since February 24, 1944, to date:

Total Applications - 80
" Approved - 30
" Not Approved - 33
" Pending - 17

These applications were returned to AFA for additional information or a further investigation of the applicant. In all probability about five will be approved."

E. Raising and Counterfeiting of Lire Notes

1. In an attempt to curtail the raising of Lire notes, all branches were requested on 30 March to restrict the issue of any additional notes which did not bear the demonetization in words. However, it is found that there were few if any reserves

of this currency in Sicily, and investigations are being made into the available supplies of notes bearing the description in words as compared to the amount of AM lire notes of the earlier printing now in circulation.

2. Public Safety officials have advised us of the arrest of 26 persons in Sicily as counterfeiters of complete AM lire notes, and the recovery of 35 million lire together with the printing presses and the lithographic plates. Full details are not yet available but will be included in later reports.

F. Payments of Interest by Commercial Banks on AFA Deposits

On 26 April each branch of AFA was instructed to require interest from Italian commercial banks, other than the Bank of Italy, as from 15 May, on the amount by which the balances with all branches of such commercial bank exceeds 100 million lire. Interest will be paid at the rate offered by the Bank of Italy on bankers' sight deposits. On the same date a letter was addressed to the Bank of Italy, requesting that all BOA pounds and Yellow Seal dollars now held by, or subsequently acquired by, Italian banks, including the Bank of Italy, be credited to a custody account in the name of AFA.

G. Non-recognition of Repatriation Transfers

1. The American State Department brought to the attention of AFA a proposed shipment of 1,000 tons of machinery from S.N.I.A. Viscosa Milano to its Spanish corporate affiliate, Sociedad Nacional Industrias Aplicaciones Celulosa Espanol. The Finance Sub-Commission pointed out to the Minister of Finance that this proposed action is part of the normal German pattern of exploitation of an occupied area. If legal titles are successfully vested in private German interests or in private neutral interests friendly to Germany the Italian economy can be effectively Germanized regardless of the outcome of military operations.

2. It was suggested that the Italian Government should issue, and widely publicize, a decree stating that:

(a) Subject to such exceptions as may be made by the Minister of Finance, any transfers, on or after 8 September 1943 by an Italian subject or by a physical or juridical person resident in Italy:

(i) of assets of whatsoever nature located outside Italian territory;

(ii) of participation in capital or obligations of any Italian business enterprise to a physical or juridical person not an Italian subject resident in Italy;

(iii) of assets of whatsoever nature held in Italian territory to a physical or juridical person not an Italian subject resident in Italy;

is invalid.

(b) Subject to such exceptions as may be made by the Minister of Finance, any creation, on or after 8 September 1943, of participation or of

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] with all branches of such commercial bank exceeds 100 million lire, interest will be paid at the rate offered by the Bank of Italy on bankers' sight deposits. On the same date a letter was addressed to the Bank of Italy, requesting that all sea pounds and Yellow Seal dollars now held by, or subsequently acquired by, Italian banks, including the Bank of Italy, be credited to a custody account in the name of AFHQ.

C. Non-recognition of Repatriation Transfers

1. The American State Department brought to the attention of ACC a proposed shipment of 1,000 tons of machinery from S.N.I.A. Viscosa Milano to its Spanish corporate affiliate, Sociedad Nacional Industrias Applicaciones Celulosa Zaragoza. The Finance Sub-Commission pointed out to the Minister of Finance that this proposed action is part of the normal German pattern of exploitation of an occupied area. If legal titles are successfully vested in private German interests or in private neutral interests friendly to Germany the Italian economy can be effectively Germanized regardless of the outcome of military operations.

2. It was suggested that the Italian Government should issue, and widely publicize, a decree stating that:

(a) Subject to such exceptions as may be made by the Minister of Finance, any transfers, on or after 8 September 1943 by an Italian subject or by a physical or juridical person resident in Italy:

(i) of assets of whatsoever nature located outside Italian territory;

(ii) of participation in capital or obligations of any Italian business enterprise to a physical or juridical person not an Italian subject resident in Italy;

(iii) of assets of whatsoever nature held in Italian territory to a physical or juridical person not an Italian subject resident in Italy;

is invalid.

(b) Subject to such exceptions as may be made by the Minister of Finance, any creation, on or after 8 September 1943, of participation or of capital obligation of any sort in an Italian business enterprise in a person not an Italian subject resident in Italy is invalid.

(c) Any property transferred or created in a manner declared invalid under paragraphs (a) or (b) shall be declared forfeited to the State.

(d) Any physical or juridical person who makes or attempts to make any transfer or who creates or attempts to create any interest declared invalid under paragraphs (a) or (b) shall be subject to a penalty not exceeding twice the value of the property so transferred or attempted to be transferred or of the interest so created or attempted to be created, as the case may be.

2785

No exceptions would, of course, be granted without the specific permission of the Allied Control Commission.

H. AFA Accounting Procedure

1. In accordance with directives from COS, AFA requested that the Deputy Paymaster in Chief (British) provide a statement of all advances made in the past to Allied, Dominion or Colonial forces, by the paymasters of the British Army, the Royal Navy, or the Royal Air Force, in order that such payments could be refunded to British Paymasters by AFA and charged by AFA against the Ally, Dominion, or Colony concerned. Refunds will be paid by AFA Naples, into an account maintained by No. 8 Command Pay Office with the Banco di Napoli. As of 31 January, the sum of 562 million lire had been paid to these forces (including 29 million lire to the British Merchant Navy) by British Army Paymasters alone, and this amount, plus similar disbursements in February - April must be refunded, as soon as detailed statements are submitted to AFA. Similarly, amounts paid in future will be refunded to British Paymasters. In the near future advances made by British Paymasters to co-belligerents will be treated in similar fashion. No steps have been taken to effect refunds to Finance officers of the U.S. armed forces.

2. During the month the layout for a new form of financial statement was perfected, and this Statement of Receipts and Disbursements will replace the present Statement of Assets and Liabilities as of 30 April. AFA formerly prepared a separate report, containing both the policy operations and the statement of Assets and Liabilities. The separate AFA report has now been discontinued and all material on AFA operations will appear in the monthly Reports of the Finance Sub-Commission. AFA's Statement of Assets and Liabilities as of 31 March and accompanying annexes appears at Appendix D. AFA will continue to send its financial statements as soon as prepared direct to the United States and British Treasuries in accordance with its previous instructions.

3. The first statements (for February and March, 1944) covering "Advances to Allied Missions" were prepared and sent to ACS (Finance), AFHQ for onward transmission to Washington and London.

4. Early in April the first advance was made to the Advisory Council for Italy, and a chart of classified headings for the Council's disbursements was prescribed for its use.

5. Further instructions were requested from COS for the accounting treatment on AFA's books of Metropolitan Lire introduced by the British Armed Forces.

I. Mutilated AM Lire Currency

1. In March this Headquarters was authorised by COS to issue instructions for the procedure to be followed in the redemption of mutilated currency. Briefly summarised, AM lire notes will be redeemed at face value by Finance Officers of the U.S. Army, by Paymasters of the British Army, or by AFA, when one or more fragments equal in area to more than three-fifths of the whole note, and bearing one decipherable serial number, are submitted. One-half the face amount will be paid when one or more fragments equal in area to less than three-fifths of the note but clearly equal to more than two-fifths of the whole note are presented. Subsequently, the authority to exchange mutilated currency was extended to the Banca d'Italia, the Banco di Napoli and the Banco di Sicilia. Upon specified affidavits or other acceptable proof of the destruction of the remainder of the note, fragments equalling less than three-fifths of the total area of the note may be redeemed in full by AFA branches only, and provided, in the case of notes of 50 lire or higher denominations, that one full serial

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...the U.S. armed forces.

2. During the month the layout for a new form of financial statement was perfected, and this Statement of Receipts and Disbursements will replace the present Statement of Assets and Liabilities as of 30 April. AFA formerly prepared a separate report, containing both its policy operations and the statement of Assets and Liabilities. The separate AFA report has now been discontinued and all material on AFA operations will appear in the monthly Reports of the Finance Sub-Commission. AFA's Statement of Assets and Liabilities as of 31 March and accompanying remarks appears at Appendix B. AFA will continue to send its financial statement as soon as prepared direct to the United States and British Treasuries in accordance with its previous instructions.

3. The first statements (for February and March, 1944) covering "Advances to Allied Missions" were prepared and sent to ACS (Finance), AFHQ for onward transmission to Washington and London.

4. Early in April the first advance was made to the Advisory Council for Italy, and a chart of classified headings for the Council's disbursements was prescribed for its use.

5. Further instructions were requested from OCS for the accounting treatment on AFA's books of Metropolitan Lire introduced by the British Armed Forces.

F. Mutilated All Lire Currency

1. In March this Headquarters was authorised by OCS to issue instructions for the procedure to be followed in the redemption of mutilated currency. Briefly summarised, All Lire notes will be redeemed at face value by Finance Officers of the U.S. Army, by Paymasters of the British Army, or by AFA, when one or more fragments equal in area to more than three-fifths of the whole note, and bearing one decipherable serial number, are submitted. One-half the face amount will be paid when one or more fragments equal in area to less than three-fifths of the note but clearly equal to more than two-fifths of the whole note are presented. Subsequently, the authority to exchange mutilated currency was extended to the Banca d'Italia, the Banco di Napoli and the Banco di Sicilia. Upon specified affidavits or other acceptable proof of the destruction of the remainder of the note, fragments equalling less than three-fifths of the total area of the note may be redeemed in full by AFA (Rome) only, and provided, in the case of notes of 50 Lire or higher denominations, that one full serial number is decipherable, or, in the case of small notes, that part of the serial number is decipherable. Appropriate records will be maintained by those officers who exchange notes, and the amount paid will be indelibly marked on the face of the mutilated note.

2. Regulations covering the destruction of mutilated All Lire notes and those which have become unfit for further circulation by reason of their condition were issued on 18 April, 1944 and embrace the following requirements. In forward areas, including AAC 5th and AAC 8th Army territory, this authority is given to all AFO Officers, Disbursing officers of the U.S. Army Finance Department, and British Army Paymasters. All other areas are under the jurisdiction of AFA only. Two witnesses are required to view the destruction, appointed by the Commanding Officer of the nearest U.S. or British Army unit in the forward areas. In all other areas, the Regional Commissioner concerned will appoint two officers as witnesses. Certificates evidencing the proper destruction of All Lire notes will be executed showing the

(12)

following: name, rank, and serial number of the qualified destroying officer; a statement that the unfit or mutilated currency was completely destroyed; description of the notes, and the signatures of the properly appointed witnesses. The regulations governing the destruction of mutilated currency have been issued to the branches of AFA. The Banco d'Italia, the Banco di Napoli, and the Banco di Sicilia, have been instructed to turn over to the appropriate branch of AFA, all worn and mutilated Allied notes which are now in, or which subsequently come into, their possession, furnishing lists by serial number and denominations to the said office of AFA. Branches have been requested to destroy all existing stocks of such currency by the end of May, and to destroy subsequent acquisitions each month.

VI ACCOUNTING

A. Supply Accounting

1. Within the last two months a great increase in the volume of supply transactions has taken place, with the result that during the month of April the whole position of supplies accounting and the adequacy of the personnel to handle it has been the subject of intensive review. Supply accounts are prepared for each Region, at Regional Headquarters; these accounts are based on returns of imports, transfers and sales submitted to Regional Headquarters by the Provincial Supply Officers. In the early stages of AMG operations, due to the pressing demands for finance officers and sub-accountants to receive revenues and make disbursements, as well as the imperative need to insure the soundness of the overall fiscal structure, staff considerations permitted only a limited number of officers to be assigned to supply accounting. Largely as a result of the inadequacy of the accounting and supply personnel, the records of the provincial supply officers, notwithstanding specific requirements in the AMG Accounting Manual, left much to be desired. The general status of the provincial accounts has now been much improved but a large backlog of work has had to be handled under trying conditions, so that there has often been a delay in preparing Regional supply accounts, and current accounting for supply activities has been prejudiced.

2. While a number of divergent factors have contributed to delay in preparing Regional Supply Accounts, the main causes may be grouped under three headings:

a. Inexperience of many Provincial Supply Officers and warehouse supervisors and shortage of staff in the Regional Records and Supply Divisions.

b. Lack of definite pricing policy in early operations, a deficiency which exists to some extent at the present time.

c. Inadequate number of supply accounting personnel, both officers and enlisted men or other ranks.

3. In the formation of the supply organizations, not infrequently officers were assigned who were unfamiliar with supply operations. Mistakes were made, though in the long run most of the officers measured up to their responsibilities. Supply activities, however, are continuous operations, requiring a complete accounting beginning from the activation of an organization in a region. Frequently, due to the pressure of work and shortage of staff, as well as the adverse conditions inevitable

Declassified E.O. 12356 Section 3.3/NND No. 785017

1. Within the last two months a great increase in the volume of supply transactions has taken place, with the result that during the month of April the whole position of supplies accounting and the adequacy of the personnel to handle it has been the subject of intensive review. Supply accounts are prepared for each region, at Regional Headquarters; these accounts are based on returns of imports, transfers and sales submitted to Regional Headquarters by the Provincial Supply Officers. In the early stages of RAF operations, due to the pressing demands for finance officers and sub-accountants to receive revenues and make disbursements, as well as the imperative need to insure the soundness of the overall fiscal structure, staff considerations permitted only a limited number of officers to be assigned to supply accounting. Largely as a result of the inadequacy of the accounting and supply personnel, the records of the provincial supply officers, notwithstanding specific requirements in the RAF Accounting Manual, left much to be desired. The general state of the provincial accounts has now been much improved but a large backlog of work has had to be handled under trying conditions, so that there has often been a delay in preparing Regional supply accounts, and current accounting for supply activities has been prejudiced.

2. While a number of divergent factors have contributed to delay in preparing Regional Supply Accounts, the main causes may be grouped under three headings:

a. Inexperience of many Provincial Supply Officers and warehouse supervisors and shortage of staff in the Regional Records and Supply Divisions.

b. Lack of definite guiding policy in early operations, a deficiency which exists to some extent at the present time.

c. Inadequate number of supply accounting personnel, both officers and enlisted men or other ranks.

3. In the formation of the supply organizations, not infrequently officers were assigned who were unfamiliar with supply operations. Mistakes were made, though in the long run most of the officers measured up to their responsibilities. Supply activities, however, are continuous operations, requiring a complete accounting beginning from the activation of an organization in a region. Frequently, due to the pressure of work and shortage of staff, as well as the adverse conditions inevitable in the early stages of occupation under which cargoes had to be unloaded and handled with great haste, only crude memorandum records were kept, sometimes consisting of mere scraps of paper. Satisfactory accounts could later be constructed from these only with laborious effort sometimes involving a complete rewrite of the records with visits to port authorities, warehouse supervisors, and purchasers of supplies. A few supply officers failed to grasp their responsibility in its proper here active and preparation and in certain instances the attitude was expressed that it was the duty of the Supply Officer to "get the goods to the people" and not "to keep records." These deficiencies are being overcome by suitable preliminary instruction before officers are assigned, and also through the work of special representatives sent out from the Chief Accountant's Office to see that the proper accounting procedure is implemented in the handling of supplies in the provinces. In view of the limited personnel available for this type of work, there is still some progress that must be made before it can be said that the underlying records are in satisfactory condition in all Regions.

Declassified E.O. 12356 Section 3.3/NND No. 785017

4. A further hindrance to current supply accounting has been the lack of definite pricing policy in various Regions. Failure in certain Regions to establish a permanent price list, or in some cases to establish any price list, has made it impossible for the Supply Accountant to bill customers and has necessitated much laborious work in preparing or adjusting invoices at a later date.

5. The chief obstacle to the subdivision of current accounting reports is the inadequacy of personnel, both officers and enlisted men or other ranks. The inadequacy of the accounting personnel was originally anticipated in October, 1943, when the Chief Finance Officer requested PCS, OTC, that a pool of five junior officers and twenty other ranks be formed for training in supply accounting. It was not found possible by AFHQ to grant this request. Subsequently, representations were made at various intervals, pointing out the inadequacy of the accounting staff and the danger of the situation getting out of hand. With the exception of two or three E/M's, however, no additions were obtained; on the contrary, three officers were transferred to other theatres and two others invalided home. With a slight increase in the accounting force of the Finance Sub-Division in relation to the volume of business handled, the difficulties mentioned can be largely overcome and satisfactory records more easily established and maintained for supply activities.

6. The Accounting Sub-Section has received the following supply accounting returns (i.e. statement of stock movements, schedule of imports and schedule of sales):

Region or Area.	From date of Occupation through 31 December 1943	Month of January 1944.	Month of February 1944.	Month of March 1944.
Region I	Yes	(Completed but not yet received)	-	-
Region II				
Puglia	Yes	Yes	Yes	Yes
Lucania	None	-	-	-
Region III	Yes	Yes	-	-
Region IV and AAI 5th Army	Yes	Yes	Yes	Yes
Region V and AAI 8th Army	Yes	Incomplete	Incomplete	Incomplete
Region VI	Yes	Yes	Yes	Yes
Region VII (previously Region II)	None	-	-	-

(Note: "Incomplete" signifies statement of stock movements has been received but schedule of sales is to be submitted.)

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

...the danger of the situation getting out of hand. With the exception of two or three EM/CM's, however, no additions were obtained; on the contrary, three officers were transferred to other theatres and two others invalided home. With a slight increase in the accounting force of the Finance Sub-Section in relation to the volume of business handled, the difficulties mentioned can be largely overcome and satisfactory records more easily established and maintained for supply activities.

5. The Accounting Sub-Section has received the following supply accounting returns (i.e. statement of stock movements, schedule of imprests and schedule of sales):

Region or Area	From date of Occupation through 31 December 1943	Month of January 1944	Month of February 1944	Month of March 1944
Region I	Yes	(Completed but not yet received)	-	-
Region II				
Dublin	Yes	Yes	Yes	Yes
Limerick	None	-	-	-
Region III	Yes	Yes	-	-
Region IV and 8th Army	Yes	Yes	Yes	Yes
Region V and AFC 8th Army	Yes	Incomplete	Incomplete	Incomplete
Region VI	Yes	Yes	Yes	Yes
Region VII (previously Region II)	None	-	-	-

(Note: "Incomplete" signifies statement of stock movements has been received but schedule of sales is to be submitted.)

The delay in the returns from Region I is attributable to the absence for some five weeks, through illness, of the Regional Supply Accountant at a time when imprests reached their peak. The remaining staff were therefore forced to concentrate on keeping the current records up to date, leaving the completion of the final accounts for the return of the Supply Accountant. The Supply Accountant has now returned and it is hoped that the February accounts will be received before the end of this month. The February accounts for Region III are nearing completion. Delay has been caused by the recent rapid expansion of the supplies organisation in the Region and by the necessity of clearing up outstanding queries arising out of irregularities during the early days of the occupation. As will be seen from the above chart, no accounts have yet been received from the Imperial Quartermaster of Region II and Region VII. These territories comprised the original Region II, in which the supplies accounting has proved to be extremely unsatisfactory. When it became apparent that accounts from this Region were overdue it was decided to send a representative of the

Accounting Sub-Section to investigate and report on the position. While it was appreciated that lack of experienced personnel in the Region might make the preparation of final Regional Accounts difficult and slow, there was nothing to suggest that basic records of supply transactions were not being kept in accordance with instructions laid down in the Accounting Manual. Unfortunately, preliminary reports from the Headquarters representative show that there has been an almost complete disregard of even the most elementary records; as an example, we are informed that one Provincial Supply Officer stated that he did not know that he was expected to maintain any records of transactions carried out by him nor did he think it necessary to do so. The Headquarters representative concentrated first on putting current transactions on to a satisfactory basis; in the course of this work it was necessary for him to undertake such responsibilities as fixing prices and making financial and commercial arrangements, which activities should not fall within the duties of the accountant. Recent reports say that "daylight can now be seen", but it may yet be some weeks before retrospective accounts can be presented.

7. It has long been recognized that, were it possible to deal directly with the Italian Government or some governmental organization, rather than with individual Provinces and Communes, the number of transactions to be handled by AOC/AMG could be so reduced as to simplify the accounting problem to a great extent. If this were possible, the Italian Government or governmental organization would be the sole "customer" of AOC/AMG and the responsibility of dealing with individual Provinces and Communes would be theirs. At the present time, however, no progress has been made in this direction; in fact, the trend is in the other direction, as there has been an enormous increase in AOC/AMG warehouse and milling activities. In Region III, in addition to the central warehouse at Naples, through recent requisitions there are now 6 bonded warehouses operated in Naples Province and Benevento, 9 flour mills in Naples City, 8 mills at Torre Annunziata, 3 mills at Castellammare and 1 mill at Caserta. The supply accountant of Region III has advised that as a result of these recent additional activities, the work in his office cannot be kept up to date with the existing staff. In another Region, Sicily, the number of warehouses accounting for supplies in Palermo alone has increased from 2 in December 1943 to 38 in April 1944 (the greater part of the increase being in recent months) with the result that there is danger of the present staff being unable to keep abreast of the work. There has also been an increase in the warehousing facilities in the territory of both 5th and 8th Armies, AMG.

8. In addition to the receipt and distribution of imported commodities, there has been a large increase in the purchase of supplies produced in Italy for resale and for export. The records of the Allied Financial Agency show that purchases of such supplies through 31 March, 1944 amounted to over 300 million lire. The accounting for the receipt and disposition of these supplies has placed an additional burden on the field accounting personnel.

B. Discussions in London on accounting for imports and exports

9. During the month of April the Chief Accountant, in company with the Joint Director (B), Finance Sub-Commission, visited London where discussions were held with the War Office, the British Treasury and the American Finance Mission (referred to in the March Report) on the question of accounting for Italian imports and exports from and to the U.S.A. and the U.K. An agreement was reached whereby basic records would be maintained in Washington and London, who would periodically submit values to AFC for inclusion in their records. The tentative decisions arrived at are at present being considered in Washington.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

[illegible], which activities should not fall within the duties of the [illegible]. Recent reports say that "daylight can now be seen", but it may yet be some weeks before retrospective accounts can be presented.

7. It has long been recognised that, were it possible to deal directly with the Italian Government or some governmental organisation, rather than with individual Provinces and Communes, the number of transactions to be handled by ACC/AMG could be so reduced as to simplify the accounting problem to a great extent. If this were possible, the Italian Government or governmental organisation would be the sole "customer" of ACC/AMG and the responsibility of dealing with individual Provinces and Communes would be theirs. At the present time, however, no progress has been made in this direction; in fact, the trend is in the other direction, as there has been an enormous increase in ACC/AMG warehouse and milling activities. In Region III, in addition to the central warehouse at Naples, through recent requisitions there are now 6 bonded warehouses operated in Naples Province and Benevento, 9 flour mills in Naples City, 8 mills at Torre Annunziata, 3 mills at Castellammare and 1 mill at Caserta. The supply accountant of Region III has advised that as a result of these recent additional activities, the work in his office cannot be kept up to date with the existing staff. In another Region, Sicily, the number of warehouse accounting for supplies in Palermo alone has increased from 2 in December 1943 to 38 in April 1944 (the greater part of the increase being in recent months) with the result that there is danger of the present staff being unable to keep abreast of the work. There has also been an increase in the warehousing facilities in the territory of both 5th and 8th Armies, AFHQ.

8. In addition to the receipt and distribution of imported commodities, there has been a large increase in the purchase of supplies produced in Italy for resale and for export. The records of the Allied Financial Agency show that purchases of such supplies through 31 March, 1944 amounted to over 300 million lire. The accounting for the receipt and disposition of these supplies has placed an additional burden on the field accounting personnel.

B. Discussions in London on accounting for imports and exports

1. During the month of April the Chief Accountant, in company with the Joint Director (B), Finance Sub-Commission, visited London where discussions were held with the War Office, the British Treasury and the Adriatic Finance Mission (referred to in the Hirsh Report) on the question of accounting for Italian imports and exports from and to the U.S.A. and the U.K. An agreement was reached whereby basic records would be maintained in Washington and London, who would periodically submit values to ACC for inclusion in their records. The tentative decisions arrived at are at present being considered in Washington.

C. Discussions in Algiers on British Army - ACC accounting problems

1. In Algiers the Chief Accountant discussed with the Financial Adviser to the British Forces various problems relating to the accounting between the British Army and ACC. He also held discussions with the British Deputy Paymaster in Chief with a view to clearing up certain outstanding accounts between the British Army and ACC and the procedure for settlement of these accounts was agreed on.

D. Accounting for Petroleum Imports into Italy

1. During the month conferences were held with representatives of the Army Petroleum Section, as to the system of accounting for petroleum products imported into Italy. An agreement was reached that such POL would be invoiced to the Central

Italiano Petrolio by AFC at cost plus ocean installation handling charges on advice of a statement of quantities to be furnished by the Petroleum Section. CCS will be billed by AFC and remit to it the invoice price in cash, less allowance for quantities of POL delivered to the Allied military forces, and the Italian armed forces. In the case of both types of issues accounting records will be maintained in AFC.

E. Accounting for Supplies Issued to Italian Armed Forces

1. The system of accounting for supplies furnished to the Italian armed forces has been discussed with the Army Sub-Commission. Discussions are proceeding with the object of arriving at a satisfactory uniform system for all types of issues.

F. Allied Financial Agency

1. The new form of monthly statement showing AFA accounts as Receipts and Disbursements was distributed to the branches of AMG on 12 April, 1944. Effective 30 April, 1944 this new form will replace the present "Statement of Assets and Liabilities".

2. Consolidated accounts for all branch offices as at 31 March, 1944 were prepared and distributed with AFA's monthly report.

3. The proposals in CCS 136 regarding the handling of foreign exchange credits derived from exports were discussed, and further instructions on this subject were requested of CCS.

4. Consolidated statements of "Advances to Allied Armed Forces" during March 1944 and of "Advances to Allied Missions" during February and March 1944 were prepared and despatched to AGS (Finance) AFHQ for onward transmission to Washington and London.

5. The accounting procedure for recording the destruction of mutilated and unfit AM Lire Notes was prepared and distributed to AFA branches.

6. Classified headings for disbursements made by the Advisory Council for Italy were prepared for transmittal to the liaison officer of the Council.

VII INSURANCE

A. Commercial Insurance

1. Situation in Regions

The need for a speedy integration of the activities of insurance company offices in liberated Italy was demonstrated by the occurrences in Sicily. An agent of the Fondiaria group of companies endeavoured to float an insurance company of his own. This endeavour was discouraged by the AMG Regional authorities and by local Italian officials, and it is reported that the proposed formation of such a company has been dropped. It also came to light that, without the knowledge of the AMG Regional authorities, an agent of Riunione Adriatica di Sicurta had applied in February to the Agrigento Court and succeeded in having himself appointed as a "Curatore Speciale" (or Commissioner) for all Sicily, and that by virtue of this appointment he was beginning to issue instructions to representatives of his Company in Sicily. Cabled

Declassified E.O. 12356 Section 3.3/NND No. 785017

1. The new form of monthly statement showing AFA accounts as Receipts and Disbursements was distributed to the branches of AFA on 12 April, 1944. Effective 30 April, 1944 this new form will replace the present "Statement of Assets and Liabilities".

2. Consolidated accounts for all branch offices as at 31 March, 1944 were prepared and distributed with AFA's monthly report.

3. The proposals in CAC 136 regarding the handling of foreign exchange credits derived from exports were discussed, and further instructions on this subject were requested of CCS.

4. Consolidated statements of "Advances to Allied Armed Forces" during March 1944 and of "Advances to Allied Missions" during February and March 1944 were prepared and despatched to AGS (Finance), AFHQ for onward transmission to Washington and London.

5. The accounting procedure for recording the destruction of mutilated and unfit AM Lira Notes was prepared and distributed to AFA branches.

6. Classified headings for disbursements made by the Advisory Council for Italy were prepared for transmittal to the liaison officer of the Council.

VII INSURANCE

A. Commercial Insurance

1. Situation in Regions

The need for a speedy integration of the activities of insurance company offices in liberated Italy was demonstrated by two occurrences in Sicily. An agent of the Fondiaria group of companies endeavoured to float an insurance company of his own. This endeavour was discouraged by the ACC Regional authorities and by local Italian officials, and it is reported that the proposed formation of such a company has been dropped. It also came to light that, without the knowledge of the ACC Regional authorities, an agent of Riunione Adriatica di Sicurta had applied in February to the Agrigento Court and succeeded in having himself appointed as a "Curatore Speciale" (or Commissioner) for all Sicily, and that by virtue of this appointment he was beginning to issue instructions to representatives of his Company in Sicily. Cabled instructions were accordingly sent to the Regional authorities instructing them to take steps to have this agent's appointment nullified.

2. Insurance Committee

Approval was obtained to the draft decree for the formation of the Committee (see February and March reports), which was handed to the Director General of Commerce on 4 April. Since the Committee is partly to be composed of Commissioners for the Companies, approval of the latter was necessary before the decree could be signed. Before all approvals could be given, the Government resigned. On 28 April, however, the Director-General advised that the new Minister of Industry, Commerce and Labour had agreed to the decree, and that it would in all probability be signed during the first week in May.

3. Commissioners for insurance companies

The former Military authorities during the month the means of eight

Declassified E.O. 12356 Section 3.3/NND 785017

individuals whom he proposed to appoint as Commissioners for seventeen companies. After consultation with the Security Branch of AMG, the following appointments as Commissioners were agreed to:

Company	Commissioner
(a) Istituto Nazionale delle Assicurazioni:	Dott. Alfredo De Higuibro
Subsidiary companies;	
(i) Previdentia	Dott. Alfredo De Higuibro
(ii) Assicurazioni d'Italia	Dott. Alfredo De Higuoro
(b) Assicurazioni Generali di Venezia:	Comm. Ovidio Rocco
(c) Riunione Adriatica di Sicurta:	Rag. Antonio Vistarchi
Subsidiary companies;	
(i) Mutua Assicuratrice Cotoni	Rag. Antonio Vistarchi
(ii) Unione Subalpina	Rag. Antonio Vistarchi
(iii) L'Italica	Rag. Antonio Vistarchi
(iv) Assicuratrice Italiana	Rag. Antonio Vistarchi
(d) Compagnia di Milano	Rag. Antonino Ciarcoloo
(e) Compagnia di Torino	Ing. Cesare Micheluzzi
Subsidiary companies;	
(i) La Preservatrice	Ing. Cesare Micheluzzi
(ii) La Vittoria	Ing. Cesare Micheluzzi
(i) La Fiume	Sig. Amedeo Zaccone
Subsidiary company;	
(a) La Terra	Sig. Amedeo Zaccone
(f) Alleanza Vita	Sig. Evaristo Delfiore
(g) Anonima Infortuni	Comm. Avv. Alessandro Mendi-Mirandi

Clearance of the names given above could not be obtained from the Security Branch in time for the appointments to be gazetted before the Government resigned, and they now await the approval of the new Minister of Industry, Commerce and Labour. It is intended to request the Minister to notify each Canadian Commissioner as soon as he agrees to the names, in order that they can begin work in their companies at once without waiting for the publication of their appointments in the Official Gazette.

4. Plans for Home

Towards the end of the month, the Insurance Department was asked by the Senior Finance Officer of the 5th Army (who will have jurisdiction over those when that city is occupied) to provide a programme for the handling of insurance affairs in the capital. Such a programme is in course of preparation.

Declassified E.O. 12356 Section 3.3/NND No. 785017

(b)	Assicurazioni Generali di Venezia:	Comm. Ovidio Rocco
(c)	Riunione Adriatica di Sicurta:	Rag. Antonio Vistarini
	Subsidiary companies;	
	(i) Mutua Assicuratrice Cotoni	Rag. Antonio Vistarini
	(ii) Unione Sub-Alpina	Rag. Antonio Vistarini
	(iii) L'Italica	Rag. Antonio Vistarini
	(iv) Assicuratrice Italiana	Rag. Antonio Vistarini
(d)	Compagnia di Milano	Rag. Antonino Giarmoleo
(e)	Compagnia di Torino	Ing. Cesare Micheletti
	Subsidiary companies;	
	(i) La Preservatrice	Ing. Cesare Micheletti
	(ii) La Vittoria	Ing. Cesare Micheletti
	(i) La Fiume	Sig. Guido Zuccone
	Subsidiary company;	
	(a) La Terra	Sig. Guido Zuccone
(f)	Allemana Vita	Sig. Evaristo Beltrone
(g)	Anonima Infortuni	Comm. Avv. Alessandro Mandi-Miranda

Clearance of the names given above could not be obtained from the Security Branch in time for the appointments to be gazetted before the Government resigned, and they now await the approval of the new Minister of Industry, Commerce and Labour. It is intended to request the Minister to notify each Combined Commissioner-designate as soon as he agrees to the names, in order that they can begin work in their companies at once without waiting for the publication of their appointments in the Official Gazette.

4. Plans for Rome

Towards the end of the month, the Insurance Department was asked by the Senior Finance Officer of AMG 5th Army (who will have jurisdiction over Rome when that city is occupied) to provide a programme for the handling of insurance offices in the capital. Such a programme is in course of preparation.

5. Financial intelligence

Results of the investigation requested on the Fortunagen Insurance Company of Naples were received from the Italian Director-General of Commerce, but were in an incomplete state, necessitating direct contact with the Company. No undesirable influences were disclosed, but the stockholders and directorate (13 in all) are being cleared with the AMG Security Branch. Accounts for 1943 have not yet been made up, because, it was stated, of inability to communicate with its reinsuring companies in Rome. The company states it is in a position to accept small ordinary risks, but is unable to reinsure. It normally reinsures with "Sicilia [illegible]" (Lloyd Siciliano), and the Unione Italiana di Riassicurazione, both with Head Offices in Rome, but is unable to state the reserves at present held, apparently because

Declassified E.O. 12356 Section 3.3/NND NO. 785017

they normally maintain a "contact" with the policyholder. The most interesting result of this investigation was the demonstration of the inability of present Italian Government officials properly to undertake inspections of insurance companies.

6. Third-party insurance of ASC transport

The Department has been requested to assist in arranging third-party insurance for ASC transport chartered to Italian firms for handling foodstuffs. Cover can be arranged but for a limited amount (500,000 lire) only.

B. Social Insurance

1. Coverage of employees of Allied forces for work accidents

The question of the scope of the Italian workmen's compensation law has been further studied. Analysis of the law shows that it is not only limited to scheduled hazardous work, but that the test of applicability is one's normal occupation and not the task assigned at the moment of injury. Thus, unless a worker has in fact had his occupation changed, assignment to a special task temporarily neither extends cover to those not otherwise covered nor removes from coverage those withorts covered. It is again emphasized that the agreement reached in December with the Italian Government does not provide any special cover for employees of Allied forces, but simply brings them within the scope of existing Italian law. The question whether the coverage of the present Italian workmen's compensation law should be broadened is being referred to the Italian Commission which is studying the social insurance system.

2. Proposal for general coverage of employees of Allied forces

The Italian Ministry of Industry, Commerce, and Labour has presented to ASC a proposal for covering employees of Allied forces against all hazards included under social insurance. An earlier plan involving payment of a flat 30 per cent of pay-roll (plus a small fractional charge for administration) was barred by military authorities on grounds that they could not (a) assume liability for payment of any tax levied by an occupied country, (b) take on administrative burdens that would arise, nor (c) make employment records available to civilian agencies as long as hostilities continue, for reasons of security. The present proposal meets the first obstacle for the Italian Government now agrees to pay the contributions. It also meets in part the second and third obstacles, how satisfactorily remains to be determined. A single and simple employment report to the Ministry of Finance alone is substituted for several more complicated reports to the institutions concerned. There is an essential difference between the present proposal and that already accepted for workmen's compensation. The workmen's compensation present requires reports only as claims arise, and, therefore, no general disclosure of personnel or payroll information. Instead, a bill for claims and expenses paid is set periodically, after the event. Such a procedure might be extended to coverages such as sickness, tuberculosis, and marriage and maternity. But unemployment benefits vary with previous employment experience, and pension claims accumulate over the working life and are normally presented only at its conclusion. Details of nature and cost of coverage are currently under consideration.

3. State pensions

It was pointed out in the March Report that the decree of 13 March increasing state pensions did not provide adequate guarantee that the increases would not be paid to beneficiaries of Fascist Party patronage. To the proposal that the decree be amended so that excluded pensioners

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Employees of Allied Forces for work Accidents

The question of the scope of the Italian workmen's compensation law has been further studied. Analysis of the law shows that it is not only limited to scheduled hazardous work, but that the test of applicability is one's normal occupation and not the task assigned at the moment of injury. Thus, unless a worker has in fact had his occupation changed, assignment to a special task temporarily neither extends cover to those not otherwise covered nor removes from coverage those hitherto covered. It is again emphasized that the agreement reached in December with the Italian Government does not provide any special cover for employees of Allied forces, but simply brings them within the scope of existing Italian law. The question whether the coverage of the present Italian workmen's compensation law should be broadened is being referred to the Italian Commission which is studying the social insurance system.

2. Proposal for general coverage of employees of Allied forces

The Italian Ministry of Industry, Commerce, and Labour has presented to ACC a proposal for covering employees of Allied forces against all hazards included under social insurance. An earlier plan involving payment of a flat 20 per cent of pay-roll (plus a small fractional charge for administration) was barred by military authorities on grounds that they could not (a) assume liability for payment of any tax levied by an occupied country, (b) take on administrative burdens that would arise, nor (c) make employment records available to civilian agencies as long as hostilities continue, for reasons of security. The present proposal meets the first obstacle for the Italian Government now agrees to pay the contributions. It also meets in part the second and third obstacles, how satisfactorily remains to be determined. A single and simple employment report to the Ministry of Finance alone is substituted for several more complicated reports to the institutions concerned. There is an essential difference between the present proposal and that already accepted for workmen's compensation. The workmen's compensation agreement requires reports only as claims arise, and, therefore, no general disclosure of personnel or payroll information. Instead, a bill for claims and expenses paid is set periodically, after the event. Such a procedure might be extended to coverages such as sickness, tuberculosis, and marriage and maternity. But unemployment benefits vary with previous employment experience, and pension claims accumulate over the working life and are gradually presented only at its conclusion. Details of nature and cost of coverage are currently under consideration.

3. State pensions

It was pointed out in the March Report that the decree of 13 March increasing state pensions did not provide adequate guarantees that the increases would not be paid to beneficiaries of Fascist Party patronage. We are proposing that the decree be amended so that excluded pensioners may apply for an increase but must demonstrate that they were compelled by some means to serve, or that the pension did not result directly or indirectly from political activity. A proposed additional article in the decree will call for establishment of a commission with offices in Naples to handle applications from such pensioners. These amendments are to be submitted to the King's Government for adoption by a supplementary decree. If and when adopted, the entire decree with amendments will be republished for territory under AMG.

4. Benefit changes a matter of national policy

Several efforts have been made by interested groups of claimants and by Italian officials acting under pressure from such groups, to obtain increases of benefits paid in whole or in part by social insurance institutions. Many of these attempts have been made at a regional or even provincial level. Clearly the benefit

scales of social insurance institutions are a matter of national law and policy. Consideration should always be given to complaints regarding inadequacies of benefit provisions, but in so far as they call for changes in legal provisions, they must be referred to this Headquarters and to the King's Government. On 20 April the following order was sent by the Economic Section to all Regional Commissioners;

> " Transmit to every Finance and Labour Office under your direction, they in turn to advise their Italian opposite numbers who will be similarly advised by the Italian Government:'For your information and guidance no changes can be made in contribution or payment rates of social insurance systems nor in established wage scales, family allowances, indemnities, premiums, pensions or subsidies, payable to state parastatal and private workers unless authorized or approved by ACC Headquarters for all territory or by Italian Government with ACC Headquarters approval in Regions One, Two and Six. Rates and prices are still frozen.' Any unauthorized advances made since the freeze are illegal and will be rescinded. "

5. Description of Italian social insurance system

There is attached to this report, as Appendix B, a memorandum describing the Italian social insurance system and making some evaluations of the system.

F N Foley
Colonel,
Joint Director,
Finance Sub-Commission.

Declassified E.O. 12356 Section 3.3/NND No. 785017

contribution or payment rates of social insurance systems nor in established wage scales, family allowances, indemnities, premiums, pensions or subsidies, payable to state parastatal and private workers unless authorized or approved by ACC Headquarters for AMG territory or by Italian Government with ACC Headquarters approval in Regions One, Two and Six. Wages and prices are still frozen.' Any unauthorized advances made since the freeze are illegal and will be rescinded. "

5. Description of Italian social insurance system

There is attached to this report, as Appendix E, a memorandum describing the Italian social insurance system and making some evaluations of the system.

E W Foley
Colonel,
Joint Director,
Finance Sub-Commission.

Note: Throughout this Report, the term "Billion" is used in the American sense and denotes 1,000 millions.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Economic Section.

The Finance Sub-Commission recommends the following prices for 1944 wheat:

	Lire per quintal	
	soft wheat	hard wheat
Sardinia	590	600
Mainland	590	650
Sicily	650	700

These prices will cover the cost of production of wheat and induce maximum production next year. They are approximately 100 per cent higher than 1943 prices, although those for Sicily are only 40 per cent higher than the prices adopted by AMG after occupation. We realize that these prices are much below the recommendations of the Agriculture Sub-Commission, of the Italian Ministry of Agriculture, and of most of the AMG and Italian officials in the field who have expressed themselves upon the subject. In making this recommendation the Finance Sub-Commission contends:

1. That a price of wheat as high as that generally recommended, i.e., 1,000 lire per quintal or higher, will certainly create the inflationary spiral that we have been trying to prevent. We firmly believe that anything approaching a 300 per cent increase in the price of the principal product being currently produced in Italy, i.e. wheat, and a comparable increase in the price of the basic staple of the population, i.e. bread, will make futile any further attempt to stabilize the Italian economy at present levels of industrial prices and wages.

The effect of this step upon the cost of living will be so great that demands for increased wages - demands that cannot be denied in either justice or practice - will be made at once, requiring compensatory increases in industrial prices, the setting in motion the chain of income expansion that constitutes the essence of inflation. To date there has been very little expansion of income in Italy. Prices have risen because of great shortages and because people have been willing to spend almost their entire income to buy food, not because their incomes have been increasing. We believe, however, that an expansion of income in the immediate future cannot be prevented if the price of wheat and the price of bread are increased to the extent generally proposed.

Moreover, it should be realized that a public announcement that the official price of wheat will be quadrupled the price of bread, the principal staple

2780

Declassified E.O. 12356 Section 3.3/NND 785017

0882

Declassified E.O. 12356 Section 3.3/NND No. 785017

follows the Allied Armies, ... at home who charge that our policy is creating inflation in Italy.

We submit that rapid and uncontrollable inflation will be the inevitable consequence of such a step, the responsibility for which we cannot escape.

II. That the prices we have proposed will cover the farmers' costs of production, if the recommendation made below on agricultural rents is accepted, and will provide for the farmers as much real income as they can reasonably expect at this time. A member of this Sub-Commission has recently completed a field trip in which data on the cost of production of wheat was obtained from farmers and agricultural officials. The prices we recommend, higher than what we would for other reasons prefer, were determined on the basis of this cost of production information.

Basically, farmers want high prices for this year's crop because they cannot at current prices obtain the shoes, clothing, and other industrial products that they naturally want. There are, however, no shoes or clothing to be obtained, and farmers' income, however much increased, will not permit them to obtain these items. Until Italy is able to make or buy manufactured goods, the people of Italy can hope for little more than food and shelter. City people have difficulty in obtaining even these items; farmers have them in abundance and can reasonably expect no more while a war is being waged in their midst.

III. That the success of the amassing programme depends primarily upon factors other than price. Indeed, we contend that the amassing programme can only be successful if it is extended to cover all of the principal crops of the territory, if it is based upon an adequate crop census, if the physical collection of crops is performed wherever possible at the time when crops are centralized for processing - threshing in the case of wheat - ; and if very severe sanctions are imposed. Therefore, if compulsion must be used, a price that is sufficiently high to be fair to the farmers is all that need be paid. It is not correct to believe that we must make a choice between amassing the wheat crop and preventing inflation. With an effective amassing system we can do both, and without an effective amassing system however high we set the price of wheat, we can do neither. With an effective amassing system we can have our bread and eat it too.

IV. That the price of wheat is an integral part of agricultural policy and cannot be determined apart from a general determination of the following questions: (1) what crops are to be amassed? (2) what prices are to be paid for them? and (3) what steps are to be taken to assure the success of amassing?

Declassified E.O. 12356 Section 3.3/NND 785017

I. The Certainty of Inflation if the Price of Wheat is Quadrupled

A wheat price much higher than 600 lire per quintal will, in our opinion, both create and necessitate a great inflation in Italy. AMG has been directed to attempt to stabilize the economy of Italy. The Finance Sub-Commission believes, however, that if the price of wheat is set at 1,100 or 1,200 lire per quintal, the range of prices recommended by most parties, it will not only be impossible to stabilize the Italian economy at current levels of income, but it will be absolutely necessary to plan for a considerable increase in non-agricultural prices and incomes in order that the Italian economy might ultimately be stabilized at some level of prices and incomes far higher than those presently ruling.

1. The effect upon farmers' incomes. The Agriculture Sub-Commission estimates the wheat crop of 1944 at 16 million quintals. This is a low estimate, being in fact the same as last year's very poor crop, while as of this date the farmers expect a much bigger crop this year. Even on the basis of this low estimate, however, the value of the crop at, say, 1,150 lire per quintal, is 18 billion lire. Of the total production of 16 million quintals, the Agriculture Sub-Commission estimates that 7 million quintals will be amassed. If this proves true, the value of the amassed crop, which represents cash income to the farmers, would be, at 1,150 lire per quintal, 8 billion lire.

At current prices the value of the wheat crop of occupied Italy is less than 25 per cent of the total value of all agricultural produce. Consequently, if the 300 per cent increase now being recommended for the price of wheat were to become the basis for our entire agricultural price policy - and it is difficult to see how that could be avoided if the 300 per cent increase in wheat prices is adopted - the total value of this year's crops would be about 75 billion lire. To put it differently, the agricultural income of the poorest third of Italy would then be two-thirds as large as the total national income of all Italy in the fiscal year 1939-1940. If farmer retentions of other crops amount to about the same percentage as in the case of wheat, the money income paid to farmers for their 1944 crops will be over 30 billion lire.

2. The effect of such prices upon the Italian Government deficit. The Italian Government deficit is already enormous and constitutes the principal inflationary force now at work. If, however, any considerable portion of the recommended increase in wheat prices and of the resulting increases in other agricultural prices were to be borne by Government subsidy, the deficit would be enormously increased. At the present time the deficit is about 3 billion lire per month, i.e., a rate of about 36 billion lire per year. To purchase that portion of the wheat crop which it is expected will be amassed would add about 7 billion lire to the annual deficit, and to purchase at comparable prices and subsidies, the other agricultural products necessary for the maintenance of the cities would nearly double the deficit. Clearly, this cannot be done.

Declassified E.O. 12356 Section 3.3/NND No. 785013

Declassified E.O. 12356 Section 3.3/NND 785017

...in non-agricultural prices and incomes in order ...that the Italian economy might ultimately be stabilized at some level of prices and incomes far higher than those presently ruling.

1. The effect upon farmers' incomes. The Agriculture Sub-Commission estimates the wheat crop of 1944 at 16 million quintals. This is a low estimate, being in fact the same as last year's very poor crop, while as of this date the farmers expect a much bigger crop this year. Even on the basis of this low estimate, however, the value of the crop at, say, 1,150 lire per quintal, is 18 billion lire. Of the total production of 16 million quintals, the Agriculture Sub-Commission estimates that 7 million quintals will be amassed. If this proves true, the value of the amassed crop, which represents cash income to the farmers, would be, at 1,150 lire per quintal, 8 billion lire.

At current prices the value of the wheat crop of occupied Italy is less than 25 per cent of the total value of all agricultural produce. Consequently, if the 300 per cent increase now being recommended for the price of wheat were to become the basis for our entire agricultural price policy - and it is difficult to see how that could be avoided if the 300 per cent increase in wheat prices is adopted - the total value of this year's crops would be about 75 billion lire. To put it differently, the agricultural income of the poorest third of Italy would then be two-thirds as large as the total national income of all Italy in the fiscal year 1939-1940.[1] If farmer retentions of other crops amount to about the same percentage as in the case of wheat, the money income paid to farmers for their 1944 crops will be over 30 billion lire.

2. The effect of such prices upon the Italian Government deficit. The Italian Government deficit is already enormous and constitutes the principal inflationary force now at work. If, however, any considerable portion of the recommended increase in wheat prices and of the resulting increases in other agricultural prices were to be borne by Government subsidy, the deficit would be enormously increased. At the present time the deficit is about 3 billion lire per month, i.e., a rate of about 36 billion lire per year. To purchase that portion of the wheat crop which it is expected will be amassed would add about 7 billion lire to the annual deficit, and to purchase at comparable prices and subsidies, the other agricultural products necessary for the maintenance of the cities would nearly double the deficit. Clearly, this cannot be done.

3. The effect upon the cost of living. On the other hand, if most of the increased cost of wheat and other agricultural produce is to be passed on to the consumer, the official prices of foodstuffs would be increased to levels that could not be indefinitely supported at existing wage rates.

The serious effect upon the cost of living of increasing the price of wheat to 1,150 lire per quintal has been entirely overlooked. It is commonly believed that, because the black market price of bread in Naples

1. In July 1940 the then Minister of Finance announced that Italy's national income in the fiscal year 1939-1940 was 115 billion lire.

Declassified E.O. 12356 Section 3.3/NND No. 785017

- 4 -

[illegible] wheat [illegible] per kilo, increasing the legal price of bread from 3.60 lire per kilo to 15 lire, the price that would be necessary to permit bread to be sold without Government subsidy with a wheat price of 1,150 per quintal,[1] the resulting difference in the cost of living would be inconsequential. This is a great error. At the present time the average member of the average working class family in Naples is buying 2 kilos of bread weekly, 1.4 kilos with his ration card and .6 kilos upon the black market.[2] Increasing the legal price of bread from 3.60 to 15 lire per kilo would have the following effect upon the weekly budget for bread of a family of 5:

	with ration bread at 3.60 lire	with ration bread at 15 lire
7 kilos of ration bread	25.20 lire	105.00 lire
3 kilos of black market bread @ 130	390.00 lire	390.00 lire
Total weekly expenditure for bread	415.20 lire	495.00 lire
Increase in lire expenditure		79.80 lire
Per cent increase		19 per cent

To be properly appreciated, an expenditure of 495 lire per week for bread should be compared with the wage of 400 lire per week now paid by the Allied forces for unskilled labour.

A 20 per cent increase in the cost of purchasing bread, the principal item of workmens' expenditure, is a very serious matter, but the true percentage increase that must be borne in mind when the decision to increase the price of bread is taken is far larger than this, for several reasons:

1. The increase is largest for those who buy the least black market bread, and hence ... largest for the poorest families. Indeed, the increase is over 300 per cent for those living on relief or workmens' and soldiers' pensions and unable to buy any black market bread.

2. The increase is greater for those receiving a heavy worker's ration, a class whom we do not wish to penalize.

3. In the comparison it is assumed that the black market price of bread will remain the same. As pointed out below, much of the present high price is purely seasonal, and the price should therefore decline after the harvest. Raising the legal price of wheat, however, will tend to raise the black market price, not depress it. The black market is a

---

1. At present the millers pay 1,50 lire per kilo for wheat and the state [illegible] milling.

Declassified E.O. 12356 Section 3.3/NND No. 785017

would have the following effect upon the weekly budget for bread of a family of 5:

	with ration bread at 3.60 lire	with ration bread at 15 lire
7 kilos of ration bread	25.20 lire	105.00 lire
3 kilos of black market bread @ 130	390.00 lire	390.00 lire
Total weekly expenditure for bread	415.20 lire	495.00 lire
Increase in lire expenditure		79.80 lire
Per cent increase		19 per cent

To be properly appreciated, an expenditure of 495 lire per week for bread should be compared with the wage of 400 lire per week now paid by the Allied forces for unskilled labour.

A 20 per cent increase in the cost of purchasing bread, the principal item of workmens' expenditure, is a very serious matter, but the true percentage increase that must be borne in mind when the decision to increase the price of bread is taken is far larger than this, for several reasons:

1. The increase is largest for those who buy the least black market bread, and hence is largest for the poorest families. Indeed, the increase is over 300 per cent for those living on relief or workmens' and soldiers' pensions and unable to buy any black market bread.

2. The increase is greater for those receiving a heavy worker's ration, a class which we do not wish to penalize.

3. In the comparison it is assumed that the black market price of bread will remain the same. As pointed out below, much of the present high price is purely seasonal, and the price should therefore decline after the harvest. Raising the legal price of wheat, however, will tend to raise the black market price, not depress it. The black market is a

---

1. At present the millers pay 1.50 lire per kilo for wheat and the state pays the additional 1.50 lire. The margin to pay for transportation, milling, baking, and retailing is 2.10 lire, making the retail price 3.60 lire. This margin is now said to be inadequate. If it is increased to 3.50 lire (an increase of only 60 per cent), if the price of wheat is raised to 1,150 lire per quintal, and if the Government subsidy is withdrawn, the retail price of bread would be 15 lire per kilo.

2. Investigations of the cost of living in Naples made by the Finance Sub-Commission by house-to-house inquiry indicate that, in addition to their bread ration, the average member of the average working class family buys each week .6 kilos of bread, .15 kilos of pasta, 1.5 kilos of potatoes, .25 litres of olive oil, a substantial quantity of fruits and vegetables, and very small quantities of meat, fish, cheese, sugar, and milk. These figures agree quite closely with those determined by the Psychological Warfare Board in a house-to-house canvas of several thousand families in Sicily.

mechanism through which people obtain more bread than that to which they are entitled in their ration. The demand for it will not be choked off by the increase in legal price, but the supply price of obtaining the wheat from farmers will rise.

4. The increase will be far greater in all towns other than Naples, for the black market price of bread is much lower in all other towns.

5. A very considerable part of the present black market price of bread is seasonal. The black market stocks of wheat obtained from last year's harvest are nearly exhausted, a fact amply demonstrated by the enormous prices farmers are now receiving for black market wheat, by the sharp increase in black market bread prices that has occurred in the last few months in all the smaller towns of Italy, and by the almost complete substitution of white bread made from stolen American flour for country bread upon the black market of Naples. To the extent that the present black market prices are seasonal, one cannot compare them to a permanent increase in the legal price of bread.

The importance of the last two of these factors is shown in the table below. In this table black market bread prices are given for one of the cities in each area, and the per cent increase in the cost of buying .6 kilos of black market bread at these prices plus 1.4 kilos of ration bread at the proposed legal prices over the cost of these purchases under present circumstances are tabulated for several dates.

It will be noticed that the percentages for April run from 17 per cent in Naples to 39 per cent in Matera. For dates before April, when the seasonal influence upon black market prices was less strong, the percentages run as high as 145 per cent and average over 50 per cent. If figures were available for towns smaller than the provincial capitals, or for dates earlier than last December when the seasonal scarcity of wheat was already evident, the per cent increases would be even greater.

	April 1944		February 1944		December 1943	
	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire
Naples	150	17	125	20	110	23
Terni	130	19	65	36	70	34
Bari	85	39	50	46	30	70

Declassified E.O. 12356 Section 3.3/NND No. 785017

A very considerable part of the present black market price of bread is seasonal. The black market stocks of wheat obtained from last year's harvest are nearly exhausted, a fact amply demonstrated by the enormous prices farmers are now receiving for black market wheat, by the sharp increase in black market bread prices that has occurred in the last few months in all the smaller towns of Italy, and by the almost complete substitution of white bread made from stolen American flour for country bread upon the black market of Naples. To the extent that the present black market prices are seasonal, one cannot compare them to a permanent increase in the legal price of bread.

The importance of the last two of these factors is shown in the table below. In this table black market bread prices are given for one of the cities in each area, and the per cent increase in the cost of buying .6 kilos of black market bread at these prices plus 1.4 kilos of ration bread at the proposed legal prices over the cost of these purchases under present circumstances are tabulated for several dates.

It will be noticed that the percentages for April run from 17 per cent in Naples to 39 per cent in Matera. For dates before April, when the seasonal influence upon black market prices was less strong, the percentages run as high as 145 per cent and average over 50 per cent. If figures were available for towns smaller than the provincial capitals, or for dates earlier than last December when the seasonal scarcity of wheat was already evident, the per cent increases would be even greater.

	April 1944		February 1944		December 1943	
	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire	price of bread on black market	% increase in cost of buying 2 kilos of bread if legal price were raised to 15 lire
Naples	150	17	125	20	110	23
Trapani	130	19	65	36	70	34
Bari	65	29	50	46	30	70
Oseerno	60	39	50	46	20	94
Cagliari	40	55	35	61	20	94
Matera	60	39	-	-	15	110
Campo Basso	-	-	-	-	10	143

2778

Declassified E.O. 12356 Section 3.3/NND No. 785017

It might be thought that a small increase in the ration given at the same time that the price of bread was increased could easily offset the increase in the price of ration bread. There is little prospect that the ration can be increased at this time. The prospective demands upon Allied wheat in the feeding of north Italy, and perhaps of all Europe, make it extremely unlikely that we can plan to increase food imports to Italy. Rather, there is reason to believe that they will have to be reduced.

However, even if the ration could be increased, it would only improve the situation in those places where the black market price of bread is very high. In Naples, for instance, if the black market price remains 150 lire, and it almost cert inly will not after the harvest, an increase of the ration of only 17 grams would offset the effect of the increase of the legal price to 15 lire. In Matera and Cosenza, where the black market price even now is only 60 lire, the ration would have to be increased 51 grams to offset the effect of the increase in the legal price. Wherever the black market price is lower than 42 lire, the case of Cagliari at present and the probable situation in many of the smaller communes after the harvest, no increase in the ration could offset the increased cost of buying ration bread at 15 lire instead of 3.60. Moreover, it should be remembered that offsetting the effect of the increase merely means maintaining the ultimately untenable condition in which almost all of a worker's income is required for the purchase of bread and a few other foods. Only in Naples could a substantial increase in the ration at a price of 15 lire materially improve the situation.

It is certain that increasing the price of bread to 15 lire per kilo will create hardship, and raise wage demands that may have to be met at once and that will certainly have to be met ultimately, thus permanently changing the value of the lira.

The effect of the proposed increase in the price of wheat upon the cost of living can be measured in a second way: There are at most 19 million people in occupied Italy other than those living on farms. If these people are to pay farmers for their food 30 billion lire per year (the figure calculated above as the cash income of farmers if the level of agricultural prices is determined in accordance with the proposed price of wheat) and, say, 20 billion lire for transportation, processing, and retailing, the average cost per person will be approximately 100 lire per week. In family terms, on the basis of 5 in a family, expenditure for food alone at legal prices would amount to 500 lire per week in all occupied Italy - rather than just Naples, the case shown in the bread expenditure figures. It is only necessary to compare this to the 400 lire per week now paid to manual labour employed by the Allied forces to realize that such a situation cannot exist indefinitely.

With such a price for basic agricultural staples, either Government subsidy or increased consumer prices would lead to inflation. A Government deficit large enough to subsidize the increased price of agricultural produce would cause a great expansion of income, while an attempt to pass the increase on to the consumer in the form of higher consumer prices would necessitate an increase in consumer income. A 300 per cent increase in the unsubsidized price of wheat and

Declassified E.O. 12356 Section 3.3/NND 785017

situation in these places where the black market price of bread is very high. In Naples, for instance, if the black market price remains 150 lire, and it almost certainly will not after the harvest, an increase of the ration of only 17 grams would offset the effect of the increase of the legal price to 15 lire. In Matera and Cosenza, where the black market price even now is only 60 lire, the ration would have to be increased 51 grams to offset the effect of the increase in the legal price. Wherever the black market price is lower than 42 lire, the case of Cagliari at present and the probable situation in many of the smaller communes after the harvest, no increase in the ration could offset the increased cost of buying ration bread at 15 lire instead of 3.60. Moreover, it should be remembered that offsetting the effect of the increase merely means maintaining the ultimately untenable condition in which almost all of a worker's income is required for the purchase of bread and a few other foods. Only in Naples could a substantial increase in the ration at a price of 15 lire materially improve the situation.

It is certain that increasing the price of bread to 15 lire per kilo will create hardship, and raise wage demands that may have to be met at once and that will certainly have to be met ultimately, thus permanently changing the value of the lira.

The effect of the proposed increase in the price of wheat upon the cost of living can be measured in a second way: There are at most 40 million people in occupied Italy other than those living on farms. If these people are to pay farmers for their food 30 billion lire per year (the figure calculated above as the cash income of farmers if the level of agricultural prices is determined in accordance with the proposed price of wheat) and, say, 20 billion lire for transportation, processing, and retailing, the average cost per person will be approximately 100 lire per week. In family terms, on the basis of 5 in a family, expenditure for food alone at legal prices would amount to 500 lire per week in all occupied Italy - rather than just Naples, - the case shown in the bread expenditure figures. It is only necessary to compare this to the 400 lire per week now paid to manual labour employed by the Allied forces to realize that such a situation cannot exist indefinitely.

With such a price for basic agricultural staples, either Government subsidy or increased consumer prices would lead to inflation. A Government deficit large enough to subsidize the increased price of agricultural produce would cause a great expansion of incomes, while an attempt to pass the increase on to the consumer in the form of higher consumer prices would necessitate an increase in consumer incomes. A 300 per cent increase in the amassi price of wheat and other agricultural produce will make what is now a temporary situation a permanent one. From such a situation there could be no "settling back". The only solution to such a situation would be a great increase in industrial prices and incomes, setting in motion forces that would further increase agricultural as well as non-agricultural prices and incomes before stability was reached at a far higher level of prices and incomes. It is certain that we cannot create a stable economy by setting agricultural prices at a level that will absorb all of a worker's income for food alone.

Declassified E.O. 12356 Section 3.3/NND No. 785017

II. The Cost of Production of Wheat

The Finance Sub-Commission recommends prices for the 1944 wheat crop averaging approximately 600 lire per quintal because we believe that that price will cover the proper costs of production of the crop and assure to the farmer as much net income as he can rightfully expect to obtain at this time.

1. The recommendations of the Agriculture Sub-Commission are not substantiated with adequate cost data. Their recommended price appears to be derived from the fact that the average of prices recommended to them by the 12 provinces answering their questionnaire was 1,148 lire per quintal. The 12 provinces answering the questionnaire submitted cost data which, when averaged, indicate that the cost of production of 1944 wheat was about 1,300 lire per quintal. These data are, however, of little use. The enormous differences in the estimates of the same items of cost made by neighbouring and similar provinces are sufficient to show that the data are not reliable. For instance, the cost of "preparation of the ground" is estimated by Benevento province at 728 lire per hectare and by its neighbour, Avellino, at 1,000 lire per hectare; the cost of weeding and similar operations is estimated by Benevento at 1,083 lire per hectare and by Avellino at 300 lire per hectare; the cost of seed is estimated by Ragusa at 2,760 lire per hectare and at 600 lire by its neighbour, Siracusa; the cost of rent is estimated by Ragusa at 11,000 lire per hectare and by Siracusa at 2,000 lire per hectare. No reliance can be placed in estimates that for neighbouring and similar provinces vary as much as this.

Furthermore, after quoting these high estimates of cost, the Agriculture Sub-Commission states in the memorandum "lengthy discussions with various Italian agricultural officials convince me that actual out-of-pocket expenditures for labour and fertilizer in production of present crop of wheat were not much greater than for the 1943 crop. Psychological factors plus an apparent lack of confidence in future are in my opinion largely responsible for high cost of production estimates."

2. Agricultural men in the field, both those of AMG and of the Italian Government have also made very high recommendations for the price of the 1944 crop. Many of these men were interviewed on a recent field trip in which the Finance Sub-Commission participated. In all cases they justified their recommendations on the grounds that the things that the farmers ordinarily purchase, i.e., shoes, clothing, and similar items, were selling at prices so high that only if the price of wheat were substantially increased would farmers be able to purchase them. This argument is the basis of most of the farmers' views on the price of wheat and of the recommendations of most men in the field. It is a thoroughly fallacious argument and must not be permitted to influence the final decision upon the price of wheat. Shoes and clothing have reached enormous prices simply because there are no shoes or clothing either for city workers or for farmers. If the price of wheat is raised to the level that would give a farmer sufficient income to buy a pair of shoes, many thousand farmers would also have sufficient income to buy the same shoes, very thousand farmers would also have sufficient income to buy the same

Declassified E.O. 12356 Section 3.3/NND ON 785017

recommendations of the Agriculture Sub-Commission are not substantiated with adequate cost data. Their recommended price appears to be derived from the fact that the average of prices recommended to them by the 12 provinces answering their questionnaire was 1,148 lire per quintal. The 12 provinces answering the questionnaire submitted cost data which, when averaged, indicate that the cost of production of 1944 wheat was about 1,300 lire per quintal. These data are, however, of little use. The enormous differences in the estimates of the same items of cost made by neighbouring and similar provinces are sufficient to show that the data are not reliable. For instance, the cost of "preparation of the ground" is estimated by Benevento province at 226 lire per hectare and by its neighbour, Avellino, at 1,000 lire per hectare; the cost of weeding and similar operations is estimated by Benevento at 1,083 lire per hectare and by Avellino at 300 lire per hectare; the cost of seed is estimated by Ragusa at 2,760 lire per hectare and at 600 lire by its neighbour, Siracusa; the cost of rent is estimated by Ragusa at 11,000 lire per hectare and by Siracusa at 2,000 lire per hectare. No reliance can be placed in estimates that for neighbouring and similar provinces vary as much as this.

Furthermore, after quoting these high estimates of cost, the Agriculture Sub-Commission states in the memorandum "lengthy discussions with various Italian agricultural officials convinces me that actual out-of-pocket expenditures for labour and fertilizer in production of present crop of wheat were not much greater than for the 1943 crop. Psychological factors plus an apparent lack of confidence in future are in my opinion largely responsible for high cost of production estimates."

2. Agricultural men in the field, both those of ACC and of the Italian Government have also made very high recommendations for the price of the 1944 crop. Many of these men were interviewed on a recent field trip in which the Finance Sub-Commission participated. In all cases they justified their recommendations on the grounds that the things that the farmers ordinarily purchase, i.e., shoes, clothing, and similar items, were selling at prices so high that only if the price of wheat were substantially increased would farmers be able to purchase them. This argument is the basis of most of the farmers' ideas on the price of wheat and of the recommendations of most men in the field. It is a thoroughly fallacious argument and must not be permitted to influence the final decision upon the price of wheat. Shoes and clothing have reached enormous prices simply because there are no shoes or clothing either for city workers or for farmers. If the price of wheat is raised to the level that would give a farmer sufficient income to buy a pair of shoes, many thousand farmers would also have sufficient income to buy the same pair of shoes. The only possible result of such a situation would be a further increase in the price of shoes sufficient to choke off the tremendous demand for them. The farmers must be convinced that at the present time they cannot obtain the things that they naturally want by an increase in their money incomes.

Until some degree of normal industrial production can be reestablished in Italy, no Italian can rightfully expect more than sufficient food and a place in which to live. At the wheat price recommended by the Finance Sub-Commission, farmers will have shelter and considerably more food than city workers. They cannot rightfully expect more, and no increase in the price of wheat, however great, will give them more.

2771

Declassified E.O. 12356 Section 3.3/NND No. 785017

3. It is not possible to determine the true money cost of production of wheat. It is possible, however, to determine the number of man and animal days that are used per hectare in the production of wheat, the rent of land, etc. On the field trip referred to above, farmers, landowners, and agricultural officials were questioned on this subject, and a tabulation of costs was made upon which substantial agreement was obtained. This calculation is as follows:

Yield (at least)	10	quintals	per	hectare
Seed retention	1.5	"	"	"
Rent	3	"	"	"
Balance	5.5	"	"	"

Man and animal days labour necessary per hectare (using hand operations rather than the cheaper mechanical operations for reaping, threshing, etc. that are in use on most farms), are as follows:

Operation	Man-days	Animal-days
1st plowing	3	3-6
2nd plowing	3	3-6
Seeding (including plowing before seeding and harrowing after)	2.5	2.5
Weeding	10	
Reaping (by hand)	6	
Shocking and transportation to threshing floor	3	
Threshing (by hand)	2	
Transportation	.5	1.5
Total	30	10-16

(The estimate of the Agriculture Sub-Commission is 36½ days of man-labour per hectare. This estimate is simply the average of the estimates of man-days given by the provinces answering their questionnaire. It is a most unreliable average, however, for, of the provinces submitting a figure, only one gave a figure as high or higher than 36½ days. This one was so high that the whole average was influenced. To be meaningful, an average must lie near the middle of an array.)

To value this labour in lire is more difficult. It is commonly believed that the wages of farm labour have increased greatly in the past year. On

Declassified E.O. 12356 Section 3.3/NND No. 785017

Balance	5.5 "	" "

Man and animal days labour necessary per hectare (using hand operations rather than the cheaper mechanical operations for reaping, threshing, etc. that are in use on most farms), are as follows:

Operation	Man-days	Animal-days
1st plowing	3	3-6
2nd plowing	3	3-6
Seeding (including plowing before seeding and harrowing after)	2.5	2.5
Weeding	10	
Reaping (by hand)	6	
Shocking and transportation to threshing floor	3	
Threshing (by hand)	2	
Transportation	.5	1.5
Total	30	10-16

(The estimate of the Agriculture Sub-Commission is 36½ days of man-labour per hectare. This estimate is simply the average of the estimates of man-days given by the provinces answering their questionnaire. It is a most unreliable average, however, for, of the provinces submitting a figure, only one gave a figure as high or higher than 36½ days. This one was so high that the whole average was influenced. To be meaningful, an average must lie near the middle of an array.)

To value this labour in lire is more difficult. It is commonly believed that the wages of farm labour have increased greatly in the past year. On the field trip, many people were asked about farm wages, particularly day labourers, tenants, sharecroppers, and landlords. These conversations indicate that the wages of day labour are about 90 lire per day without meals. Most farm labour, however, is not day labour. It is mostly salaried labour receiving meals and a much smaller lire payment, and the labour of the farmer himself and of his family. Valuing the labour at 90 lire per day is therefore a generous estimate making ample provision for the needs of the farmer and his family. The value of animal rentals was determined on the field trip to be from 75 to 100 lire per day. 90 lire per day is a generous allowance for this figure also, since the majority of the animals are owned by the farmers using them and occasion no out-of-pocket expense. The cost calculation is then as follows:

man labour (30 days at 90 lire)	2,700 lire per hectare
animal labour (15 days at 90 lire)	1,200 " " "
Total	3,900 " " "

Declassified E.O. 12356 Section 3.3/NND No. 785017

Dividing this expense by the balance of the crop after seed reductions and rent (3,900 lire ÷ 5.5 quintals) gives a cost of production of approximately 700 lire per quintal. In view of the fact that labour requirements were estimated on the basis of hand operations, in view of the fact that the valuations used for man and animal labour are comparable to those of high-cost dry labour, and in view of the fact that no deduction is made for the value of the straw or other by-products of wheat farming, 700 lire should be ample to cover the cost of production.

3. Basing the price of wheat on a calculation of costs such as that above would, however, involve an enormous social injustice and result in an unnecessarily high price. Essentially, it is being contended that the price of wheat must be increased because the costs of production of wheat, particularly labour costs, have increased. There has been no increase, certainly, in the productive expenses of landlords, but if the rent of land is to be paid in kind or in an amount of money depending upon the price or value of the crop, as is general Italian practice and as the calculation above assumes, landlords will obtain an enormous and entirely unjustified windfall and the price of wheat will be fixed substantially higher than it need be. Needless to say, this windfall will be fantastically high if the price of wheat is set at 1,150 lire per quintal.

Indeed, if rents are paid at 1,150 lire per quintal, landlords' income per hectare will even exceed labour income per hectare, being 3,450 lire, against total labour income per hectare of 3,700 lire - a situation that is manifestly unjust and unnecessary. In this connection the following points are pertinent:

(a) By decree of the Italian Government, recognised and reaffirmed by AMG, urban rents in Italy are frozen at their 1936 levels. This is a price control that is generally effective. Rural landlords whose rents depend upon the value of wheat have received a substantial increase in money rents since 1936, and if the price of wheat is now set at 1,150 lire per quintal, they will receive a further increase in money rents of about 350 per cent.

(b) In determining the price of 1945 wheat the Italian Government increased the subsidy on wheat by amounts varying from 40 to 145 lire per quintal for the different provinces of what is now occupied Italy. By decree of the then Minister of Agriculture, the increases in subsidy were made payable to tenants only, and not to landlords. The suggestion, therefore, that landlords ought not to be permitted to profit from the much greater increase in price now being contemplated is not a new departure from Italian practice or from the Italian conception of justice. If the Italian Government considered such a step necessary last year when the degree of unjustified enrichment that would have resulted from its omission was much less than that which will result this year, it is the more necessary to take the same or a similar step this year. Indeed, if such a step is not taken this year, the percentage increase in landlords' income will be greater even than that of the farmers, for the farmers will be receiving an increase from 700 lire last year to 1,150 lire this

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND 785017

...ould, however, involve an enormous social injustice and result in an unnecessarily high price. Basically, it is being contended that the price of wheat must be increased because the costs of production of wheat, particularly labour costs, have increased. There has been no increase, certainly, in the productive expenses of landlords, but if the rent of land is to be paid in kind or in an amount of money depending upon the price or value of the crop, as is general Italian practice and as the calculation above assumes, landlords will obtain an enormous and entirely unjustified windfall and the price of wheat will be fixed substantially higher than it need be. Needless to say, this windfall will be fantastically high if the price of wheat is set at 1,150 lire per quintal.

Indeed, if rents are paid at 1,150 lire per quintal, landlords' income per hectare will even exceed labour income per hectare, being 3,450 lire, against total labour income per hectare of 2,700 lire - a situation that is manifestly unjust and unnecessary. In this connection the following points are pertinent:

(a) By decree of the Italian Government, recognized and reaffirmed by ACC, urban rents in Italy are frozen at their 1936 levels. This is a price control that is generally effective. Rural landlords whose rents depend upon the value of wheat have received a substantial increase in money rents since 1936, and if the price of wheat is now set at 1,150 lire per quintal, they will receive a further increase in money rents of about 350 per cent.

(b) In determining the price of 1943 wheat the Italian Government increased the subsidy on wheat by amounts varying from 40 to 145 lire per quintal for the different provinces of what is now occupied Italy. By decree of the then Minister of Agriculture, the increases in subsidy were made payable to tenants only, and not to landlords. The suggestion, therefore, that landlords ought not to be permitted to profit from the much greater increase in price now being contemplated is not a new departure from Italian practice or from the Italian conception of justice. If the Italian Government considered such a step necessary last year when the degree of unjustified enrichment that would have resulted from its omission was much less than that which will result this year, it is the more necessary to take the same or a similar step this year. Indeed, if such a step is not taken this year, the percentage increase in landlords' incomes will be greater even than that of the farmers, for the farmers will be receiving an increase from 300 lire last year to 1,150 lire this year, while the landlords will be receiving an increase from, in the case of most provinces, 230 lire last year to 1,150 this year.

We are convinced that justice, consistency with the action of the Government last year, consistency with our policy toward urban landlords, and most important, the impossibility of setting a price of wheat high enough to permit paying rents at a price equal to that necessary to cover the other items of cost, require that rural landlords be prevented from profiting from any increase in the price of wheat that may be decided upon for the current crop. To accomplish this, ACC should recommend to the Italian Government the immediate preparation of a decree requiring that all rents, including share-croppers' payments to landlords, be paid in money rather than in kind, and that the amount of money to be paid shall be determined by valuing the agricultural produce called for in the rent or share-cropper contract at prices no higher than the official prices ruling in the spring of 1943.

2473

A secondary, but not inconsiderable advantage of requiring that rents be paid in money would be that the number of people responsible for assessing would be substantially reduced. Under present conditions many rents are paid in kind and both the tenant and the landlord are required to assess their shares. Inasmuch as the landlord is due no seed retention this year and needs no seed retention, this is a complication of procedure that makes effective assessing more difficult and that creates a term both of whose members stand to gain by a common under-declaration of the amount of the crop.

Last year's directive of the Ministry of Agriculture, referred to above, did not cover share-croppers. This was a serious omission that should be corrected in the preparation of a decree for this year.

4. When this step, which in our opinion is eminently just, is taken, the price of wheat that need be paid to cover its costs of production is found to be much lower than that calculated previously:

Yield (at least)	10 quintals	per hectare
Seed retention	1.5 "	" "
Balance	8.5 "	" "
Man labour	2,700 lire	per hectare
Animal labour	1,200 "	" "
Rent (5 q. @ 300)	900 "	" "
Total	4,800 "	" "

Cost of production of wheat (4,800 lire ÷ 8.5 quintals) = 565 lire per quintal.

On the basis of this calculation, which makes generous estimates of the amounts of man and animal labour required, which values man and animal labour at the admittedly high rates paid to day-labour, and which makes no allowance for the value of by-products, we believe that prices of 550 and 600 lire per quintal for Sardinia, where costs are agreed to be lower than elsewhere and of 600 to 700 lire for the mainland and Sicily are ample to cover the costs of production of wheat and to meet the legitimate needs and expectations of farmers.

If rents are frozen in the manner proposed, the wheat prices recommended by the Finance Sub-Commission are equivalent to much higher prices so far as farmers are concerned. The comparison of the prices that would have to be paid for wheat under existing rent agreements in order to have the amount retained as the farmer's income from each hectare of land equal to that which would be retained as his income from each hectare if rents are frozen is as follows:

$$\left\{ \frac{(\text{yield} - \text{seed retention})\ \text{price} - \text{money rent}}{\text{yield} - \text{seed retention and rent in kind}} = \text{comparable price} \right\}$$

	Finance Sub-Commission Price Recommendations	Comparable Price Under Existing Rent Agreements
Soft wheat	[illegible]	[illegible]

Declassified E.O. 12356 Section 3.3/NND 785017

When this step, which in our opinion is eminently just, is taken, the price of wheat that need be paid to cover its costs of production is found to be much lower than that calculated previously:

Yield (at least)	10	quintals	per	hectare
Seed retention	1.5	"	"	"
Balance	8.5	"	"	"
Man labour	2,700	lire	per	hectare
Animal labour	1,200	"	"	"
Rent (3 q. @ 300)	900	"	"	"
Total	4,800	"	"	"

Cost of production of wheat (4,800 lire ÷ 8.5 quintals) = 565 lire per quintal.

On the basis of this calculation, which makes generous estimates of the amounts of man and animal labour required, which values man and animal labour at the admittedly high rates paid to day-labour, and which makes no allowance for the value of by-products, we believe that prices of 550 and 600 lire per quintal for Sardinia, where costs are agreed to be lower than elsewhere and of 600 to 700 lire for the mainland and Sicily are ample to cover the costs of production of wheat and to meet the legitimate needs and expectations of farmers.

If rents are frozen in the manner proposed, the wheat prices recommended by the Finance Sub-Commission are equivalent to much higher prices so far as farmers are concerned. The comparison of the prices that would have to be paid for wheat under existing rent agreements in order to have the amount retained as the farmer's income from each hectare of land equal to that which would be retained as his income from each hectare if rents are frozen is as follows:

$$\left\{ \frac{\text{(yield - seed retention) price - money rent}}{\text{yield - seed retention and rent in kind}} = \text{comparable price} \right\}$$

	Finance Sub-Commission Price Recommendations		Comparable Price Under Existing Rent Agreements	
	Soft wheat	Hard wheat	Soft wheat	Hard wheat
SARDINIA	550	600	606	764
MAINLAND	600	650	764	841
SICILY	650	700	841	918

It will be noticed that the prices to which our prices are equivalent are high enough to meet most of the estimates of what farmers must be paid to induce a reasonable amount of cooperation from them. It will also be noticed that if the rent proposition is accepted the effective spread in price between areas is larger than it would otherwise be. That is, our recommendations for hard wheat call for a spread from 600 in Sardinia to 700 in Sicily.

Declassified E.O. 12356 Section 3.3/NND 785017

a difference of 100 lire per quintal, while the equivalent prices under existing rent contracts vary from 74 to 918, a difference of 154 lire per quintal.

5. In considering farmers' estimates of price and cost of production, it is frequently argued that farmers will not produce a maximum crop next year if they do not get what they believe they should for this year's crop. We believe that precisely the opposite is true. People work from necessity, not from choice. There is considerable evidence that farmers are now holding substantial idle balances of lire and postal savings deposits, owing to the absence of city goods that they would otherwise buy with their incomes. If a very high price is paid for this year's crop, it is quite possible that farmers' accumulations of cash balances may become so large that they will consider it unnecessary to produce next year anything more than what they need for their own consumption. If they are not given the means of accumulating excessive cash reserves they will have no choice but to continue production.

6. There are a few incidental points on costs that deserve mention. Farmers spoken to on the field trip expressed fear that harvesting costs would be high because of a seasonal peak in farm wages at harvesting time, and because of the possibility that the threshers required to purchase materials and spare parts at black market prices, would charge exhorbitant fees. ACC might well recommend to the Italian Government that all available units of the Italian army either be given agricultural leave to increase the supply of farm labour at harvest time, or, preferably, be sent to the farms as members of the army to harvest the crop for a reasonable supplemental wage paid by the farmer. It has been customary for the Italian army to grant agricultural leave at harvest time. To handle the threshing problem, it is recommended that the threshers be closely supervised by the Consorzio Probbistori, preferably in the manner outlined in Section III, below.

III. Amassing

1. The Finance Sub-Commission strongly believes that all principal crops should be amassed in order to provide sufficient food with which Italy can help to feed itself, in order to make rations other than bread and olive oil available, in order to prevent discriminatory treatment of those farmers growing wheat, barley and olive oil which it has already been decided shall be amassed, and in order to prevent the tendency that would otherwise develop for farmers to plant non-amassed crops in preference to amassed crops. We understand that this view is strongly held by both the Ministry of Agriculture and the Ministry of Finance.

2. We sincerely believe that in a situation in which black market prices are, and will remain, substantially higher than legal prices, however high legal prices may be set, price cannot be depended upon as the principal inducement to amassing. We believe that some form of compulsion must be used if amassing this summer is not to be as completely unsuccessful as was the amassing programme last summer and the amassing of olive oil last winter. It follows that if compulsion is necessary, a price high enough to meet the

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] to balances of their own postal savings deposits, owing to the absence of city goods that they would otherwise buy with their incomes. If a very high price is paid for this year's crop, it is quite possible that farmers' accumulations of cash balances may become so large that they will consider it unnecessary to produce next year anything more than what they need for their own consumption. If they are not given the means of accumulating excessive cash reserves they will have no choice but to continue production.

6. There are a few incidental points on costs that deserve mention. Farmers spoken to on the field trip expressed fear that harvesting costs would be high because of a seasonal rise in farm wages at harvesting time, but because of the possibility that the threshers required to purchase materials and spare parts at black market prices, would charge exhorbitant fees. AMG might well recommend to the Italian Government that all available units of the Italian army either be given agricultural leave to increase the supply of farm labour at harvest time, or, preferably, be sent to the farms as members of the army to harvest the crop for a reasonable supplemental wage paid by the farmer. It has been customary for the Italian army to grant agricultural leave at harvest time. To handle the threshing problem, it is recommended that the threshers be closely supervised by the Consorzio Trebbiatori, preferably in the manner outlined in Section III, below.

III. Ammasing

1. The Finance Sub-Commission strongly believes that all principal crops should be ammassed in order to provide sufficient food with which Italy can help to feed itself, in order to make rations other than bread and olive oil available, in order to prevent discriminatory treatment of those farmers growing wheat, barley and olive oil which it has already been decided shall be ammassed, and in order to prevent the tendency that would otherwise develop for farmers to plant non-ammassed crops in preference to ammassed crops. We understand that this view is strongly held by both the Ministry of Agriculture and the Ministry of Finance.

2. We sincerely believe that in a situation in which black market prices are, and will remain, substantially higher than legal prices, however high legal prices may be put, price cannot be depended upon as the principal inducement to ammassing. We believe that some form of imaginative and bold compulsion must be used if ammassing this summer is not to be as completely unsuccessful as was the ammassing programme last summer and the ammassing of olive oil last winter. It follows that if compulsion is necessary, a price high enough to meet the [illegible] interests of farmers is not essential.

3. Signor Giuseppe Pignaloza of the Consorzio Trebbiatori at Matera has suggested the use of threshers in the ammassing programme. The Consorzio Trebbiatori has general supervision over the threshing industry. Signor Pignaloza recommends that the Consorzio license the threshers, issue permits for the threshing of individual farmers' crops, plan the routes of the threshing machines, provide the threshers with forms for the declaration of wheat threshed, and authorize the threshers to collect the grain at the time of threshing, leaving behind only the authorized family and seed quantities. He points out that the threshers can be controlled through their necessity of obtaining coal, gasoline, or diesel oil from Government sources. For each machine the amount of wheat that will be threshed per unit of fuel consumed is roughly determinable. The threshers could not, therefore, [illegible] advantage of their position and fail to turn over to the ammassi wheat they had collected from farmers. We believe that this is an excellent plan that should be carefully

considered by ACC.

4. Finally, we should like to draw attention to a memorandum submitted by this Sub-Commission on the desirability of requesting the Italian Government to investigate the honesty of the Consorzio Agrario by checking the records of their sales against commercial bank records of crop payments made to farmers. On the field trip several farmers complained that if they sold their wheat to the Consorzi, the Consorzi would sell it on the black market; the ACC agricultural officer in Bari informed us that 2 Consorzio officials had recently been prosecuted in Puglia for diverting Consorzio products to their own use; and an Italian agricultural official of Bari reported some discontent upon this subject amongst the farmers of that Province. If these scattered reports are indicative of any widespread distrust of the Consorzio, we should lose no time in finding and severely punishing such dishonest men as there may be in the organization, and in widely announcing the completeness of our search and the severity of our punishment. Any general belief that the Consorzio is dishonest can be disastrous to the sowing programme.

IV. Necessity for a Complete Programme

In submitting these recommendations upon the price of wheat, the Finance Sub-Commission would like to repeat its belief that the price of wheat is an integral part of the whole question of agricultural policy. We should not like to see the price of wheat determined apart from a general determination of agricultural policy with respect to plans for growing wheat and other crops and the prices to be paid for each.

Colonel,
Joint Director,
Finance Sub-Commission.

JJR/FFP

Declassified E.O. 12356 Section 3.3/NND 785017

...for diverting Consorzio products to their own use; and an Italian agricultural official of Bari reported some discontent upon this subject amongst the farmers of that Province. If these scattered reports are indicative of any widespread distrust of the Consorzio, we should lose no time in finding and severely punishing such dishonest men as there may be in the organization, and in widely announcing the completeness of our search and the severity of our punishment. Any general belief that the Consorzio is dishonest can be disastrous to the amassing programme.

IV. Necessity for a Complete Programme

In submitting these recommendations upon the price of wheat, the Finance Sub-Commission would like to repeat its belief that the price of wheat is an integral part of the whole question of agricultural policy. We should not like to see the price of wheat determined apart from a general determination of agricultural policy with respect to plans for amassing wheat and other crops and the prices to be paid for each.

J. H. Tregoe
Colonel,
Joint Director,
Finance Sub-Commission;

JEH/PFP

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

APPENDIX 'B'

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13098/F

26 April 1944.

REFORM OF THE ITALIAN TAX SYSTEM

A. Introduction

1. The extreme weaknesses of the Italian revenue system may be summarised as:

(a) an assessment procedure that is both unduly slow and highly inaccurate;

(b) a collection system which invites high costs, collusion and corruption of every kind;

(c) excessive reliance on per quantum consumption taxes.

To make the system adequate as an instrument both of inflation control and of balancing necessarily large future budgets will require changes in the present tax system so basic in concept and in administration that the full effect upon revenues cannot be realised except over a considerable period of years. It is the purpose of this memorandum to set forth the broad lines of a comprehensive modern and progressive scheme of taxation which is believed to be capable of eventual realisation, together with an indication of emergency measures which will be appropriate for the inflationary situation and will have an immediate effect on revenues.

The Italian taxation system stems in part from the Roman, with such modifications as were made by Napoleon. It is similar to most Latin systems and is designed to cope with a large proportion of smugglers and evaders. There appears never to have been any fiscal cooperation between the Government and the people, and hence the system is based on the spy and the informer and on the taxation of things that can be seen or measured by inexpert hands. Inevitably, therefore, any successful and thoroughgoing revision depends on the political factor. Until there is greater collaboration between government and people, and hence between official and taxpayer, all revenues based on self-assessment by the taxpayer and on the production of reasonably accurate returns and accounts will be subject to some risks of a temporary drop in revenue yield.

2. The scheme herein proposed will necessarily consist largely of a rough outline, in terms of specific and results to be achieved. Detailed form-

Declassified E.O. 12356 Section 3.3/NND 785017

REVIEW OF THE ITALIAN TAX SYSTEM

A. Introduction

1. The extreme weaknesses of the Italian revenue system may be summarized as:

(a) an assessment procedure that is both unduly slow and highly inaccurate;

(b) a collection system which invites high costs, collusion and corruption of every kind;

(c) excessive reliance on per quantum consumption taxes.

To make the system adequate as an instrument both of inflation control and of balancing necessarily large future budgets will require changes in the present tax system so basic in concept and in administration that the full effect upon revenues cannot be realized except over a considerable period of years. It is the purpose of this memorandum to set forth the broad lines of a comprehensive modern and progressive scheme of taxation which is believed to be capable of eventual realization, together with an indication of emergency measures which will be appropriate for the inflationary situation and will have an immediate effect on revenues.

The Italian taxation system stems in part from the Roman, with such modifications as were made by Napoleon. It is similar to most Latin systems and is designed to cope with a large proportion of smugglers and evaders. There appears never to have been any fiscal cooperation between the Government and the people, and hence the system is based on the spy and the informer and on the taxation of things that can be seen or measured by improper hands. Inevitably, therefore, any successful and thoroughgoing revision depends on the political factor. Until there is greater collaboration between government and people, and hence between official and taxpayer, all revenues based on self-assessment by the taxpayer and on the production of reasonably accurate returns and accounts will be subject to some risks of a temporary drop in revenue yield.

2. The scheme herein proposed will necessarily consist largely of a rough outline, in terms of specific end results to be achieved. Detailed formulation of the proposals necessarily depends on information as to Italian business, legal, financial and social practices which is at present lacking. Rates and exemptions must also depend on statistical material which is not now available, and any rates or exemptions herein suggested are by way of illustration only and should not be taken as definitive recommendations. In any event, the technical and administrative points will best be decided by responsible Italian officials.

3. In formulating this taxation scheme, the following considerations have been deemed to be of paramount importance:

(a) that a larger yield must be secured;

(b) that so far as possible Italian administrative organization should be preserved, except where it interferes with reasonably efficient collection of revenue;

(c) that sufficient flexibility must be achieved to make the revenue system quickly responsive to inflationary and deflationary pressures, but that at the same time enough stability of revenue must be secured to enable the government to count on a minimum amount irrespective of current economic conditions;

(d) that a workable tax system for Italy must above all be simple. The existence of a large body of ignorant taxpayers and inefficient administrators does not permit of many of the nice adjustments characteristic of the British and American systems. Theoretical equity has, therefore, in some instances been sacrificed to simplicity. One of the chief features of a simple tax system is actual collection from as few persons as possible.

4. The balance of this memorandum is divided into the following parts:

B. Income Taxes
C. Excess Profits Tax
D. Consumption Taxes
E. Monopolies.
F. Capital Taxes
G. Death and Gift Taxes
H. Miscellaneous Taxes
J. Communal and Provincial Taxes
K. Collection
L. Timing of the Programme

5. Budgetary figures for revenues for the fiscal year 1942-43 (State only) were as follows (in millions of lire):

Imposte dirette	
Temporary taxes	
Immovable property	500.0
Capital stock	120.0
2% salary contribution	240.0
Management compensation	80.0
Excess profits	350.0
Permanent taxes	
Income from rural real property	150.0
Income from urban non-industrial buildings	350.0
Basic income tax	5,250.0
Supplementary progressive income tax	810.0
Bachelor tax	240.0
Personal property	1,400.0

Declassified E.O. 12356 Section 3.3/NND No. 785017

(4) that a workable tax system for Italy must above all be simple. The existence of a large body of ignorant taxpayers and inefficient administrators does not permit of many of the nice adjustments characteristic of the British and American systems. Theoretical equity has, therefore, in some instances been sacrificed to simplicity. One of the chief features of a simple tax system is actual collection from as few persons as possible.

4. The balance of this memorandum is divided into the following parts:

B. Income Taxes
C. Excess Profits Tax
D. Consumption Taxes
E. Monopolies.
F. Capital Taxes
G. Death and Gift Taxes
H. Miscellaneous Taxes
J. Command and Provincial Taxes
K. Collection
L. Timing of the Programme

5. Budgetary figures for revenues for the fiscal year 1942-43 (State only) were as follows (in millions of lire):

Imposte dirette		
Temporary taxes		
Immovable property	500.0	
Capital stock	120.0	
2% salary contribution	240.0	
Management compensation	50.0	
Excess profits	350.0	
Permanent taxes		
Income from Rural real property	150.0	
Income from Urban non-industrial buildings	350.0	
Basic income tax	5,250.0	
Supplementary progressive income tax	810.0	
Bachelor tax	240.0	
Personal property	1,400.0	
Dividends and income from bearer securities	550.0	
Total direct taxes		10,020.0

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Imposte indirette sugli affari		
Inheritances and gifts	270.0	
Turnover tax	5,600.0	
Stamp tax	550.0	
Additional stamp and registration tax	580.0	
Radio	105.0	
Government concessions	255.0	
Amusements	115.0	
Playing cards	10.0	
Railways, passenger	23.5	
Railway freight	82.5	
Registration	1,540.0	
Increase in value of shares	350.0	
Mortgages, etc.	290.0	
Automobile freight	100.0	
Miscellaneous	144.8	
Total indirect business taxes		10,415.8
Imposte indirette sui consumi		
Manufacture of spirits	450.0	
" " beer	55.0	
" " sugar	1,300.0	
" " glucose	9.0	
" " vegetable oils	25.0	
" " mineral oils	1,100.0	
" " coffee substitutes	230.0	
" " artificial textiles	150.0	
" " gas, electric energy and fixtures	515.0	
Coffee	100.0	
Total indirect consumption taxes		3,934.0
Customs and import taxes		2,260.0
Monopolies		5,334.2
Lotteries		534.3
Grand Total		32,488.3

B. Income Taxes

1. The present Italian income tax system needs complete reformation.

The present Italian structure of income consists of a hodgepodge of many different taxes, few of which contain progressive rate structures. The more important ones are as follows, the rates given being the increased rates which came into force in 1944:

Flying stamp	10.0	
Railways, passenger	25.5	
Railway freight	82.5	
Registration	1,545.0	
Increase in value of shares	350.0	
Mortgages, etc.	290.0	
Automobile freight	100.0	
Miscellaneous	144.8	
Total indirect business taxes		10,415.8
Imposte indirette sui consumi		
Manufacture of spirits	450.0	
" " beer	55.0	
" " sugar	1,300.0	
" " glucose	9.0	
" " vegetable oils	25.0	
" " mineral oils	1,100.0	
" " coffee substitutes	230.0	
" " artificial textiles	150.0	
" " gas, electric energy and fixtures	515.0	
Coffee	100.0	
Total indirect consumption taxes		3,934.0
Customs and import taxes		2,250.0
Monopolies		5,334.2
Lotteries		534.3
Grand Total		32,498.3

B. Income Taxes

1. The present Italian income tax system needs complete reformation.

The present Italian taxation of income consists of a hodgepodge of many different taxes, few of which contain progressive rate structures. The more important ones are as follows, the rates given being the increased rates which came into force in 1946:

(a) The "Ricchezza Mobile" tax; a levy upon various forms of income according to their source. There are five categories:

(i) income from capital (not including rent) - taxed at 24%
(ii) income from "capital and labour combined" (this includes corporate and business income and also tenant farmers) - taxed at 18%
(iii) income from professions - taxed at 14%
(iv) wages and salaries (non-governmental) - taxed at 9%
(v) governmental wages and salaries - taxed at 6%
(vi) wages of temporary labourers employed by the State - taxed at 4%

Declassified E.O. 12356 Section 3.3/NND No. 785017

(b) A tax of 10% on the rental value of urban shops and dwellings, but with most post-World War construction temporarily exempt;

(c) A tax of 5% on the rental value of rural real estate;

(d) A tax of 10% on the agricultural income of owner-cultivators;

(e) A tax of 20% on dividends;

(f) A tax of 25% on managerial compensation;

(g) A tax of 20% on the income from bearer securities;

(h) A progressive tax on annual income over 6,000 lire, from whatever source derived; Rates range from 1% to 20%;

(i) A tax on the income of bachelors, rates being graduated according to both size of income and age of the taxpayer;

(j) A sliding scale of tax rebates for large families, graduated according to the size of the family;

(k) A tax of 3% on the rental income from most real estate, the proceeds being used to amortize a forced loan equal to 5% of the value of the real estate owned.

It will be seen that income from different sources is taxed under different laws and at different rates, being only brought together under item (h). The law provides for the compulsory filing of separate declarations of income in the case of most of these taxes. That is, the taxpayer is supposed to file initial returns, and then to file returns in any subsequent year in which there has been a change in the amount of his income from that assessed. The returns are used for information only and not for self-assessment. Penalties in the form of additions to tax are imposed for failure to file on time. In practice, however, the filing requirements are rarely observed. Many taxpayers are illiterate, there is no requirement that individuals keep books for tax purposes, and where books are kept they are likely to be a set specially cooked for the tax assessor. Tax officials make their own independent assessments based on partial information supplied by investigators and informers and on the application of arbitrary co-efficients to theoretical turnover figures. They then bargain with each taxpayer over the size of each individual's tax. Moreover, no attempt is made to ascertain what income the taxpayer actually did receive. The effort is rather, by the use of complicated and arbitrary co-efficients, to establish a theoretical earning capacity of the taxpayer or his property, and to use that figure as the basis of assessment. Such a system is unbelievably slow and inaccurate.

The difficulties with Italian taxation of income, i.e. lack of declarations, false basis of assessment, lack of progression, differentiation of rate according to source of income, etc., are so basic that no amount of

Declassified E.O. 12356 Section 3.3/NND No. 785017

(f) A tax of 20% on managerial compensation;

(g) A tax of 20% on the income from bearer securities;

(h) A progressive tax on annual income over 6,000 lire, from whatever source derived; rates range from 1% to 20%;

(i) A tax on the income of bachelors, rates being graduated according to both size of income and age of the taxpayer;

(j) A sliding scale of tax rebates for large families, graduated according to the size of the family;

(k) A tax of 3½% on the rental income from most real estate, the proceeds being used to amortize a forced loan equal to 5% of the value of the real estate owned.

It will be seen that income from different sources is taxed under different laws and at different rates, being only brought together under item (h). The law provides for the compulsory filing of separate declarations of income in the case of most of these taxes. That is, the taxpayer is supposed to file initial returns, and then to file returns in any subsequent year in which there has been a change in the amount of his income from that assessed. The returns are used for information only and not for self-assessment. Penalties in the form of additions to tax are imposed for failure to file on time. In practice, however, the filing requirements are rarely observed. Many taxpayers are illiterate, there is no requirement that individuals keep books for tax purposes, and where books are kept they are likely to be a set specially created for the tax assessor. Tax officials make their own independent assessments based on partial information supplied by investigators and informers and on the application of arbitrary co-efficients to theoretical turnover figures. They then bargain with each taxpayer over the size of each individual's tax. However, no attempt is made to ascertain what income the taxpayer actually did receive. The effort is rather, by the use of complicated and arbitrary co-efficients, to establish a theoretical earning capacity of the taxpayer or his property, and to use that figure as the basis of assessment. Such a system is unbelievably slow and inaccurate.

The difficulties with Italian taxation of income, i.e. lack of declarations, false basis of assessment, lack of progression, differentiation of rate according to source of income, etc., are so basic that no amount of tinkering with the existing system can do much to cure them all. It seems necessary to devise a system new in both its substantive and administrative provisions.

2. Proposal for simplification and extension of the income tax

(a) Integration of Income Taxes

It is proposed that the imposition of a separate basic rate to different types of income, with an exemption limit only applying to certain categories, should be abolished, and one uniform basic rate be applied to income from whatsoever source derived. This basic rate would be applied in three ways:

Declassified E.O. 12356 Section 3.3/NND No. 785017

(i) in the case of wages and salaries, by a with-holding tax based on tables taking into account allowances for family circumstances;

(ii) in the case of business and professional income, etc., by declaration, the computation of tax taking into account the same allowances for family circumstances as in the case of wages and salaries;

(iii) in the case of income from securities, by a with-holding tax at the full basic rate.

The basic rate, applicable to individuals, partnerships, stock companies, etc. alike should be quite high, say 40%. In the light of such a high rate, and in order to secure effective progression, existing exemptions and family allowances should be raised to say 10,000 lire for an individual without dependents, and to 30,000 lire for the head of a family with 5,000 lire additional for each child under 13 years of age.

(b) Surtax

The existing progressive income tax could be converted into a surtax applicable to individuals only. In order not to complicate with-holding mechanisms, it should start only at an income level high enough to exclude wage earners and all but the best paid white collar workers (at present income levels this might for example be at 50,000 lire). Rates might be so adjusted that all income above, say, 1,000,000 lire would be taxed at say 50%, thus making a combined basic and surtax rate of 90%. It should be noted that the present Italian progressive tax lumps together all income of the members of a family unit. This feature is highly desirable and should be preserved.

(c) Returns

At a date not later than the 31st of March in each year, every person having an income in excess of 10,000 lire (assuming use of the figure in paragraph (a) should be required to file a return showing his income from all sources. A simple return can be devised to suit the requirements of the average taxpayer. A complete return form, applicable to other persons, would consist of the following schedules:

(i) name, address and family status;

(ii) amount of rent paid, and to whom;

(iii) wages and salaries received;

(iv) agricultural income;

(v) business income;

Declassified E.O. 12356 Section 3.3/NND No. 785017

(iii) in the case of income from securities, by a with-holding tax at the full basic rate.

The basic rate, applicable to individuals, partnerships, stock companies, etc. alike should be quite high, say 40%. In the light of such a high rate, and in order to secure effective progression, existing exemptions and family allowances should be raised to say 10,000 lire for an individual without dependents, and to 20,000 lire for the head of a family with 5,000 lire additional for each child under 18 years of age.

(b) Surtax

The existing progressive income tax could be converted into a surtax applicable to individuals only. In order not to complicate withholding mechanisms, it should start only at an income level high enough to exclude wage earners and all but the best paid white collar workers (at present income levels this might for example be at 50,000 lire). Rates might be so adjusted that all income above, say, 1,000,000 lire would be taxed at say 50%, thus making a combined basic and surtax rate of 90%. It should be noted that the present Italian progressive tax lumps together all income of the members of a family unit. This feature is highly desirable and should be preserved.

(c) Returns

At a date not later than the 31st of March in each year, every person having an income in excess of 10,000 lire (assuming use of the figure in paragraph (a) should be required to file a return showing his income from all sources. A single return can be devised to suit the requirements of the average taxpayer. A complete return form, applicable to other persons, would consist of the following schedules:

(i) name, address and family status;

(ii) amount of rent paid, and to whom;

(iii) wages and salaries received;

(iv) agricultural income;

(v) business income;

(vi) dividends received;

(vii) interest received;

(viii) proportionate share of partnership profits and amount of tax paid by the partnership thereon;

(ix) professional income;

(x) rent received;

(xi) other income, (royalties, annuities, etc.)

2772

Declassified E.O. 12356 Section 3.3/NND 785017

(d) Wages and Salaries (including bonuses, pensions, etc.)

The Richezza Mobile tax is at present collected in respect of employees by a with-holding system, which appears to work rather well. It is suggested that as much of the present administrative mechanism of with-holding be retained as is consistent with the plan here outlined. Employers could be furnished with a table of amounts to be withheld, automatically computed for the various wage brackets according to pay period and family status. With-holding would be in respect of the basic rate only, any surtax due being payable by the employee during the following year.

(e) Agricultural Income

It is a commentary on the equity of the present Italian income tax system that, apart from the progressive income tax, the income of the landed rural proprietor is taxed at a 10% rate, while the income of the tenant farmer is taxed at an 18% rate, (although it is not agricultural income, it is also interesting to note that the rent received by the absentee rural landlord is taxable at a 5% rate). Under the proposals herein, the schedule for agricultural income would include both owner-cultivators and the various kinds of tenants, including the sharecroppers.

The application of the income tax to agricultural income is, under the best conditions in any country, one of the most difficult provisions of the income tax to administer effectively. Nevertheless, it is most important that the provisions of the income tax law apply to agriculture in Italy because of the relative importance of the industry, and because the farmers are the principal recipients of inflationary income and profits.

On the assumption that the marketing of agricultural products eventually enjoys a well organized and functioning consol system and an absence of black markets, tax administration would be relatively simple. Sales and produce retained could be checked against consol quotas. It might even be possible to place taxes on agrarian income on a with-holding basis, the consol deducting from the price paid a percentage equal to the basic rate less the deductions for seed, implements, etc. Instead of allowing further deductions and allowances, the State might forego taxation of the amount of produce permitted to be retained by the taxpayer.

This simple approach may be difficult to apply with full justice between the landlord and the tenant, the small or high cost farmer as against the large or low cost farmer. Furthermore, without an assessing system, or if the assessing is ineffective or operates over a narrow list of items, the procedure will break down.

For these reasons it may be necessary to resort to deductions

Declassified E.O. 12356 Section 3.3/NND No. 785017

according to pay period and family status. With-holding would be in respect of the basic rate only, any surtax due being payable by the employee during the following year.

(c) Agricultural Income

It is a commentary on the equity of the present Italian income tax system that, apart from the progressive income tax, the income of the landed rural proprietor is taxed at a 10% rate, while the income of the tenant farmer is taxed at an 18% rate, (although it is not agricultural income, it is also interesting to note that the rent received by the absentee rural landlord is taxable at a 5% rate). Under the proposals herein, the schedule for agricultural income would include both owner-cultivators and the various kinds of tenants, including the sharecroppers.

The application of the income tax to agricultural income is, under the best conditions in any country, one of the most difficult provisions of the income tax to administer effectively. Nevertheless, it is most important that the provisions of the income tax law apply to agriculture in Italy because of the relative importance of the industry, and because the farmers are the principal recipients of inflationary income and profits.

On the assumption that the marketing of agricultural products eventually enjoys a well organized and functioning ammasi system and an absence of black markets, tax administration would be relatively simple. Sales and produce retained could be checked against ammasi quotas. It might even be possible to place taxes on agrarian income on a with-holding basis, the ammasi deducting from the price paid a percentage equal to the basic rate less the deductions for seed, implements, etc. Instead of allowing further deductions and allowances, the State might forego taxation of the amount of produce permitted to be retained by the taxpayer.

This simple approach may be difficult to apply with full justice between the landlord and the tenant, the small or high cost farmer as against the large or low cost farmer. Furthermore, without an ammasing system, or if the ammasing is ineffective or operates over a narrow list of items, the procedure will break down.

For these reasons it may be necessary to resort to declarations of income, requesting information on crops and land holdings which can be checked by agricultural officials familiar with the area. This procedure can prove successful only if the number of declarations is relatively small. Thus the small land owners or share croppers (less than, say, 2 hectares) can be exempted from the requirement of submitting declarations, even though the declaration is simple in form and computation. A special arrangement of an income tax fee of specified

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

amounts of tax can be introduced for those farmers working farms of a limited size. Such a provision would simplify the administration of the tax by greatly reducing the number of declarations, and would permit the tax collecting organization to concentrate its energies on the larger farmers, which would be, from the point of view of revenue, a more fruitful field of activity.

It is advisable for the administration to experiment with the application of the tax to agriculture, and during the first periods, to adjust procedures in a flexible manner until the final form of administration is determined.

(f) Business Income

This schedule would comprehend all industrial and entrepreneurial income, whether carried on by sole proprietors, partnerships, stock associations, corporations, etc. It appears to be current Italian practice to assess this type of income by the application to a theoretical turnover figure of a series of coefficients for each industry or business. These coefficients represent a theoretical average deduction in respect of cost of raw materials, inventory, wages, maintenance, depreciation, etc. The system gives an undue tax bonus to the low-cost producer. However, business deductions are matters of enormous complexity, and it is probably not immediately possible to require the relatively large number of small entrepreneurs to keep the type of records from which such deductions could be accurately ascertained. Legislation is now in course of preparation to require the keeping of statutory books for tax purposes. This should result in discarding the coefficient system and in important cases being in fact subject to a minimum accounting system, conforming to standard accounting procedure.

Declassified E.O. 12356 Section 3.3/NND No. 785017

...with the application of the tax to agriculture, and during the first periods, to adjust procedures in a flexible manner until the final form of administration is determined.

(f) Business Income

This schedule would comprehend all industrial and entrepreneurial income, whether carried on by sole proprietors, partnerships, stock associations, corporations, etc. It appears to be current Italian practice to assess this type of income by the application to a theoretical turnover figure of a series of coefficients for each industry or business. These coefficients represent a theoretical average deduction in respect of cost of raw materials, inventory, wages, maintenance, depreciation, etc. The system gives an undue tax bonus to the low-cost producer. However, business deductions are matters of enormous complexity, and it is probably not immediately possible to require the relatively large number of small entrepreneurs to keep the type of records from which such deductions could be accurately ascertained. Legislation is now in course of preparation to require the keeping of statutory books for tax purposes. This should result in discarding the coefficient system and in important cases being in fact subject to a minimum accounting system, conforming to standard accounting procedure.

(g) Dividends

Dividends should be liable only for surtax. The British system of allowing a refund in the event that the personal allowances result in an effective rate of tax less than the basic rate may be an unnecessary complication for an Italian system, however, particularly since the small Italian taxpayer is unlikely to invest in shares and small businesses are not so frequently incorporated.

(h) Interest

In the case of registered securities, tax at the basic rate should be withheld by the payer. In the case of bearer securities in coupon form, withholding should be required of the bank in which the coupons are deposited or cashed. Basic tax on other interest-bearing instruments and surtax on registered and coupon securities would have to be paid by the receiver of the interest. It would, of course, be desirable to eliminate the exemption at present accorded interest paid on Treasury securities.

(i) Partnership Profits

It is suggested that as at present the basic normal tax be assessed against the partnership, giving a credit for the sum of the personal allowances of the partners not claimed against other income. The tax could then be apportioned to each partner's account purely as an internal partnership matter. Surtax would be payable by each partner on his distributive share of partnership income.

(k) Rent

The present Italian system for the taxation of rental income leaves much to be desired. Little regard is had to actual rent received, the effort being rather to arrive at a theoretical income return upon a theoretical rental value. This ascertainment of value is exceedingly cumbersome. In the case of rural property, it starts with the assessment in the property register ("catasto"), which in some cases dates back to 1825 and in parts of Northern Italy is said to date from the time of Maria Theresa. All assessments are then multiplied by a coefficient supposed to indicate increase in money value to date. In the case of urban properties, coefficients are used relating to size of the town, amount of economic activity in the town, classification of the building by location, age and type of construction, and finally there is an exact measurement of all rooms to determine cubic footage of rentable space. Extensive exemptions for periods up to 25 years result in most new plantations and most buildings constructed since 1918 (and therefore the most valuable ones) not being on the rolls at all.

It is proposed that the tax be simplified by instituting a more

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...taxpayer is unlikely to invest in shares and small businesses are not so frequently incorporated.

(h) Interest

In the case of registered securities, tax at the basic rate should be withheld by the payer. In the case of bearer securities in coupon form, withholding should be required of the bank in which the coupons are deposited or cashed. Basic tax on other interest-bearing instruments and surtax on registered and coupon securities would have to be paid by the receiver of the interest. It would, of course, be desirable to eliminate the exemption at present accorded interest paid on Treasury securities.

(j) Partnership Profits

It is suggested that as at present the basic normal tax be assessed against the partnership, giving a credit for the sum of the personal allowances of the partners not claimed against other income. The tax could then be apportioned to each partner's account purely as an internal partnership matter. Surtax would be payable by each partner on his distributive share of partnership income.

(k) Rent

The present Italian system for the taxation of rental income leaves much to be desired. Little regard is had to actual rent received, the effort being rather to arrive at a theoretical income return upon a theoretical rental value. This ascertainment of value is exceedingly cumbersome. In the case of rural property, it starts with the assessment on the property register ("catastro"), which in some cases dates back to 1825 and in parts of Northern Italy is said to date from the time of Maria Theresa. All assessments are then multiplied by a coefficient supposed to indicate increase in money value to date. In the case of urban properties, coefficients are used relating to size of the town, amount of economic activity in the town, classification of the building by location, age and type of construction, and finally there is an exact measurement of all rooms to determine cubic footage of rentable space. Extensive exemptions for periods up to 25 years result in most new plantations and most buildings constructed since 1918 (and therefore the most valuable ones) not being on the rolls at all.

It is proposed that the tax be simplified by instituting a more simple system of annual valuation or preferably a system of direct assessment of rent received.

All exemptions should be abolished.

(l) Professional Income

Keeping of records should be required, from which professional income could be taxed like business profits. Cash payment of fees is, of course, a major problem. Licenses to practice should be revocable for non-payment of taxes.

(m) Payment

The first instalment should accompany the filing of the return,

and subsequent instalments should be payable at biweekly intervals, as at present.

(n) Administrative Provisions

The following are some suggestions to facilitate enforcement:

(i) A requirement, subject to criminal and civil penalty, that every manufacturer, trader, professional man and investor keep an accurate record of his receipts. No such provision at present exists for tax purposes although the previous Finance Minister had already agreed to introduce it.

(ii) A provision giving the assessors power immediately to make additional assessments over and above tax reported by the taxpayer to be due. The authority to increase assessments is at present very limited, although the previous Finance Minister had drafted strengthening provisions.

(iii) The present provision allowing immediate distraint and collection of all taxes assessed against a particular taxpayer if tax officials have reason to believe collection from him to be in jeopardy should be strengthened by increasing the collectors' power to declare defaulters bankrupt. This had been agreed to by the previous Finance Minister. Jeopardy assessment might be automatically applicable in the case of any person convicted of selling goods above the legal price.

(iv) A provision that, upon payment of any tax instalment, the taxpayer is to receive a stamp evidencing the fact of payment. No business or professional license, work-card, etc., should be valid without having affixed to it all tax payment stamps to date.

(v) A provision imposing a criminal penalty of fine or imprisonment or both for wilful failure to file a return or for wilful understatement of income. This had been agreed to by the previous Finance Minister.

C. Excess Profits Tax

1. The present excess profits tax is payable by all commercial and industrial enterprises on the excess of current income (less Richman Mobile tax) over 1938 income in the case of individuals and over the 1937-1938 average in the case of corporations. Agricultural income is exempt. Where the taxpayer was not in existence in 1938, the normal profits are considered to be, in the case of an individual, the normal income of a comparable taxpayer. In the case of a corporation which was not in existence in 1938, the normal profits are considered to be 8% of subscribed capital, but

Declassified E.O. 12356 Section 3.3/NND No. 785017

keep an accurate record of his receipts. No such provision at present exists for tax purposes although the previous Finance Minister had already agreed to introduce it.

(ii) A provision giving the assessors power immediately to make additional assessments over and above tax reported by the taxpayer to be due. The authority to increase assessments is at present very limited, although the previous Finance Minister had drafted strengthening provisions.

(iii) The present provision allowing immediate distraint and collection of all taxes assessed against a particular taxpayer if tax officials have reason to believe collection from him to be in jeopardy should be strengthened by increasing the collectors' power to declare defaulters bankrupt. This had been agreed to by the previous Finance Minister. Jeopardy assessment might be automatically applicable in the case of any person convicted of selling goods above the legal price.

(iv) A provision that, upon payment of any tax instalment, the taxpayer is to receive a stamp evidencing the fact of payment. No business or professional license, work-card, etc., should be valid without having affixed to it all tax payment stamps to date.

(v) A provision imposing a criminal penalty of fine or imprisonment or both for wilful failure to file a return or for wilful understatement of income. This had been agreed to by the previous Finance Minister.

C. Excess Profits Tax

1. The present excess profits tax is payable by all commercial and industrial enterprises on the excess of current income (less Richezza Mobile tax) over 1938 income in the case of individuals and over the 1937-1938 average in the case of corporations. Agricultural income is exempt. Where the taxpayer was not in existence in 1938, the normal profits are considered to be, in the case of an individual, the normal income of a comparable taxpayer. In the case of a corporation which was not in existence in 1938, the normal profits are considered to be 8% of subscribed capital, but not in excess of what is necessary to guarantee a dividend of 6%. Changes in the amount of subscribed capital result in an increase or decrease in normal profits of 8% of the amount by which such capital was increased or decreased. If the taxpayer's total current income is not in excess of 12,000 lire, or if his excess profits do not exceed 6,000 lire, no excess profits tax is payable. Tax rates, as increased to apply from 1944, are as follows:

20% on excess profits not exceeding 1/5 of normal profits
30% " " " exceeding 1/5 but not exceeding 2/5 of normal profits
40% " " " " 3/5 but not exceeding 100% of normal profits
60% " " " " 100% of normal profits.

2773

Declassified E.O. 12356 Section 3.3/NND No. 785017

If current income does not exceed 100,000 lire, these rates are reduced by 50%. Any excess of income over the sum of excess profits tax, Ricchezza Mobile tax and normal profits must be invested in 3% Treasury bonds.

Preparation of the rolls has been extremely slow and in many instances 1940 and 1941 assessments have not yet been posted. This is partly due to the fact that, in determining current income, an effort is made to assess only that portion of increased profits which is not attributable to normal growth or inflationary price rises. In other words, the tax is interpreted as being levied, not upon profits made during the war, but solely on profits due to the war. Besides being an impossibly complicated task which more sophisticated tax systems such as the British and American try to shy away from as much as politically possible, this procedure does much to ruin the effectiveness of the excess profits tax as an anti-inflationary measure. Further destroying such effectiveness, is the fact that the law provides for a full year's delay between earning the excess profits and the beginning of tax payment; i.e. excess income earned in 1944 will not be liable for payment of tax until February 1946, and payment will not be completed until December 1946.

2. Recommendations

Aside from the features mentioned in the preceding paragraph, the present tax seems to be largely sound enough as a relatively simple method of arriving at a determination of something so complicated as excess profits. It is suggested that its basic scheme be left undisturbed and that only the following modifications be made:

(a) Dispense with the allowances for growth or inflationary factors in increased incomes of war contractors.

(b) Current income to be determined as is recommended for the income tax in Part B.

(c) Agricultural income of both tenants and owner-cultivators, the chief beneficiaries of present price rises, to cease to be exempt. This was agreed to by the previous Finance Minister.

(d) Returns to be due at a date not later than March 31 in the year following that in which the income was earned, and payment to be made in three instalments.

(e) Administrative provisions suggested for the income tax to be equally applicable to the excess profits tax.

(f) The making of excess profits tax assessments to be given first priority. This has the hearty concurrence of Italian tax officials.

(g) The guarantee of a 6½% dividend return on capital invested might well be reduced to at best 5%, particularly in conjunction with

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] war. Besides being an impossibly complicated task which more sophisticated tax systems such as the British and American try to shy away from as much as politically possible, this procedure does much to ruin the effectiveness of the excess profits tax as an anti-inflationary measure. Further destroying such effectiveness, is the fact that the law provides for a full year's delay between earning the excess profits and the beginning of tax payment; i.e. excess income earned in 1944, will not be liable for payment of tax until February 1946, and payment will not be completed until December 1946.

2. Recommendations

Aside from the features mentioned in the preceding paragraph, the present tax seems to be largely sound enough as a relatively simple method of arriving at a determination of something so complicated as excess profits. It is suggested that its basic scheme be left undisturbed and that only the following modifications be made:

(a) Dispense with the allowances for growth or inflationary factors in increased incomes of war contractors.

(b) Current income to be determined as is recommended for the income tax in Part B.

(c) Agricultural income of both tenants and owner-cultivators, the chief beneficiaries of present price rises, to cease to be exempt. This was agreed to by the previous Finance Minister.

(d) Returns to be due at a date not later than March 31 in the year following that in which the income was earned, and payment to be made in three instalments.

(e) Administrative provisions suggested for the income tax to be equally applicable to the excess profits tax.

(f) The making of excess profits tax assessments to be given first priority. This has the hearty concurrence of Italian tax officials.

(g) The guarantee of a 6½% dividend return on capital invested might well be reduced to at best 5%, particularly in conjunction with subjecting government bond interest to income taxation.

(h) Since 1938, assessments are sure to have been too low, and since the scheme of current assessments proposed herein will be more in accord with reality, taxable excess profits will tend to be higher than the actual increase of income since 1938. There is no cure for this situation, and it therefore seems inadvisable materially to increase excess profits tax rates. 15 percentage points in each bracket would seem to be the greatest increase that is feasible.

The compulsory loan feature should be eliminated. From the taxpayers point of view, it converts the measure into a 10[illegible]

0924

Declassified E.O. 12356 Section 3.3/NND No. 785017

pre-invasion yield is a 3% turnover tax, and yet the tax is not effectively administered and it is the least satisfactory feature of the tax system. It is payable in one of two ways:

(a) by stamps; no attempt is made to record the identity of purchasers of stamps and hence no check can be made of stamps purchased by an individual vendor against the volume of inventory which he handled.

(b) by agreements ("concordi") between the Finance Ministry and individual taxpayers or all taxpayers in an individual industry; under these agreements, tax liability for the succeeding year is fixed on the basis of the inadequate information in the Finance Ministry files, and tax is subsequently paid in six bi-monthly instalments.

2. The turnover tax appears to have broken down completely. Collusion between vendor and vendee is widespread. At a time when most sales are made on the black market, it is hopeless to keep any kind of accurate check on this type of illegal transaction engaged in by a mass of traders without financial responsibility.

3. A turnover tax is economically unjustifiable in that it tends to pyramid prices. A 3% tax on each transaction from manufacturer to ultimate consumer is likely to result in additional mark-ups far beyond the sum of the taxes payable. It thus has an inflationary effect. Moreover, the deflationary aspects theoretically common to most consumption taxes are not present in the case of the Italian turnover tax, because the system of payment and collection does not respond quickly enough to changes in price levels and sales volume.

4. As distinguished from a turnover tax, a general sales tax (by which is meant a levy which would impinge at only one point on the flow of goods from manufacturer to consumer) seems to be impractical in Italy. This is a country of small individual traders and manufacturers. Often manufacturer and retailer are one and the same person. Thus a general sales tax at the retail level would not only run up against the black market problem, but would be impossible to enforce because of the infinite number of small, ignorant and irresponsible taxpayers who would be involved. Furthermore, given the facts of the Italian economy, the legal problem of determining which sales were sales for resale, and hence not taxable, and which were not sales for resale and hence subject to tax, would probably make for a high degree of administrative confusion. Because of the large number of home manufacturers, a tax at the manufacturer's level would present these same problems and would be somewhat less deflationary than a retail sales tax.

5. It would seem that the most practicable method of imposing consumption taxes in Italy would be to select for taxation those articles and services of common use which must be either imported or else manufactured by means of machinery out of reach of the small individual. With respect to such articles and services, there should be a very heavy tax on the manufacturer, importer or supplier. There follows a list of these items on which, in a normally functioning economy, the heaviest burden might well be laid:

Declassified E.O. 12356 Section 3.3/NND 785017

(a) Spirits and cordials
(b) Sparkling wines
(c) Beer
(d) Sugar and glucose
(e) Vegetable oils
(f) Artificial textiles
(g) Gas and electrical energy used for ~~non-industrial~~ purposes
(h) Refined petroleum
(i) Coffee
(j) Transportation of persons
(k) Public spectacles
(l) Playing cards
(m) Passenger motor vehicles
(n) Radios, and other electrical appliances.

6. Taxes presently exist with respect to all of these items. Rates are too low, however, and in the main are on a per quantum rather than an ad valorem basis. Sometimes they are merely annual license fees. This means that collections are not responsive to changes in the general price level. It is therefore suggested that the items enumerated in para. 5 be taxed at rates ranging from 50% to 100% of the price for which sold by the manufacturer, importer or supplier of the services. For administrative reasons, it may be more practicable to continue to tax liquor, for example, on a per quantum basis. If so, the rate per litre should be raised to correspond to at least a 150% tax on its value at current price levels.

7. It is doubtful whether the turnover tax as it is now conceived can find a place in a modernized tax structure. If, however, something in the nature of a turnover tax were desired, it could probably best take the form of a kind of business privilege tax measured by gross income. Any income taxpayer reporting business income (see para. B.9) could be required to pay a tax of say 3% on his gross income reported.

B. Income from Government Monopolies

The Italian Government maintains monopolies in the manufacture of salt, tobacco, matches and lighters. The income from the monopolies provided the Treasury with more than 1% of its total revenue, and yielded almost as much as the turnover tax.

The monopoly revenue is in the form of a consumption tax, and since it yields large revenue in a simple manner, it should be continued during the present period in order to conform to the present situation. There should, however, be an adjustment upward of prices even beyond the present 100% increase. Elasticity should be provided to meet future changes in the economy.

F. Capital Taxes

Declassified E.O. 12356 Section 3.3/NND No. 785017

(h) Refined petroleum
(i) Coffee
(j) Transportation of persons
(k) Public spectacles
(l) Playing cards
(m) Passenger motor vehicles
(n) Radios, and other electrical appliances.

6. Taxes presently exist with respect to all of these items. Rates are too low, however, and in the main are on a per quantum rather than on an ad valorem basis. Sometimes they are merely named license fees. This means that collections are not responsive to changes in the general price level. It is therefore suggested that the items enumerated in para. 5 be taxed at rates ranging from 50% to 100% of the price for which sold by the manufacturer, importer or supplier of the services. For administrative reasons, it may be more practicable to continue to tax liquor, for example, on a per quantum basis. If so, the rate per litre should be raised to correspond to at least a 150% tax on its value at current price levels.

7. It is doubtful whether the turnover tax as it is now conceived can find a place in a modernized tax structure. If, however, something in the nature of a turnover tax were desired, it could probably best take the form of a kind of business privilege tax measured by gross income. Any income taxpayer reporting business income (see para. B.2) could be required to pay a tax of say 3% on his gross income reported.

E. Income from Government Monopolies

The Italian Government maintains monopolies in the manufacture of salt, tobacco, matches and lighters. The income from the monopolies provided the Treasury with more than 15% of its total revenue, and yielded almost as much as the turnover tax.

The monopoly revenue is a form of a consumption tax, and since it yields large revenue in a simple manner, it should be continued during the present period in order to conform to the present situation. There should, however, be an adjustment upward of prices even beyond the recent 100% increase. Elasticity should be provided to meet future changes in the economy.

F. Capital Taxes

1. There is in force at present a levy of 1% property tax on all real estate, and corporate securities. Cash, bank deposits and Treasury paper and securities are exempt. Valuations have been made, in the case of real property, by capitalizing at 5% the valuations made for the purpose of the taxes on rental income. The latter valuations were in many cases made merely by multiplying by 4 or by 3.66 or some such figure the valuations on the property register, which usually dates anywhere from 1750 to 1850. In the case of corporate securities, valuations have been made by combining book values with market quotations. The tax is theoretically bad and should be eventually be abolished. The amount of revenue it brings cannot be ignored under present circumstances however. Furthermore, it represents an effective method of reaching the large agricultural landowners with respect to which income taxation is likely to present many difficulties. Because of certain important dissimilities of treatment which may be appropriate as between real and intangible property, it is suggested that the taxation of property be split into two p

Declassified E.O. 12356 Section 3.3/NND No. 785017

2. Real Property

Since there exists no real appraisal of the present capital value of Italian real property, necessary for a monumental task in valuing all such property in the country. If this tax is to be retained, such an appraisal must be made, but it should be done only after the war and after some stability has been reached in the price structure of Italy. Once the new valuations are made, subsequent revaluations should only occur at 5 year intervals, thus cutting down on administrative work and also assuring a somewhat more stable source of revenue. The rate of tax might well be as high as 2%.

3. Intangible Property

The taxation of intangible property on the basis of capital value has always proven unsatisfactory, owing not only to valuation difficulties but also to the ease which ownership of such property may be concealed. There can be no quarrel with the Italian exemption of money and bank deposits, since it is hopeless to attempt efficient taxation of such items. The corporation should be looked to for collection as at present. However, owing to greater sensitivity of prices, intangible property should probably be valued annually and should not bear as heavy a rate of taxation as real property. It should be pointed out that there exists at present, in addition to the general property tax, a 16% tax on subscribed share capital, payable by the corporation. It is suggested that, to replace both that tax and the intangible part of the general property tax, every corporation pay annually a corporate privilege tax equal to, say, 1% of the value of its outstanding shares and long-term obligations. In the case of securities quoted on an exchange, valuations might be made on the basis of the mean between the high and low quotations for the previous year. In the case of other securities, book values will probably have to do.

4. Death and Gift Taxes

a. There is at present a small excise applicable to transfers by gift, bequest, inheritance, etc. Death taxation, properly speaking, takes the form of a progressive succession tax, (there is also a gift tax with parallel rates and provisions), graduated according to size of legacy, relationship of legatee to decedent and fertility of decedent. The burden is almost infinitesimally small by British or American standards. Transfers to two or more children or their descendants, and between spouses having two or more children, are exempt. Transfers not in excess of 3,000 lire in direct line or between spouses are also exempt. The rate schedule on other transfers is as follows (in percent age):

	Transfers to:				
So much as does not exceed lire	1.a) descendants in direct line b) only child of the decedents.	2. btwn spouses having less than 2 children	3. brother or sister	4. uncle, aunt, niece, nephew	5. other
10,000	1	1½	4	5½	12

Declassified E.O. 12356 Section 3.3/NND No. 785017

somewhat more stable source of revenue. The rate of tax might well be as high as 2%.

3. Intangible Property

The taxation of intangible property on the basis of capital value has always proven unsatisfactory, owing not only to valuation difficulties but also to the ease which ownership of such property may be concealed. There can be no quarrel with the Italian exemption of money and bank deposits, since it is hopeless to attempt efficient taxation of such items. The corporation should be looked to for collection as at present. However, owing to greater sensitivity of prices, intangible property should probably be valued annually and should not bear as heavy a rate of taxation as real property. It should be pointed out that there exists at present, in addition to the general property tax, a 10% tax on subscribed share capital, payable by the corporation. It is suggested that, to replace both that tax and the intangible part of the general property tax, every corporation pay annually a corporate privilege tax equal to, say, 1% of the value of its outstanding shares and long-term obligations. In the case of securities quoted on an exchange, valuations might be made on the basis of the mean between the high and low quotations for the previous year. In the case of other securities, book values will probably have to do.

C. Death and Gift Taxes

1. There is at present a small excise applicable to transfers by gift, bequest, inheritance, etc. Death taxation, properly speaking, takes the form of a progressive succession tax, (there is also a gift tax with parallel rates and provisions), graduated according to size of legacy, relationship of legatee to decedent and fertility of decedent. The burden is almost infinitesimally small by British or American standards. Transfers to two or more children or their descendants, and between spouses having two or more children, are exempt. Transfers not in excess of 3,000 lire in direct line or between spouses are also exempt. The rate schedule on other transfers is as follows (in percentages):

So much as does not exceed lire	Transfers to: 1.a) ascendants in direct line b) only child & its decedents.	2. btwn spouses having less than 2 children	3. brother or sister	4. uncle, aunt, niece, nephew	5. other
10,000	1	1½	4½	5½	12
25,000	1½	2	5	5	15
50,000	1½	3	6	7½	18
100,000	2	4	7½	9	22
250,000	2½	6	9	10½	26
500,000	3	8	11	13	30
1,000,000	4	10	13	17	35
5,000,000	6	13	16	19	40
10,000,000	8	15	19	22	45
over 10,000,000	10	18	21	25	50

2768

Declassified E.O. 12356 Section 3.3/NND No. 785017

Reductions in these rates are made if the decedent has four or more children.

In the case of a decedent more than 30 years of age, the tax is increased:

(a) by 3/10 if he was unmarried;
(b) by 2/10 if, though married or widowed, he was childless;
(c) by 1/10 if he had only one child.

Payment is to be made within six months of death, although provision is made for postponement in the event of litigation, etc. Declarations are to be filed within four months of death.

2. Inheritance taxation, such as obtains in Italy, has many advantages over estate taxation, the system of taxing a decedent's estate en bloc as is done by the Federal Government in the U.S. and to some extent in the U.K. Chief among these are:

(a) The tax bears a closer relation to the recipient's ability to pay.
(b) Distinctions can be drawn between recipients who are the natural objects of the decedent's bounty and other recipients.
(c) By taxing what is received rather than what is relinquished, the problem of the ratio of tax to estate altering radically between date of death and date of distribution becomes much less acute.

Obviously, however, the Italian rates should be raised and the rate structure shorn of its fascist trimmings. Transfers of less than, say, 10,000 lire might be exempted. At the same time, the additions to and reductions from tax which depend on the size of the decedent's family should be abolished. Transfers to spouses or children should be taxed. A possible rate structure might be:

So much of transfer as exceeds lire 10,000 but not	Transfers to: 1.a) descendants & descendants in direct line b) spouse	2. brother, sister, aunt, uncle, niece, nephew.	3. other
25,000	10	20	30
50,000	12	24	36
100,000	15	29	43
500,000	24	42	60
1,000,000	30	50	70
5,000,000	37	59	80
10,000,000	45	69	90

Declassified E.O. 12356 Section 3.3/NND No. 785017

payment is to be made within six months of death, although provision is made for postponement in the event of litigation, etc. Declarations are to be filed within four months of death.

2. Inheritance taxation, such as obtains in Italy, has many advantages over estate taxation, the system of taxing a decedent's estate en bloc as is done by the Federal Government in the U.S. and to some extent in the U.K. Chief among these are:

(a) The tax bears a closer relation to the recipient's ability to pay.
(b) Distinctions can be drawn between recipients who are the natural objects of the decedent's bounty and other recipients.
(c) By taxing what is received rather than what is relinquished, the problem of the ratio of tax to estate altering radically between date of death and date of distribution becomes much less acute.

Obviously, however, the Italian rates should be raised and the rate structure shorn of its Fascist trimmings. Transfers of less than, say, 10,000 lire might be exempted. At the same time, the additions to and reductions from tax which depend on the size of the decedent's family should be abolished. Transfers to spouses or children should be taxed. A possible rate structure might be:

Transfers to:

So much of transfer as exceeds lire 10,000 but not	1.a) ascendants & descendants in direct line b) spouse	2. brother, sister, aunt, uncle, niece, nephew.	3. other
25,000	10	20	30
50,000	12	24	36
100,000	15	29	43
500,000	24	42	60
1,000,000	30	50	70
5,000,000	37	59	80
10,000,000	45	69	90
over 10,000,000	55	80	90

3. In order to prevent the type of avoidance which these drastic increases in rates might precipitate, the following additional measures are suggested:

(a) Gifts inter vivos should be included on a cumulative basis; e.g. assuming the rate schedule suggested in para. 2, a gift from husband to wife of 25,000 lire in 1944 would be taxed at 10% on 15,000 lire, a further gift of another 25,000 lire in 1945 would be taxed at 12%, and a legacy of 50,000 lire from the same husband to the same wife would be taxed at 15%.
(b) The tax should apply to transfers not only of actual ownership, but also of beneficial interests.

Declassified E.O. 12356 Section 3.3/NND No. 785017

H. Stamp taxes, license and Registration fees

There are present in the Italian system a host of miscellaneous stamp taxes, excises, and license and registration fees too numerous and individually too relatively unimportant to list in detail. The various stamp taxes and registration fees applicable to legal documents such as contracts, leases, deeds, excerpts from official records, etc., etc., together with the various transportation licenses, are a stable and rather lucrative source of revenue. It is probable that most of these exactions could bear a great increase of rate.

J. Communal and Provincial Taxes

1. Communal and Provincial revenues probably do not normally exceed 15% of total state revenues. They have consisted almost exclusively of additions ("sovrimposte") to state taxes plus various local license fees and consumption taxes. The scheme of having all governmental revenues based on rents, etc. fixed on the same valuation system, rather than having overlapping systems at the various governmental levels, is an excellent one and should be preserved. Communal and provincial additions to tax are at present, however, expressed in terms of percentages of the state taxes. In view of the sharp increases herein proposed for the rates of many state taxes, a mathematical adjustment of local sovrimposte rates will be required.

2. The local consumption taxes, although representing 50% of communal income, involve high collection costs and little revenue. They are uneconomic and should certainly be abolished.

K. Collection

1. The broad lines of the assessment and collection mechanisms relating to the various taxes discussed herein have been outlined in the course of this memorandum. It is obvious that a general administrative overhauling will be required, accompanied by a comprehensive programme of expansion and training of administrative personnel. In the long run, it will make for a higher percentage of collections and greater equity if at the same time the present machinery for collection of direct taxes is completely remodelled.

2. Direct taxes (income, excess profits and property taxes) and certain communal taxes are at present collected by "esattori". The esattore is appointed following public auction and is sometimes a private person but is more often a private firm, bank or parastatal agency which collects for many communes. The esattore contracts to collect the tax rolls in return for a percentage of such rolls. The percentage or "aggio", does not exceed 7% in the case of state taxes, but has, under present circumstances, been known to run as high as 45% in the case of communal taxes. By way of comparison, it is not believed that collection costs of federal taxes in the U.S. exceed ½%, whereas in U.K. they are about .75%.

3. The esattore is obligated to turn over to the tax receiver the amount of

Declassified E.O. 12356 Section 3.3/NND 785017

J. Communal and Provincial Taxes

1. Communal and Provincial revenues probably do not normally exceed 15% of total state revenues. They have consisted almost exclusively of additions ("sovrimposte") to state taxes plus various local license fees and consumption taxes. The scheme of having all governmental revenues based on rents, etc. fixed on the same valuation rather than having overlapping systems at the various governmental levels, is an excellent one and should be preserved. Communal and provincial additions to tax are at present, however, expressed in terms of percentages of the state taxes. In view of the sharp increases herein proposed for the rates of many state taxes, a mathematical adjustment of local sovrimposte rates will be required.

2. The local consumption taxes, although representing 50% of communal income, involve high collection costs and little revenue. They are uneconomic and should certainly be abolished.

K. Collection

1. The broad lines of the assessment and collection mechanisms relating to the various taxes discussed herein have been outlined in the course of this memorandum. It is obvious that a general administrative overhauling will be required, accompanied by a comprehensive programme of expansion and training of administrative personnel. In the long run, it will make for a higher percentage of collections and greater equity if at the same time the present machinery for collection of direct taxes is completely remodelled.

2. Direct taxes (income, excess profits and property taxes) and certain communal taxes are at present collected by "esattori". The esattore is appointed following public auction and is sometimes a private person but is more often a private firm, bank or parastatal agency which collects for many communes. The esattore contracts to collect the tax rolls in return for a percentage of such rolls. The percentage or "aggio", does not exceed 7% in the case of state taxes, but has, under present circumstances, been known to run as high as 45% in the case of communal taxes. By way of comparison, it is not believed that collection costs of federal taxes in the U.S. exceed 1%, whereas in U.K. they are about .75%.

3. The esattore is obligated to turn over to the tax receiver the amount of the roll on a day certain, whether or not he has been able to collect the full amount. He also acts as communal treasurer and is obliged to advance the commune a sum up to a year's taxes. His compensation is thus for something more than mere collection. There is a kind of summary execution which is available to him in aid of collection upon a proper showing that he has exhausted other means. In times of economic dislocation, he may be granted a postponement, or "tollerament", of his obligation as to a specified percentage of the roll, or as to so much of the roll as is to be collected from specified taxpayers. Tollerament have been extensively granted during the war period, and even more extensively since occupation.

4. The private contractor system is primitive and unjustifiable in a country as otherwise well administered as Italy. Its advantage is the supposed assurance it gives the government that it can count on the amount of the tax roll being turned into the public treasury regardless of

Declassified E.O. 12356 Section 3.3/NND 785017

collection difficulties, and that only one person per district need be looked to for that sum. It nevertheless appears highly undesirable that a private enterprise should have a stranglehold on the public revenues. If terms and conditions of the collection contract are not to a Collector's liking, he need not bid for collection of the roll. In most cases he will have the only local organization capable of undertaking the task, no one else having the requisite personnel, facilities and experience. Such a situation is bound to result in extremely high collection costs. Furthermore, since the state has only the most tenuous kind of supervision over his methods of collection, there are numerous opportunities for graft, extortion, favouritism and corruption. Finally, even the advantage of assured receipt of funds is denied the state by widespread granting of tolleranza. If he has been granted a tolleranza, not only has the contractor's inefficiency been rewarded, but he has been given the opportunity, for a consideration, not to collect taxes from his friends. Various forms of collusion are almost certain to result.

5. For the above reasons, it is recommended that there be built up within the civil service the requisite machinery and personnel for the collection of direct taxes, and that contracts with esattori be cancelled immediately thereafter.

6. Timing of Programme

It is recommended that the Italian Government prepare and issue the decrees establishing the basic changes in the structure as soon as it can be done. The task is not an easy one; and technicians will be needed, and considerable time will be necessary for the drafting, planning and the reform of the administrative agencies. Preparations, however, can begin at once.

The advantage of instituting the reforms as quickly as possible is that the sooner the reforms are instituted, the quicker will be the impact on inflation and the stabilization of the fiscal system of Italy will be hastened. Furthermore, the reformation of the tax system along modern lines will have the important psychological effect of helping to quiet the fears of the Italian people concerning inflation and the value of the lire.

The taxes most urgently in need of reform, and the taxes which the programme can begin with are:

(a) the income tax

(b) the excess-profits tax.

It is recommended that this work be completed and published within the next six months and carefully be placed into action prior to 1 January 1945, irrespective of the progress made in the liberation of Italy. The other tax reforms can follow after these two most important taxes are placed into action.

Declassified E.O. 12356 Section 3.3/NND No. 785017

been granted a tolerance, not only has the contractor's inefficiency been rewarded, but he has been given the opportunity, for a consideration, not to collect taxes from his friends. Various forms of collusion are almost certain to result.

5. For the above reasons, it is recommended that there be built up within the civil service the requisite machinery and personnel for the collection of direct taxes, and that contracts with esattori be cancelled immediately thereafter.

4. Timing of Programme

It is recommended that the Italian Government prepare and issue the decrees establishing the basic changes in tax structure as soon as it can be done. The task is not an easy one; and technicians will be needed, and considerable time will be necessary for the drafting, planning and the reform of the administrative agencies. Preparations, however, can begin at once.

The advantage of instituting the reforms as quickly as possible is that the sooner the reforms are instituted, the quicker will be the impact on inflation and the stabilization of the fiscal system of Italy will be hastened. Furthermore, the reformation of the tax system along modern lines will have the important psychological effect of helping to quiet the fears of the Italian people concerning inflation and the value of the lire.

The taxes most urgently in need of reform, and the taxes which the programme can begin with are:

(a) the income tax

(b) the excess-profits tax.

It is recommended that this work be completed and published within the next six months and certainly be placed into action prior to 1 January 1945, irrespective of the progress made in the liberation of Italy. The other tax reforms can follow after these two most important taxes are placed into action.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785C17

Declassified E.O. 12356 Section 3.3/NND No. 785017

In January 1944, the Banco d'Italia began gradually to withdraw the "tiroli provvisori" from circulation. As they came back into the Banco d'Italia, lines were drawn across their face and, in essence, they were annulled although legally the Banco d'Italia has not yet received the power to do so. At the present time, practically the whole of the "tiroli at cmiglianti" issued have been withdrawn from circulation. The Banco d'Italia still retains the power to issue more of this currency, if necessary.

3. Titoli di credito issued by the Sardinian Banks

The Italian governmental authorities in Sardinia found themselves in September in the same position as the government in Puglia; in need of money and no currency emission facilities. As in Puglia, it turned to the use of the bank drafts with one important difference; in Puglia, the Banco d'Italia remained the bank of issue; in Sardinia, the system elected made every bank a bank of issue.

On 21 September the Command of the Armed Forces of Sardinia issued an order that vaglia cambiari, assegni circolari and foli di credito (bank drafts of Banco di Napoli) were to have all the effect and validity of paper money and to be accepted by everyone without any discount in payment. No fixed denominations were laid down in the order, thus making possible the circulation of legal tender currency in odd denominations.

The inflationary possibilities are manifest in allowing the issuance by commercial banks of credit instruments having legal tender (assegni circolari and foli di credito) which are covered only by a reserve of 40% in securities on deposit with the Banco d'Italia.

The bulk of the titoli added to circulation were put out by the Banco d'Italia, part of the remainder were covered fully at the Banco d'Italia by the banks issuing them, and only 43,495,000 lire were issued with the 40% reserve requirement.

TABLE A

Vaglia, Assegni, Foli di credito issued in Sardinia

1 September - 31 January 1944
(in thousands of lire)

	Issued	Paid	Net addition to circulation
Banco d'Italia	783,701	556,142	227,559
Istituto Credito Agrario, (with security)	100,996	64,861	36,135

. Banco Fop. Coop. Sassari

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

There was a monthly net increase in circulation of from 67 to 100 million lire except in November 1943 when there was a net decrease in circulation of 26 million.

TABLE 3

Monthly Increase in Circulation of Veglie, Assegni, Fedi di Credito in Sardinia

September 1943 - January 1944

	Net Increase in Circulation (in thousands of lire)
September 1943	99,183
October 1943	66,834
November 1943	- 25,992
December 1943	69,112
January 1944	92,479
	301,256

Not until 4 March 1944 was a full report on this situation in Sardinia received on the mainland. A decree was thereupon issued on 13 March 1944 entitled "Return to normal circulation of the Banking Instruments (titoli) of Credit in Sardinia." This decree abolished the order of the Supreme Council of Sardinia of 21 September as it affected all of the titoli except the veglie cambiari and assegni bancari libari of the Banca d'Italia. This decree is to take effect from 1 June 1944. In essence, it abolished the currency issuing powers of all the banks except of the Banca d'Italia which is, of course, the bank of issue. The Banca d'Italia was left for the time being with the authority in Sardinia, as it still has on the mainland, to issue its veglie cambiari and assegni bancari libari as legal tender.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Table 2

Monthly Increase in Circulation of Veglia, Assegni, Fedi di Credito in Sardinia

September 1943 - January 1944

	Net Increase in Circulation (in thousands of lire)
September 1943	99,123
October 1943	66,534
November 1943	- 26,992
December 1943	69,112
January 1944	96,479
	304,256

Not until 4 March 1944 was a full report on this situation in Sardinia received on the mainland. A decree was thereupon issued on 13 March 1944, entitled "Return to normal circulation of the Banking Instruments (titoli) of Credit in Sardinia." This decree abolished the order of the Supreme Command of Sardinia of 21 September as it affected all of the titoli except the veglia cambiari and assegni bancari liberi of the Banca d'Italia. This decree is to take effect from 1 June 1944. In essence, it abolished the currency issuing powers of all the banks except of the Banca d'Italia which is, of course, the bank of issue. The Banca d'Italia was left for the time being with the authority in Sardinia, as it still has on the mainland, to issue its veglie cambiari and assegni bancari liberi as legal tender.

2005

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

44,965,652		made available by US Army Units (Sec 12c)	42,380,033	
		(d) Foreign Exchange Credits (Sec 12d) £ 193,465.50	19,348,350	
		(e) Lend Lease No. 2 Account (Sec 6f)	250,326,026	360,725,393
1,419,367,541	3.	FUNDS HELD FOR ACCOUNTING OFFICERS IN THE FIELD (pending allocation to expenditure or other accounts)		1,210,198,345
	4.	TO CREDIT:		
66,250,000		(a) Reserve	148,082,000	
20,234,000		(b) Delivered to Italian Post Office	21,254,000	169,336,000
177,825,935	5.	BALANCES FOR ACCOUNT OF LEND LEASE & RECIPROCAL AID. (Sec III)		206,317,355
	6.	ADVANCES (No date available for repayment and no interest rate fixed in advance):		
3,643,[illegible],610		(a) To Italian State Treasury Armed Forces and State Institutions	4,298,906,050	
423,443,700		(b) To Provinces	446,745,538	
1,010,910,965		(c) To Communes	1,061,569,027	
44,489,610		(d) To Others	53,579,734	
			5,821,,98,149	
		(f) Less: Repayments of advances to State etc. (Sec 2e)	200,002,000	5,621,096,149
	7.	LOANS (Date of repayment or interest rates specified):		
54,397,999		(a) To Banks	53,865,661	
2,520		(b) To Others	256,300	54,121,961
25,209,049,351	9.	BALANCES OF ACCOUNTS OF OCCUPATION		23,334,735,734
17,947,328,483		COSTS (Schedule V)		20,154,392,592
43,156,377,834			Lire	43,489,127,696

2764

(Signed) D.H. ARNOLD, Major
for E.C. CRAWFORD, Colonel,
CHIEF ACCOUNTANT.

(Signed) JAMES M. PRICE,
Major, Sig. C.
Chief of Sec.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

SCHEDULE I

ALLIED FINANCIAL AGENCY

SCHEDULE TO CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
AS AT THE CLOSE OF BUSINESS ON 31 MARCH 1944

CASH ON HAND AND IN BANKS

(a) Current Cash			
Lire	L.	155,497	
Yellow Seal Dollars		31,008,600	
D.M.A. Pounds		64,141,100	
Total Current Cash			95,305,197
(b) Reserve Cash - A.M. Lire			14,364,792,000
(c) Bank Current Accounts			
Lire		1,032,953,081	
Yellow Seal Dollars		51,911,302	
B.M.A. Pounds		160,587,300	
Maltese Pounds		29,150	
Francs		93,810	
Tripolitanie Lire		12,064	
Total Bank Current Accounts			1,245,586,707
(d) Mutilated or Worn Currency - A.M. Lire			6,654,004
Total Cash on Hand and in Banks			15,712,337,908

Declassified E.O. 12356 Section 3.3/NND No. 785017

(a) Current Cash		
Lire	L. 155,497	
Yellow Seal Dollars	31,008,600	
B.M.A. Pounds	64,141,100	
Total Current Cash		95,305,197
(b) Reserve Cash - A.M. Lire		14,364,792,000
(c) Bank Current Accounts		
Lire	1,032,953,081	
Yellow Seal Dollars	51,911,302	
B.M.A. Pounds	160,587,300	
Maltese Pounds	29,150	
Francs.	93,810	
Tripolitania Lire	12,064	
Total Bank Current Accounts		1,245,586,707
(d) Mutilated or Worn Currency - A.M. Lire		6,654,004
Total Cash on Hand and in Banks		15,712,337,908

Declassified E.O. 12356 Section 3.3/NND No. 785017

SCHEDULE III.

ALLIED FINANCIAL AGENCY

SCHEDULE TO CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT THE CLOSE OF BUSINESS ON 31 MARCH 1944.

PAYMENTS FOR ACCOUNT OF A.M.G. ECONOMIC AND SUPPLY DIVISION

(a) Purchases in Italy of Supplies for Export to :-		
(1) United States of America	L. 27,779,231	
(2) Great Britain	177,679,223	
(3) North Africa	22,153,487	
(4) Corsica	88,400	
(5) Malta	64,419,942	
Total Purchased for Export		292,120,283
(b) Purchases in Italy of Supplies for Resale in Italy		14,797,066
Total Payments for Account of A.M.G., E. & S.D.		306,917,355

RECEIPTS FOR ACCOUNT OF A.M.G. ECONOMIC AND SUPPLY DIVISION

(a) Sales in Italy of Supplies Imported from :-		
(1) United States of America	270,636,550	
(2) Great Britain	29,381,502	
(3) British Empire	420,652	
(4) North Africa	26,441,828	
(5) Malta	2,779,958	
(6) Australia	3,124,885	
(7) Canada	2,065,681	
Total Sales of Imports		334,851,156
(b) Sales in Italy of Supplies Obtained from		
(1) American Army	1,374,550	
(2) British Army	2,780,646	4,155,196
(c) Sales in Italy of Supplies Purchased Locally		4,974,968
Total Receipts for Account of A.M.G., E. & S.D.		344,981,320

Declassified E.O. 12356 Section 3.3/NND No. 785017

(a) Purchases in Italy of Supplies for Export to :-

(1) United States of America	L. 27,779,231	
(2) Great Britain	177,679,223	
(3) North Africa	22,153,487	
(4) Corsica	88,400	
(5) Malta	64,419,948	
Total Purchases for Export		292,120,289
(b) Purchases in Italy of Supplies for Resale in Italy		14,797,066
Total Payments for Account of A.M.G., E. & S.D.		306,917,355

RECEIPTS FOR ACCOUNT OF A.M.G. ECONOMIC AND SUPPLY DIVISION

(a) Sales in Italy of Supplies Imported from :-

(1) United States of America	270,636,550	
(2) Great Britain	29,381,602	
(3) British Empire	420,652	
(4) North Africa	26,441,828	
(5) Malta	2,779,958	
(6) Australia	3,124,885	
(7) Canada	2,065,681	
Total Sales of Imports		334,851,156
(b) Sales in Italy of Supplies Obtained from		
(1) American Army	1,374,550	
(2) British Army	2,780,646	4,155,196
(c) Sales in Italy of Supplies Purchased Locally		4,974,968
Total Receipts for Account of A.M.G., E. & S.D.		343,981,320

2762

Declassified E.O. 12356 Section 3.3/NND 785017

SCHEDULE V

ALLIED FINANCIAL AGENCY

SCHEDULE TO CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

AS AT THE CLOSE OF BUSINESS ON 31 MARCH, 1944

PAYMENTS ON ACCOUNT OF OCCUPATION COSTS

(a) To American Army		
(1) Paid in Lire	L. 10,901,048,000	
(2) Paid in Yellow Seal Dollars	150,530,000	11,051,578,000
(b) To American Navy		
(1) Paid in Lire	156,022,000	
(2) Paid in Yellow Seal Dollars	10,800,000	166,822,000
(c) To British Army		
(1) Paid in Lire	6,647,343,830	
(2) Paid in B.M.A. Pounds	561,040,310	7,208,384,140
(d) To British Navy		
(1) Paid in Lire	14,832,800	
(2) Paid in Francs	31,830	14,864,630
(e) To Royal Air Force		
(1) Paid in Lire	10,500,000	
(2) Paid in Francs	2,424,538	12,924,538
(f) To French Armed Forces		
(1) Paid in Lire		1,766,120,000
Total Paid to Allied Armed Forces		20,220,693,308
(g) AMG/ACC Expenditure, less Revenue :		
(1) AFA (Schedule VI)	2,295,458	
(2) Other Divisions		
(i) Transactions up to 29 February 44		
(a) A.M.G.	(75,647,810)	
(b) A.C.C.	5,576,965	
(ii) Items paid or received by AFA direct from 1 March 1944 to date	1,980,971	(65,834,416)

2761

Declassified E.O. 12356 Section 3.3/NND No. 785017

(1) Paid in Lire	L. 10,901,048,000	
(2) Paid in Yellow Seal Dollars	150,530,000	11,051,578,000
(b) To American Navy		
(1) Paid in Lire	156,022,000	
(2) Paid in Yellow Seal Dollars	10,800,000	166,822,000
(c) To British Army		
(1) Paid in Lire	6,647,343,830	
(2) Paid in B.M.A. Pounds	561,040,310	7,208,384,140
(d) To British Navy		
(1) Paid in Lire	14,832,800	
(2) Paid in Francs	31,830	14,864,630
(e) To Royal Air Force		
(1) Paid in Lire	10,500,000	
(2) Paid in Francs	2,424,538	12,924,538
(f) To French Armed Forces		
(1) Paid in Lire		1,766,120,000
Total Paid to Allied Armed Forces		20,220,693,305
(g) AMG/ACC Expenditure, less Revenue :		
(1) APA (Schedule VI)	2,285,458	
(2) Other Divisions		
(i) Transactions up to 29 February 44		
(a) A.M.G.	(75,647,810)	
(b) A.C.C.	5,576,965	
(ii) Items paid or received by APA direct from 1 March 1944 to date	1,980,97**2761**	(65,834,415)
Total Payments on Account of Occupation Costs		20,154,858,892

( ) = red figures

Declassified E.O. 12356 Section 3.3/NND 785017

SCHEDULE VI

ALLIED FINANCIAL AGENCY

CONSOLIDATING STATEMENT OF AFA REVENUE AND EXPENDITURE

FOR THE MONTH OF MARCH 1944

(expressed in lire)

EXPENDITURE	TOTAL TO 29 FEB 44	MONTH OF MAR 44	TOTAL TO 31 MAR 44
EMOLUMENTS OF CIVILIAN PERSONNEL	100,466	5,920	106,386
MOTOR TRANSPORT (Note 1)			
Maintenance of Vehicles	760		760
Total Motor Transport	760		760
OTHER ADMINISTRATIVE EXPENSES (Note 2)			
Printing and Stationery	29,869	4,145	34,014
Maintenance of Offices	4,149	261	4,410
Maintenance of Office Equipment	955	950	1,905
Sundries	934	350	1,284
Total Other Administrative Expenditure	35,907	5,706	41,613
SPECIAL EXPENDITURE			
Purchase of Office Furniture& Equipment	61,799	33,000	94,799
Reconditioning of Offices	35,890		35,890
Total Special Expenditure	97,689	33,000	130,689
FINANCIAL EXPENDITURE			
Interest Paid to Banks	4,544,012	10,394	4,554,406
Bank Service Charges	175,000	233,333	408,333
Total Financial Expenditure	4,719,012	243,727	4,962,739
Total Expenditure	4,953,884	288,353	5,242,167
REVENUE			
INTEREST RECEIVED From Banks	2,875,771	110,413	2,986,184
MISCELLANEOUS RECEIPTS	545		545
Total Revenue	2,876,316	110,413	2,986,729
EXCESS OF EXPENDITURE OVER REVENUE	2,077,518	177,940	2,255,458

NOTE 1. "Emoluments of Civilian Personnel (Chauffeurs)" in the amount of Lire 14,885 formerly charged to this HEAD has been re-classified to "Emoluments of Civilian Personnel"as at 29 Feb 44.

[illegible] head "Cleaning of Offices" has been re-

Declassified E.O. 12356 Section 3.3/NND No. 785017

MOTOR TRANSPORT (Note 1)			
Maintenance of Vehicles	760		760
Total Motor Transport	760		760
OTHER ADMINISTRATIVE EXPENSES (Note 2)			
Printing and Stationery	29,669	4,145	34,814
Maintenance of Offices	4,149	261	4,410
Maintenance of Office Equipment	955	950	1,905
Sundries	934	350	1,284
Total Other Administrative Expenditure	35,907	5,706	41,613
SPECIAL EXPENDITURE			
Purchase of Office Furniture& Equipment	61,799	33,000	94,799
Reconditioning of Offices	35,890		35,890
Total Special Expenditure	97,089	33,000	130,689
FINANCIAL EXPENDITURE			
Interest Paid to Banks	4,544,012	10,394	4,554,406
Bank Service Charges	175,000	233,333	408,333
Total Financial Expenditure	4,719,012	243,727	4,962,739
Total Expenditure	4,953,834	288,353	5,242,187
REVENUE			
INTEREST RECEIVED From Banks	2,875,771	110,413	2,986,184
MISCELLANEOUS RECEIPTS	545		545
Total Revenue	2,876,316	110,413	2,986,729
EXCESS OF EXPENDITURE OVER REVENUE	2,077,518	177,940	2,255,458

NOTE 1. "Emoluments of Civilian Personnel (Chauffeurs)" in the amount of Lire 14,685 formerly charged to this HEAD has been re-classified to "Emoluments of Civilian Personnel"as at 29 Feb 44.

NOTE 2. The former sub-head, "Cleaning of Offices" has been re-classified; Lire 19,985 to "Emoluments of Civilian Personnel", and Lire 492 to "Maintenance of Offices", as at 29 FEB 44.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

accidents and diseases, which are paid for by employers only. Deductions are made from wages or salaries by the employer, and remitted by him to the Institutes. Except for a small grant for pensions, State support from general funds is not ordinarily afforded to social insurance of privately employed workers.

B. Evaluation of the System

1. Notwithstanding many references in public documents to the dignity of "labour" and the "concern" of the State for "workers", class lines in Italy are sharply drawn, a fact that is clearly reflected in social insurance arrangements. At all points the white collar worker (impiegato) fares much better than the manual worker (operai). This is not only true of benefits that necessarily vary with rates of pay, but of allowances and of conditions for receipt of benefits. Dependency, the basic condition for receiving family allowances as such or in connection with unemployment benefits and pensions, ends at age 18 for children of operai, but at age 17 for children of impiegati. This difference is also involved where medical treatment is sought for dependent members of the family. Impiegati employed by the State make no contribution for accident or sickness insurance and therefore receive no cash benefits in these circumstances, but they receive medical care free in either occupational accident or illness.

2. The grossest form of discrimination against manual workers is found in the Richiamati payments. When manual workers are called into the Army, their dependents continue to receive only the family allowances normally paid to them. The dependents of impiegati who serve in the ranks continue to receive the entire normal peace-time salaries of these non-manual workers, and dependents of impiegati who serve as officers are paid the difference between the civil salary of the impiegati and his officer pay. Thus the war-time incomes of impiegati are virtually equivalent to their civilian incomes. For white collar classes, service in the Army involves no financial burden. This discrimination is justified locally on the grounds that dependents of manual workers called to the service are expected to find jobs, while the wives of white collar workers cannot be expected to work.

C. The Italian Social Insurance Institutes

1. The chief Social Insurance Institutes in Italy, with the types of insurance covered by each, are listed below.

(a) Istituto Nazionale dell'Assicurazione contro gli Infortuni sul Lavoro (commonly known as "Infortuni".)

This Institute provides insurance against industrial accidents and diseases, and has recently had merged with it a separate body for agricultural workers, the "Cassa Mutua Infortuni Agricoli".

(b) Istituto per l'Assistenza di Malattia ai Lavoratori (commonly known as "Malattia").

This Institute was formed by a comparatively recent merger of the "Cassa Mutua Malattia per i Lavoratori dalle Industrie", the "Cassa Nazionale Malattia per i Lavoratori Addetti al Commercio," the "Istituto Assistenza per i Lavoratori delle Aziende di Credito e delle Assicurazioni", and the "Cassa Mutua per i Lavoratori Agricoli". The merger is in various stages of accomplishment and the old organizations continue

2760

Declassified E.O. 12356 Section 3.3/NND No. 785017

to function autonomously from where it has been fully affected. The Malattie organization provides insurance against sickness of workers or dependent members of their families.

(c) Ente di Previdenza ed Assistenza per i Dipendenti Statali

This "Ente" provides accident and sickness insurance, and a pension fund, for employees of the State (except employees of the State Railways, who have a separate organization).

(d) Istituto Nazionale delle Previdenza Sociale (commonly known as "Previdenza").

This Institute, by far the largest social insurance body in Italy, covers most benefits and classes of workers not covered by the other three. It also handles certain allowances on behalf of the State which are not really of a social insurance character.

2. The table below indicates the amounts collected and paid by the principal social insurance bodies in 1941:

Contributions and Benefits for Principal Social Insurance Coverages in Italy, 1941.

Institution	Contributions (in millions of lire)	Benefits (in millions of lire)
Previdenza		
Pensions (invalidity and old age)	2,175	692
Unemployment Benefits	324	228
Tuberculosis Benefits	367	331
Marriage and Maternity Benefits	332	158
Military Allowances (Mobilization)	201	1,038
48 hour guarantee (Integrazione)	300	34
Family Allowances	3,536	3,636
Total for Previdenza	7,161	6,114
Infortuni (Industrial Injuries)	742	696
Malattie (sickness benefits)	772	682
Grand Total	8,675	7,492

B. Industrial Accidents and Diseases (Infortuni)

1. Only scheduled industrial diseases, and accidents occurring during the performance of scheduled dangerous occupations are covered. The latter point is [illegible]

Declassified E.O. 12356 Section 3.3/NND No. 785017

(4) Istituto Nazionale della Previdenza Sociale (commonly known as "Previdenza").

This Institute, by far the largest social insurance body in Italy, covers most benefits and classes of workers not covered by the other three. It also handles certain allowances on behalf of the State which are not really of a social insurance character.

2. The table below indicates the amounts collected and paid by the principal social insurance bodies in 1941:

Contributions and Benefits for Principal Social Insurance Coverages in Italy, 1941.

Institution	Contributions (In millions of lire)	Benefits
Providenza		
Pensions (invalidity and old age)	2,179	692
Unemployment Benefits	522	228
Tuberculosis Benefits	387	331
Marriage and Maternity Benefits	358	158
Military Allowances (Richiamati)	201	1,039
48 hour guarantee (Integrazione)	302	34
Family Allowances	3,336	3,636
Total for Providenza	7,061	6,112
Infortuni (industrial injuries)	722	696
Malattie (sickness benefits)	792	682
Grand Total	8,575	7,492

D. Industrial Accidents and Diseases (Infortuni)

1. Only scheduled industrial diseases, and accidents occurring during the performance of scheduled hazardous occupations are covered. The latter point is important. An accident must occur while the scheduled occupation is being performed, for the benefit to operate.

2. Temporary disability compensation is at the rate of two-thirds of the daily wage, after a qualifying period of three days. Permanent disability compensation is based on the degree of disability. Fatalities result in a pension for the widow and/or dependents. Medical treatment is provided and the Institute maintains hospitals and other medical facilities.

3. Premiums are paid by the employer alone, either directly to an office of the Institute, or through a Post Office. Collections were formerly remitted to the Central Office of the Institute in Rome, on which local offices drew for funds. An average premium amounts to about one-half the daily wage per month. Collections and benefit payments for all Italy for 1941 were 722 and 696 million lire respectively. The latter figure represents amounts settled in 1941. Payments made in 1941 included instalment payments for serious injuries in earlier years, and did not include some 487 million lire reserved to pay instalments in subsequent years for serious injuries in 1941.

Declassified E.O. 12356 Section 3.3/NND No. 785017

4. Agricultural workers covered by the Institute have a separate benefit scale notwithstanding the merger of the Cassa Mutua Infortuni Agricoli, and their premiums are collected differently, being paid to the "esattori" as a supplement to the land tax and based on area, operations, number of workers and hazard.

5. By law, the Infortuni organization is bound to pay benefits irrespective of the state of premium collections for the individual.

E. Sickness Insurance (Malattia)

1. This organization provides sickness insurance for the insured person and for his dependents, by means of a cash payment to cover costs of

(a) home care
(b) clinical treatment
(c) hospital treatment
(d) specialised treatment (obstetrical, surgical, recuperative)
(e) pharmaceutical and related supplies.

Medical care is generally limited in duration (150 - 180 days) and medical supplies in value (200 - 300 lire).

2. Sickness insurance is contributory, the worker's and employer's contributions being equal. Collections are effected as a part of Contributi Unificati and were formerly remitted to Rome. In 1941, collections and benefit payments for all Italy of the four "Casse" now forming the Malattia organization were 792 and 682 million lire respectively.

F. State Employee Insurance (Ente Statale organization)

1. This organization provides accident and sickness benefits and pension payments to employees of the State (except employees of State Railways). While manual workers obtain both accident and sickness cover, salaried employees do not contribute to the sickness fund and receive only medical treatment during sickness. The pension fund is applicable to both classes of workers, the employer (i.e. the State department or other body) and the employee both contributing equal amounts.

2. Contributions are collected by the employer and formerly were paid direct to the Banca Nazionale del Lavoro for remittance to Rome. The local offices of the "Ente" used not to handle collections, drawing on Rome for the money required for benefit payments.

G. Other Social Insurance (Previdenza)

1. Nearly all remaining Social Insurance, forming by far the greater proportion, is handled by the Previdenza organization. Benefits are provided for unemployment, tuberculosis, marriage, maternity and old-age and invalidity. All types are contributory, contributions of employer and employee being equal except for the pension fund, to which the employer contributes two-thirds, and the employee one-third.

2. Except for agricultural workers contributions are effected by means of stamps of various values purchased by the employer at the local Previdenza Office, or at a Post Office, and affixed in the employee's insurance book (tessera), which is

Declassified E.O. 12356 Section 3.3/NND 785017

(a) home care
(b) clinical treatment
(c) hospital treatment
(d) specialised treatment (obstetrical, surgical, recuperative)
(e) pharmaceutical and related supplies.

Medical care is generally limited in duration (150 - 180 days) and medical supplies in value (200 - 300 lire).

2. Sickness insurance is contributory, the worker's and employer's contributions being equal. Collections are effected as a part of Contributi Unificati and were formerly remitted to Rome. In 1941, collections and benefit payments for all Italy of the four "Casse" now forming the Mutualità organization were 792 and 682 million lire respectively.

F. State Employee Insurance (Ente Statale organization)

1. This organization provides accident and sickness benefits and pension payments to employees of the State (except employees of State Railways). While manual workers obtain both accident and sickness cover, salaried employees do not contribute to the sickness fund and receive only medical treatment during sickness. The pension fund is applicable to both classes of workers, the employer (i.e. the State department or other body) and the employee both contributing equal amounts.

2. Contributions are collected by the employer and formerly were paid direct to the Banco Nazionale del Lavoro for remittance to Rome. The local offices of the "Ente" used not to handle collections, drawing on Rome for the money required for benefit payments.

G. Other Social Insurance (Previdenza)

1. Nearly all remaining Social Insurance, forming by far the greater proportion, is handled by the Previdenza organization. Benefits are provided for unemployment, tuberculosis, marriage, maternity and old-age and invalidity. All types are contributory, contributions of employer and employee being equal except for the pension fund, to which the employer contributes two-thirds, and the employee one-third.

2. Except for agricultural workers contributions are effected by means of stamps of various values purchased by the employer at the local Previdenza Office, or at a Post Office, and affixed in the employee's insurance book (tessera), which is held by the employer. At the same time the payment of the contribution is entered in the employee's work-book (libretto di lavoro) which remains in the possession of the employee. For agricultural workers, contributions are paid to the tax collectors (esattori) on the tax-rolls as part of the "contributi unificati".

3. For the separate divisions of Unemployment, Tuberculosis and Marriage/Maternity, collections and payments have been fairly well in balance for Italy as a whole. Contributions for Old Age/Invalidity have greatly exceeded benefits for the reason that the pension system has not yet matured, and the bulk of receipts has been set aside (in Rome) as actuarial reserves against future payments. In 1941, for example, contributions amounted to L2,174,000,000, pension payments to L692,000,000. The reserves for pensions on 31 December 1941 was L17,081,000,000.

2755

Declassified E.O. 12356 Section 3.3/NND No. 785017

4. The size of the Previdenza organization led the Government to assign to it many functions of a non-insurance character, many of which are closely related to the basic wage system of the country. The largest is the administration of the National Family Allowances Fund.

II. Family Allowances (Assegni Familiari)

1. The National Family Allowance Fund was established in 1934 and was later extended to cover all paid employees. It is theoretically paid for by a contribution (equal for industrial manual workers to 20% of the pay-roll of an employer), the employer paying this amount to Previdenza, who in turn would pay the allowances to the employees. In practice, the employer usually pays the allowances direct, and settles any difference with Previdenza, being reimbursed for any amount in excess of the agreed percentage, or remitting the difference if less than this percentage.

2. Rates of family allowances are based on a sliding scale which, in accordance with a Fascist conception, increased the scale of allowances with the size of the family, e.g. a worker received a higher per capita allowance for four or more children than for two or three, and still more than for one.

3. It is important to note that whereas collections and payments of family allowances were formerly about in balance for Italy as a whole, payments always exceeded collections in Southern Italy. This is because the average size of family in the South was greater, and the average wage smaller, than elsewhere, whilst the basis of contribution was a flat percentage of the wage throughout the Country. Family allowances have come to be regarded as part of the established wage system in Italy.

I. Military Allowances (Richiamati and Sussidi Militari)

1. "Richiamati" are allowances paid through the Previdenza organization in part from State funds, in part from proceeds of a payroll tax (3% for non manual, 1% for manual workers), to dependents of men called to the armed forces. As stated above, for non-manual workers the allowances amount to the difference between civilian and military earnings. For manual workers, the payments are equal to the family allowances received while employed.

2. "Sussidi Militari" is a special type of relief provided on a communal basis to needy dependents of those serving with the Armed Forces.

J. Other Allowances

1. "Integrazione di salario" is another item handled by Previdenza. Paid for by an employer's contribution of 5% of his payroll, it was intended to guarantee a remuneration equal to that which would be received for a 48-hour week.

2. "Indennita giornaliera di presenza" or bonus for presence at work, is a bonus paid to private employees when a war emergency was held to exist in the locality. A part of this indemnity was reimbursed to the employer by Previdenza but this reimbursement has been suspended.

3. "Indennita di bombardamento", or bonus for liability to enemy action, is [illegible] type of payment but is paid to State employees by the Ente-Statali,

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

22 APR Recd

Condensed abstract as included in ACC monthly Rept

100

FINANCE

(1) A comprehensive report is prepared each month by the Finance Sub-Commission. Copies of such reports were formerly appended to this ACC Report. Beginning with March, however, Finance Sub-Commission's Report will be forwarded separately to Washington and London. In addition, copies of the Report for March have been circulated to all Directors of Sub-Commissions, Regional Commissioners, and Regional and Provincial Finance Officers. Additional copies of this Report may be obtained on application to the Joint Directorate, Finance Sub-Commission. It is obviously impossible to mention in this ACC Report all of the significant activities of the Finance Sub-Commission; certain major topics of general interest are presented below.

(2) Joint Directorate

During March appointment of a Joint Directorate for the Finance Sub-Commission was announced, consisting of Col. E. M. Foley, Jr., (A) and Col. A. P. Grafftey-Smith, (B).

(3) U.S. War Department Finance Mission

In March, the Theatre was visited by a United State War Department Mission, consisting of Colonel Andrew Stewart, Fiscal Division, War Department; Lieut-Colonel E. A. McConahay, Budget Division, War Department; Mr. J. C. Nevitt, General Accounting Office; Mr. Harold Glasser, Division of Monetary Research, U.S. Treasury Department, and Mr. Gilbert Cake, Bureau of Accounts and Deposit, U.S. Treasury Department. The Mission was primarily interested in the accounts and records maintained by the Finance Sub-Commission and the procedures under which supplies and funds are accounted for. The Mission visited Naples, Salerno, and Palermo, and held extensive discussions with various sections of the Finance Sub-Commission and with other Sub-Commissions whose work was related to the interests of the Mission. The experience of ACC will be utilised in preparing future foreign fiscal policies and directives for other theatres of operation. The Mission also wished to ascertain whether adequate records are being maintained to provide the information necessary in considering post-war policies and making final financial settlements.

(4) The Lira exchange rate

Ever since his appointment to the post, the Italian Minister of Finance has maintained that the exchange rate of 100 lire to the dollar and 400 lire to the pound has been, and continues to be, the principal cause of the inflation in Italy. He argues that the rate has been responsible for two reasons; because it has caused Italian sellers to demand higher lire prices and Italian buyers to be willing to pay such prices, and because it has given Allied troops too large a purchasing power in Italy. On 24 February Marshal Badoglio submitted a statement to ACC requesting that the dollar value of the lira be increased.

In view of the Finance Minister's emphasis upon the question, and in view of the fact that the Minister's arguments, unanswered, have obtained wide acceptance, the Finance Sub-Commission's technical staff has prepared studies of the entire problem. These were summarized in a memorandum of 27 March which has been transmitted to the Combined Civil Affairs Committee of CCS.

Consideration of the experience of devaluation in the U.S. and other countries and of the numerous historical cases of changes in exchange rates that were not followed by significant price changes is sufficient to dispose of the view that a direct psychological connection exists between exchange rates and prices. Furthermore, the facts that inflation was in progress in Italy long before the Allied invasion, that it continues in areas from which Allied troops have been largely removed, that there are real shortages of all essential items, and that for years the Italian Government has had a large and growing deficit, are sufficient to demonstrate that Allied troop expenditures are not the original cause of inflation or the only inflationary force now at work. Accordingly, the Finance Sub-Commission's studies concentrated upon measurement of Allied troop

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

(3) U.S. War Department Finance Mission

In March, the Theatre was visited by a United States War Department Mission, consisting of Colonel Andrew Stewart, Fiscal Division, War Department; Lieut-Colonel E. A. McConaughy, Budget Division, War Department; Mr. J. C. Nevitt, General Accounting Office; Mr. Harold Glasser, Division of Monetary Research, U.S. Treasury Department, and Mr. Gilbert Cake, Bureau of Accounts and Deposit, U.S. Treasury Department. The Mission was primarily interested in the accounts and records maintained by the Finance Sub-Commission and the procedures under which supplies and funds are accounted for. The Mission visited Naples, Salerno, and Palermo, and held extensive discussions with various sections of the Finance Sub-Commission and with other Sub-Commissions whose work was related to the interests of the Mission. The experience of AFC will be utilized in preparing future foreign fiscal policies and directives for other theatres of operation. The Mission also wished to ascertain whether adequate records are being maintained to provide the information necessary in considering post-war policies and making final financial settlements.

(4) The lira exchange rate

Ever since his appointment to the post, the Italian Minister of Finance has maintained that the exchange rate of 100 lire to the dollar and 400 lire to the pound has been, and continues to be, the principal cause of the inflation in Italy. He argues that the rate has been responsible for two reasons; because it has caused Italian sellers to demand higher lira prices and Italian buyers to be willing to pay such prices, and because it has given Allied troops too large a purchasing power in Italy. On 21 February Marshal Badoglio submitted a statement to AFC requesting that the dollar value of the lira be increased.

In view of the Finance Minister's emphasis upon the question, and in view of the fact that the Minister's arguments, unanswered, have obtained wide acceptance, the Finance Sub-Commission's technical staff has prepared studies of the entire problem. These were summarized in a memorandum of 25 March which has been transmitted to the Combined Civil Affairs Committee of COS.

Consideration of the experience of devaluation in the U.K. and other countries and of the numerous historical cases of changes in exchange rates that were not followed by significant price changes is sufficient to dispose of the view that a direct psychological connection exists between exchange rates and prices. Further more, the facts that inflation was in progress in Italy long before the Allied invasion, that it continues in areas from which Allied troops have been largely removed, that there are real shortages of all essential items, and that for years the Italian Government has had a large and growing deficit, are sufficient to demonstrate that Allied troop expenditures are not the original cause of inflation or the only inflationary force now at work. Accordingly, the Finance Sub-Commission's studies concentrated upon measurement of Allied troop expenditures and other inflationary factors, and upon analysis of the effects that might result from a reduction in troop expenditures achieved through an increase in the dollar value of the lira to, say, 50 lire to the dollar.

In order to measure the expenditures of Allied troops in Italy it is necessary to subtract from their pay, not only the large sums that are allotted home, but also the very considerable sums that are spent in Army stores, remitted to home countries, and deposited with P.O's. Actual soldier expenditures in Italy, so measured, amount to 1.7 billion lire per month. If it can be assumed that soldiers would react to a 50 per cent reduction in their lira incomes by reducing the dollar or sterling value of their remittances by 1/3, then their lira expenditures after the change in the rate would be 1.0 billion lire, or only 700 million less than at present. While 700 million lire per month would represent a significant reduction, there would remain 1 billion lire per month of soldier expenditures, about 400 million lire per month of Allied military expenditures for local supplies and labour, and the enormous and rapidly growing deficit of the

/2...

It[illegible] Government, which is variously estimated at as 3 to 5 billion lire per month. It seems clear that a reduction in soldier expenditures imposed by an increase in the dollar value of the lira could not correct, nor substantially effect, the inflationary situation in Italy. An increase in the dollar value of the lira would, however, impose a very great burden upon our troops. The purchasing power of that portion of their wages which they now spend in Italy would be severely cut. If it could be demonstrated that soldiers' expenditures are a sufficiently important factor to demand restrictive action, they could be reduced by means, such as compulsory allotments, that would not reduce their real incomes.

The Finance Sub-Commission is strongly of the opinion that the Italian Government deficit, and not Allied troop expenditures, is the principal monetary factor in the Italian inflation. The Italian Government, in continuing to focus attention upon Allied soldiers' expenditures, has obscured its own failure to prevent its revenues from declining and its expenditures from increasing.

(5) The Foreign Economic Administration's Italian Survey Mission

The FEA Italian Survey Mission, headed by Mr. Millar E. Stevenson, Special Assistant to the Secretary of the Navy, visited Sicily and Italy in the latter part of December 1943 and early January 1944. Upon the Mission's return to Washington a report embodying their findings and conclusions was submitted to the Administrator of FEA on 5 February 1944. Copies of this report were forwarded to [illegible] and the Economic Section requested various Sub-Commissions to comment on the parts of the report relevant to their respective fields. Section IV of the report, entitled "Price Trends and Inflation" was passed to Finance Sub-Commission. The Finance Sub-Commission made a detailed analysis of this section of the FEA report. We believe that the report made several errors of interpretation which may have led to an incorrect appraisal of the inflationary situation in Italy. In particular, it is implied in the Report that the use of AM lire, in and of itself, was a major inflationary force. Attention may thus have been diverted from the true major source of inflation in liberated Italy, the Italian Government deficit. The Finance Sub-Commission also disagrees strongly with the Mission's conclusion that the dollar/sterling value of the lira is too low. The FEA Mission has also suggested that Allied action should be taken now to stabilise the lira. To state that a foreign loan or any other purely financial concession to Italy would improve the present situation may be misleading. At the present time Italy is receiving certain supplies without making current payments and without suffering any pressure on the lira, which is effectively stabilised at the rate of 100 lire to the dollar. The real stabilisation programme which Italy requires is the stabilisation of the domestic purchasing power of the lira. The part of this anti-inflation programme that falls to the Finance Sub-Commission, including expenditure control, a realistic and effective tax programme, and government financial reforms, is currently being reviewed and strengthened.

(6) Control of Advances and Currency

2756

Beginning 1 April all advances on Italian Government account in King's Italy or AMG Regions must be cleared through Finance Sub-Commission Headquarters in order to make possible an examination of the cash position of the government as a whole. Thus the Italian Government deficit will be financed in the normal way through the central bank, the Banca d'Italia. Agreement was also reached on a plan to make possible the absorption of excess cash in branches of the Banca d'Italia and a plan for a more regularised examination of the cash position of the Banca d'Italia. Owing to the decentralisation of the Banca d'Italia system, advances to branches of the Banca have continued to be made in deficit currency areas while a net influx of currency in neighbouring areas created unduly large currency holdings in other Banca d'Italia branches. For this reason, and also for the reason that the re-unification of the branches of the Banca d'Italia into a single reserve pool has reduced the total reserve required to a sum considerably below that which was required when each branch had to depend solely upon its own resources, it was agreed

Declassified E.O. 12356 Section 3.3/NND No. 785617

5 February 1944. Copies of this report were forwarded to the ACC, and the Economic Section re uests various Sub-Commissions to comment on the parts of the report relevant to their respective fields. Section IV of the report, entitled "Price Trends and Inflation" was passed to Finance Sub-Commission. The Finance Sub-Commission made a detailed analysis of this section of the FSA report. We believe that the report made several errors of interpretation which may have led to an incorrect appraisal of the inflationary situation in Italy. In particular, it is implied in the Report that the use of AM lire, an end of itself, was a major inflationary force. Attention may thus have been diverted from the true major source of inflation in liberated Italy, the Italian Government deficit. The Finance Sub-Commission also disagrees strongly with the Mission's conclusion that the dollar/sterling value of the lira is too low. The FSA Mission has also suggested that Allied action should be taken now to stabilise the lira. To state that a foreign loan or any other purely financial concession to Italy would improve the present situation may be misleading. At the present time Italy is receiving certain supplies without making current payments and without suffering any pressure on the lira, which is effectively stabilized at the rate of 100 lire to the dollar. The real stabilization programme which Italy requires is the stabilization of the domestic purchasing power of the lira. The part of this anti-inflation programme that falls to the Finance Sub-Commission, including expenditure control, a realistic and effective tax programme, and government financial reforms, is currently being reviewed and strengthened.

2758

(6) Control of Advances and Currency

Beginning 1 April all advances to Italian Government account in King's Italy or AMG Regions must be cleared through Finance Sub-Commission Headquarters in order to make possible an examination of the cash position of the government as a whole. Thus the Italian Government deficit will be financed in the normal way through the central bank, the Banca d'Italia. Agreement was also reached on a plan to make possible the absorption of excess cash in branches of the Banca d'Italia and a plan for a more regularised examination of the cash position of the Banca d'Italia. Owing to the decentralisation of the Banca d'Italia system, advances to branches of the Banca have continued to be made in deficit currency areas while a net inflow of currency in neighbouring areas created unduly large currency holdings in other Banca d'Italia branches. For this reason, and also for the reason that the re-unification of the branches of the Banca d'Italia into a single reserve pool has reduced the total reserve required to a sum considerably below that which was required when each branch had to depend solely upon its own resources, it was agreed that the Banca d'Italia is to repay 1.9 billion lire to the Allied Financial Agency and to hold this 1.9 billion lire for AFA in a special account at the Banca d'Italia to be known as Account Number 2, with a 100 per cent currency cover at all times. No payments may be made from such account except by AFA. It was further agreed at the conference that toward the end of every month the currency position of the Banca d'Italia would be re-examined and that the Number 2 Account would be adjusted in the light of these surveys.

(7) A programme for conversion of Metropolitan lire

It is realised that the Germans may, upon abandoning areas in Italy presently occupied, issue large quantities of Italian currency in order to complicate the position for the Allies. In any event, the Germans are known to be receiving some seven and a half billion lire per month as occupation costs in occupied Italy, to which should be added the monthly deficit of the Mussolini Government. To control the large volume of liquid assets that the Allies may encounter in subsequently liberated areas of Italy, detailed study has been made of the possibility of withdrawing in the near future all Metropolitan lire outstanding in presently liberated Italy. Such currency would be withdrawn on a one -

/3.....

Declassified E.O. 12356 Section 3.3/NND No. 785217

to-one basis. This step would then free our hands for any drastic action which may be necessary in areas subsequently liberated, including the blocking and control of Metropolitan lire, bank deposits, government securities, and perhaps even other forms of liquid assets. It is to be emphasized that enormous administrative burdens would be assumed should either or both of these measures be adopted. Before any decision is taken on this question, the view of the Combined Chiefs of Staff will be requested. Attention has also been given to the possibility of withdrawing Bank of Italy notes issued under August and October decrees, and declaring them non-legal tender. These notes bear the monogram of the Bank of Italy in lieu of the vermillion fascist symbol appearing on other Metropolitan lire and, of course, have different decree dates. In all other respects the two types of notes are similar. It has been decided that no such action should be taken because of the great difficulty of distinguishing such notes from other issues of Metropolitan lire.

(8) Preparation of a new Italian Government currency

The Joint Director (A) brought with him on his recent return from Washington samples of the new Italian Government lire currency prepared in the U.S. All Fascist symbolism has been removed from the design of the new Banca d'Italia and State notes. The King's portrait, which formerly appeared only on the 5 and 10 lire State notes, has been omitted from the new design. The proposed designs were accepted by the Minister of Finance, subject to certain minor technical changes. The samples of the proposed notes, together with the suggested modifications, have been returned to Washington for preparation of the final design. It is estimated that the new currency will not be ready for at least six months from the date of approval of the models.

(9) Organization of the Banca d'Italia

The branch of the Banca d'Italia at Salerno will in future give instructions to other branches of the central bank located in territory under control of the Badoglio Government. In addition, Signore Alberto Pettinari, recently appointed Vice-Commissioner of the Bank, will also manage the other Caja agua branches from Naples. The new central statistical organization, establishment of which was reported in the February Report of this Sub-Commission, is proceeding to collect statistics on both commercial bank operations and the postal savings system. An officer of the Finance Sub-Commission has been designated as liaison officer to the Banca d'Italia and will maintain his office in the Salerno branch.

(10) Remittances from the U.S. and the U.K.

The Combined Civil Affairs Committee of CCS was advised on 5 March that the Banco di Napoli was prepared to act as agent for effecting personal remittances to Sardinia and ten provinces of southern Italy. On 31 March AMG advised [illegible] that banks in the U.S. would begin to send remittances to this area on or about 15 April 1944. The license authorizing such remittances has not as yet been received, but instructions have been sent by the Banco di Napoli to its branches.

2755

(11) A memorandum of the Finance Sub-Commission has been submitted to the Italian Government proposing revisions in the Italian tax system:

(a) War profits tax assessments. War profits tax assessments are considerably in arrears, owing to delays in making assessments and hearing cases. This is a matter of considerable concern, since such taxes should be collected almost currently if they are to have their full anti-inflation effect. Recommendations were made to the Finance Minister that assessments should be made more frequently and collected more rapidly, and that collections should be made through channels other than the Esattorie. The Minister has agreed to speed up assessments, but up to the present he has not agreed to a change in the Esattorie system nor to our suggestions that would make for more rapid collection

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...(A) brought with him on his recent return from Washington ...of the new Italian Government lire currency prepared in the U.S. All Fascist symbolism has been removed from the design of the new Banca d'Italia and State notes. The King's portrait, which formerly appeared only on the 5 and 10 lire State notes, has been omitted from the new design. The proposed designs were accepted by the Minister of Finance, subject to certain minor technical changes. The samples of the proposed notes, together with the suggested modifications, have been returned to Washington for preparation of the final design. It is estimated that the new currency will not be ready for at least six months from the date of approval of the models.

(9) Organization of the Banco d'Italia

The branch of the Banca d'Italia at Salerno will in future give instructions to other branches of the central bank located in territory under control of the Badoglio Government. In addition, Signore Alberto Pettinari, recently appointed Vice-Commissioner of the Bank, will also manage the other Banca d'Italia branches from Naples. The new central statistical organization, establishment of which was reported in the February Report of this Sub-Commission, is proceeding to collect statistics on both commercial bank operations and the postal savings system. An officer of the Finance Sub-Commission has been designated as liaison officer to the Banca d'Italia and will maintain his office in the Salerno branch.

(10) Remittances from the U.S. and the U.K.

The Combined Civil Affairs Committee of CCS was advised on 5 March that the Banco di Napoli was prepared to act as agent for effecting personal remittances to Sardinia and ten provinces of southern Italy. On 31 March MMS advised AFN that banks in the U.S. would begin to send remittances to this area on or about 15 April 1944. The license authorizing such remittances has not as yet been received, but instructions have been sent by the Banco di Napoli to its branches.

(11) A memorandum of the Finance Sub-Commission has been submitted to the Italian Government proposing revisions in the Italian tax system:

(a) War profits tax assessments. War profits tax assessments are considerably in arrears, owing to delays in making assessments and hearing cases. This is a matter of considerable concern, since such taxes should be collected almost currently if they are to have their full anti-inflation effect. Recommendations were made to the Finance Minister that assessments should be made more frequently and collected more rapidly, and that collections should be made through channels other than the Esattore. The Minister has agreed to speed up assessments, but up to the present he has not agreed to a change in the Esattore system nor to our suggestions that would make for more rapid collections.

(b) Declarations of income. One of the important recommendations made was that requiring annual declarations of income from all persons subject to income taxes. Skeleton forms for such returns have been prepared and were submitted to the Minister with a letter stating our view that a compulsory return is essential if any progress is to be made in income taxation. The Minister agrees in principle, but doubts that any considerable number of taxpayers can be made to make returns.

(c) Legislation to empower the State to deal with under assessment. Specific recommendations of legislation necessary to empower the State to make additional assessments where the original assessment was based upon inadequate or false information have been made. Under the present Italian system, once an assessment is agreed upon between taxpayer and officials in respect of a taxable period, it cannot in practice be re-opened. The Minister agrees that

A.....

92

it will be necessary to strengthen the existing laws to provide the means whereby fraud and evasion can be detected and punished.

(d) **Turnover tax.** A plan by which the turnover tax can be made to reflect more closely actual current turnovers has also been submitted to the Minister.

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

96/

501

19 APR Recd 19 APR Recd

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

95

[illegible] now has a staff of approximately 700. The size of the [illegible] is slowly growing, but the capacity of the persons employed shows little improvement. As a result of the inadequacy and incapacity of personnel, most financial problems must be handled by the Minister himself.

B. Revenue

1. Tax revision

(a) A memorandum of the Chicago sub-Committee submitted to the Italian Government and proposing certain revisions in the Italian tax system was included as an appendix to this Report for February. Discussion concerning these proposals has been in progress during the past month, from which the following points have developed:

(i) War profits tax assessments. The war profits tax assessments are causing delay in refunds, owing to delays in making assessments and hearing cases. This is a matter of considerable concern, since money should be collected already currently in order to have their full anti-inflation effect. In a period of rapid inflation the value of revenues to the Government and the amount of effective taxation imposed upon the taxpayer depend upon the degree to which tax payments are current. Furthermore, the difficulties of collecting taxes, particularly those involving doubtful bookkeeping items, increase materially with the delay in assessment and collection. Many of the arrears are already thought to be irrecoverable except as offsets to claims against the Government for war losses compensated or not for materials supplied to the Government. Accordingly, representations were made to the Minister that assessments should be made more promptly and collected promptly, and that collections should be made through channels other than the Territire. The Minister has agreed to speed up assessments, but up to the present he has not agreed to change in the Territire system nor to the application that would make for more prompt collections.

(ii) Declarations of income. Each of the taxpayers who complained made to the representative to the Finance Minister was that requiring annual declarations of income from all persons subject to income taxes. Likely in fact that such returns have been prepared and must submit to the Minister with a letter of explanation. We view that the regulatory return is essential if any progress is to be made in income taxation. The Minister seems to realize, but doubts that any considerable number of taxpayers can be made to file returns, or that many of the returns received could be relied upon in useful form. He has in mind whether use should be made to cover all directly taxed income.

2753

Declassified E.O. 12356 Section 3.3/NND No. 785017

(iii) [illegible] to empower the state to deal with under assessment. The letter of 29 March also included a specific recommendation of legislation necessary to empower the State to take [illegible] where the original assessment was based upon inadequate or false information. Under the present Italian system, once an assessment is agreed upon between a taxpayer and officials in respect of a taxable period, it cannot be practicably reopened. Moreover, no adequate criminal sanction exists to prevent misrepresentation or conceal ment of information by the taxpayer. The Minister points that the present system under which fiscal information is obtained primarily by official and unofficial "search and seizure" is highly unsatisfactory and unduly expensive. He has agreed that it will be necessary to strengthen the existing laws to provide the means whereby fraud and evasion can be detected and punished. However, he has not taken any action to implement this proposal.

(iv) Turnover tax. A plan by which the turnover tax can be made to reflect more closely actual current turnovers has also been submitted to the Minister. At the present time the turnover tax is either collected by stamps, with no attempt to check a taxpayer's stamp purchases against the values of his transactions, or else it is assessed on the basis of the taxpayer's turnover for the previous year as carried forward for the tax purposes. Briefly, the plan proposes to require a monthly declaration of turnover by all taxpayers having a business whose annual turnover exceeds a minimum figure, say 50,000 lire. This declaration would serve as a form of preliminary self-assessment, payment being made concurrently with the filing of the declaration. The extent to which it is practical to rely upon periodic declarations of turnover for the preliminary assessments for this tax is still under discussion.

(b) Another source of tax revision suggestions is the memorandum submitted by Italian tax officials in response to a request from the Minister of Finance, made at our suggestion last January, that such officials state what, in their opinion, he should do to improve the tax structure, to avoid unnecessary work, and to effect other administrative economies. An Italian committee will be appointed to examine and report upon the memoranda received.

2. The Imposta di consumo

(a) The Imposta di consumo has been the most important single source of revenue in Italy since the 1950 revision of the local taxation system. The Comune self-sufficiency levied some four hundred and twenty-nine [illegible] relative to this tax. The Imposta di consumo is a progressive tax on consumption, particularly on the consumption of wine, beer, meat, and fuel, formerly collected through the [illegible] of self-service entrance by each taxable [illegible] imposition of [illegible] at the entrance of the Comune. The cost of collecting the tax is excessive and continually increasing, and the revenues [illegible] are [illegible]. In view of all these facts, [illegible] that the

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

93

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

92

Revenues by source for provinces for which information is available

(revenues from each source as a percentage of total revenues for first 8 months of fiscal year 1943 - 44 and for same period of previous fiscal year, and revenues for first 8 months of fiscal year 1943 - 44 as a percentage of same period of previous fiscal year).

	Direct taxes	Indirect taxes	Monopolies	Manufacturing items, customs, lotteries, and other receipts	Total Revenues
SICILY (5 provinces)					
% of total revenues 1943-44	48	35	14	3	100
% of total revenues 1942-43	24	27	38	11	100
1943-44 revenues to 1942-43	103	64	19	15	50
APULIA (4 provinces)					
% of total revenues 1943-44	20	19	46	7	100
% of total revenues 1942-43	21	19	39	21	100
1943-44 revenues to 1942-43	152	115	130	40	115
REGION II (4 provinces)					
% of total revenues 1943-44	48	36	13	3	100
% of total revenues 1942-43	27	30	39	4	100
1943-44 revenues to 1942-43	97	66	18	42	50
REGIONS III & V (5 provinces)					
% of total revenues 1943-44	44	21	26	9	100
% of total revenues 1942-43	25	24	37	14	100
1943-44 revenues to 1942-43	85	42	35	30	49
TOTAL (18 provinces)					
% of total revenues 1943-44	39	23	32	6	100
% of total revenues 1942-43	25	24	38	13	100
1943-44 revenues to 1942-43	104	63	55	33	66

The table shows that in the fiscal year 1942-43 monopolies provided the greatest part ([illegible] 40 per cent) of the revenues of the Government, and that indirect taxes and direct taxes each contributed about 25 per cent. This distribution of revenues was true for the 18 provinces as a whole and for each of the areas. In the present fiscal year, however, several significant changes have occurred. Monopolies remain the most important source of revenues only in Apulia. In all other areas direct taxes (principally the war profits tax and excess profits taxes) have become the most important source, and in Sicily and Region II indirect taxes (principally the turnover tax and the various registration taxes) have become the second most important source. This change has resulted

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

existing on the Island corresponding to those on [illegible] and a decision was made by the Italian government to eliminate the "Finanza Locale" at Palermo and to process the work through Salerno.

4. Estimates

During March, no alteration was made in the nature or purpose of the Italian Government's budget estimates. They continued to bear no relation to subsequent issuance of "authorities to spend" and consequently have no control function. These estimates are made by the Minister of Finance himself, rather than by the Ministries concerned, and their sole purpose is to serve as a basis for estimating the need for currency by the Banca d'Italia to cover Government expenditures. Further, the estimates are not made in time to be useful. For example, the estimates for the month of March were not received until 11 March and the Minister of Finance has advised that estimates for April would not be available until 10 April.

Since the Italian Government was not in position to assume jurisdiction of territory other than Puglia the estimates for March cover only that area. These estimates, for the first quarter of 1944, are given in the following table:

Estimates of Italian Government spending
Puglia (less Foggia), first quarter 1944
(millions of lire)

	January	February	March
Finance	20.0	20.0	16.0
Justice	5.0	5.0	5.0
Foreign Affairs	1.0	1.0	1.0
Education	13.0	13.0	15.0
Interior	55.0	70.0	100.0
Public Works	6.0	10.0	8.0
Communications	190.0	210.0	170.0
Agriculture	5.0	5.0	5.0
Industry and Commerce	.5	.5	.5
Total Civil Ministries	295.5	332.5	318.5
Monopolies	70.0	45.0	40.0
Lotto	.5	.5	.5
Public Debt	15.0	22.0	24.0
Total exclusive of Military	380.0	400.0	383.0
Army (Public only)	157.0	169.3	174.5
Navy (Public only)	160.4	175.9	201.1
Air Force (Public only)	84.5	58.7	76.0
Total Military (Public only)	408.9	403.9	451.6
TOTAL	789.9	803.9	834.6

2743

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

2743

17 provinces and 168 communes. The total number of communes concerned is 1,510, but it was estimated that more than 80 per cent of all communal expenditures would be contained in the 160 communes from which returns were required. The remaining communes are of less than 500 inhabitants. Actual expenditure figures for each type of the budget for 1943, broken down into months were requested. Each return was to be supported by the Bilancio di Previsione, as approved, for the same year. No returns have yet been received. The budget estimates for 1944 for communes and provinces were also due at the Italian Ministry of Finance on 15 March. To date none have been received.

The Interior Sub-Commission is about to issue a circular, preceding an Italian Royal Decree, to announce that the 1934 law governing local government is to be set aside and the law of 1915 restored in its place. The power to levy local taxation and authorise expenditure is less under the 1915 law than under that of 1934, and the attention of the Interior Sub-Commission has been drawn to this subject of the change in order that the existing financial powers of communes and provinces may be left undisturbed.

(c) A survey of certain previously requested returns from the province of Crotone and 38 of its communes revealed:

(i) The estimated expenditure for 3 months January through March 1944, is expected to exceed the actual expenditure for the same period last year by over 40 per cent;

(ii) The actual excess of expenditure over revenue for the 3 months September through November 1943 was 77 per cent in the province and 76 per cent in the communes;

(iii) In the budget estimate for the 3 months January through March 1944, the estimated revenue is 20 per cent of the estimated expenditure for the province, and 68 per cent for the communes;

(iv) The accumulated excess of expenditure over revenue for the 6 months under review (3 months actual - September through November 1943, and 3 months estimated - January through March 1944) is 5.5 million lire for the provinces and 4.8 million lire for the communes.

6. 1944 - 45 Italian Government budget

As the Italian Government's fiscal year begins on 1 July, discussions have been held with the Minister of Finance looking toward the preparation of an adequate budget for the fiscal year 1944 - 45. These discussions have not developed to a point where a report can be given, but will be covered fully in subsequent reports.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...to which none have been received.

The Interior Sub-Commission is about to issue a circular, preceding an Italian Royal decree, to announce that the 1934 law governing local government is to be put into effect and the law of 1915 restored in its place. The power to levy local taxation and authorize expenditure is less under the 1915 law than under that of 1934, and the attention of the Interior Sub-Commission has been drawn to this aspect of the change in order that the existing financial powers of communes and provinces may be left undisturbed.

(b) A survey of certain previously requested returns from the provinces of Caserta and 38 of its communes revealed:

(i) The estimated expenditure for 3 months January through March 1944, is expected to exceed the actual expenditure for the same period last year by over 40 per cent;

(ii) The actual excess of expenditure over revenue for the 3 months September through November 1943 was 77 per cent in the province and 76 per cent in the communes;

(iii) In the budget estimates for the 3 months January through March 1944, the estimated revenue is 20 per cent of the estimated expenditure for the province, and 60 per cent for the communes;

(iv) The 40 per cent excess of expenditure over revenue for the 6 months under review (3 months actual - September through November 1943, and 3 months estimated - January through March 1944) is 5.5 million lire for the provinces and 4.8 million lire for the communes.

6. 1944 - 45 Italian Government budget

As the Italian Government's fiscal year begins on 1 July, discussions have been held with the Minister of Finance looking toward the preparation of an adequate budget for the fiscal year 1944 - 45. These discussions have not developed to a point where a report can be given, but will be covered fully in subsequent reports.

D. Cash position of the Italian Government

1. Expenditures in March

(a) Owing to difficulties of communication, and transport, the Italian Government was not able during March to exercise financial control over Regions I and II, and these Regions therefore continued to furnish cash independently. The Finance Ministry continued to devote its attention to the cash position of the Government in Naples (Rome Reports). The Finance Minister's estimates of the Government's cash position there for the month of March were as shown on page 15.

Declassified E.O. 12356 Section 3.3/NND No. 785017

89

military in all areas)		1,390	
Net deficiency in Banco d'Italia cash reserve on 1 March		31	
Total currency needs for the month			1,421
Less			
Government receipts in Berlin (less Fascio)		140	
Transfer of funds from Sicily		200	
Inflow of currency to Banco d'Italia through increased deposits, reimbursement of advances, etc.		220	
Military forces outside Berlin:			
Paid by Berlin: Cagliari	227		
Dodecanese and Calabria	75		
Sardinia	56		
Sicily	32		
Paid by AMG Sardinia	166	557	
Total resources to be subtracted			1,417
Net currency advance needed by Italian Government in March			304

(b) When presented analytically as in the foregoing table, the conclusion is to be reached from the Minister's estimates is that an advance of 304 billion lire is required. However, the estimates are not presented to us in this form, but rather in the form of a memorandum contrary to his list of estimates. As a result, the Minister of Finance came to the following conclusion: "On the basis of the above figures, I am under that only a small supply, if any, of AMG currency in Lire will be necessary in order to meet the cash requests of the Italian Government up to the end of March and May, a cash fund in the Banco d'Italia up to a minimum of about Lire 400,000,000 which I consider indispensible for any unforeseen emergency". (Memorandum of the Minister of Finance to the Finance Sub-Committee, 9 March 1944.)

This discrepancy between conclusions and estimates appears to have occurred through the Minister's adding into his estimate of receipts for the month, the cash balance of 369 billion lire that the Banco d'Italia held at the beginning of the month in Berlin. Actually, since this 369 billion lire cash balance was 31 billion below the 400 billion minimum reserve, it represented not a supply of available funds but a demand for 31 billion lire. Maybe make this error, which resulted in giving him an estimated surplus of 65 billion lire in currency for the month rather than a shortage of 304 billion, the Minister voluntarily forbore to show this surplus in his memorandum to us.

2747

(c) No advance was made to the Italian Government during March. While exact data are not yet available, it appears that the flow of currency into the Banco d'Italia was so much greater than the figure shown in the Minister's estimates that no advance was needed. The transfer of 200 billion lire from the Banco d'Italia in Sicily to the Banco d'Italia in Berlin, as shown in the estimates, was accomplished.

Declassified E.O. 12356 Section 3.3/NND No. 785017

2. Summary of past experience

A summary comparison of the Finance Minister's estimates of his currency needs with the "actual needs" as they appeared in the operations of the Banca d'Italia is given below. The sums actually advanced are the same as those shown as "actually needed", a circumstance resulting from the fact that the advances of December and January were made near the ends of those months and with the aid of Banca d'Italia operations figures.

	Finance Minister's estimates of Government currency needs for the month.	Actual needs as shown in operations of the Banca d'Italia during the month.
	(in millions of lire)	
December 1943 - Advance requested	1,000	450
January 1944 - Minister's calculations	470	
Advance requested	450	
Minister's calculations adjusted by elimination of error of 50 million lire	420	200
February 1944 - Advance requested	0	0
March 1944 - Advance requested	0	
Minister's calculations adjusted by elimination of errors	304	0

3. Plans for the future

(a) Beginning 1 April all advances on Italian Government account in King's Lenly or AMG Regions must be cleared through Finance Sub-Commission Headquarters in order to make possible examination of the cash position as a whole.

(b) On 31 March a conference was held with the Minister of Finance and the Vice-Commissioner of the Banca d'Italia at which agreement was reached on a plan to make possible the observation of excess cash in branches of the Banca d'Italia and a plan for a more centralized examination of the cash position of the Banca d'Italia. Owing to the decentralization of the Banca d'Italia system that prevailed until recently, advances to branches of the Banca have continued to be made in deficit currency areas while a net inflow of currency in neighbouring areas created wholly large currency holdings in other Banca d'Italia branches. For this reason, and also for the reason that the re-unification of the branches of the Banca d'Italia into a single reserve pool has reduced the total reserve required to a considerably below that which was required when each branch had to depend solely upon its own resources, it was agreed that the Banca d'Italia is to repay 1.9 billion lire to the Allied Financial Agency and to hold this 1.9 billion lire for AFA in a special account at the Banca d'Italia to be known

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

88

Declassified E.O. 12356 Section 3.3/NND 785017

...ecessitating to assemble considerable data. This material will be set up in permanent categories in the Review and added to from month to month. A copy of the current Monthly Financial Review is attached hereto as Appendix 'B'.

III. [illegible] OF THE ALLIED FINANCIAL AGENCY AND PROBLEMS AND INFLATION PROBLEMS

A. The lira exchange rate

Ever since his first appointment to the post, the present Italian Minister of Finance has maintained that the exchange rate of 100 lire to the dollar and 400 lire to the pound sterling, established at the time of the invasion of Sicily, has been, and continues to be, the principal cause of the inflation in occupied Italy. He argues that the rate has been responsible for the inflation for two reasons: because it has caused Italian sellers to demand higher lira prices and Italian buyers to be willing to pay such prices, and because it has given Allied troops too large a purchasing power in Italy. On 24 February Marshal Badoglio submitted a formal statement to the Allied Control Commission requesting that the dollar value of the rate be increased.

In view of the Finance Minister's emphasis upon the question, and in view of the fact that the Minister's arguments, unanswered, appear to have obtained wide acceptance, the Finance Sub-Commission's technical staff has prepared a number of studies of the entire problem. These studies have been summarized in a memorandum of 29 March which has been transmitted to the Political Civil Affairs Committee of CCS. A copy of this memorandum is attached as Appendix 'C'.

Consideration of the experience of inflation in the United States and other countries and of the numerous historical cases of changes in exchange rates that were not followed by significant price changes is sufficient to disprove the view that a direct psychological connection exists between exchange rates and prices. Furthermore, the fact that inflation was in progress in Italy long before the Allied invasion, that inflation continues in areas of Italy from which Allied troops have been largely removed, that there are real shortages of all essential items, and that for many years the Italian Government has had a large budget deficit, are sufficient to demonstrate that Allied troop expenditures are by no means the principal cause of inflation or the only inflationary force now at work. Accordingly, the Finance Sub-Commission's studies concentrated upon the measurement of Allied troop expenditures and other inflationary factors, and upon analysis of the effects that might be expected to result from a reduction in troop expenditures achieved through an increase in the dollar value of the lira to, say, 50 lire to the dollar and 200 lire to the pound.

2743

In order to ensure the expenditure of Allied troops in Italy it is necessary to obtain from there not only the large sums that are allotted to their base countries, but also the very considerable sums that are spent in local factories, remitted to base countries through central money centers, capitals, and war bond purchases, and deposited with finance officers. Data on

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

cargo plane crashed in Florida. The cargo security officer has confirmed to the loss of all cargo. However, all branches of the Allied Financial Agency have been advised that notes bearing the following serial numbers are not valid:

Denomination	Serial numbers
5 lire	A 37 524 001 B - A 54 975 000 B
10 lire	A 74 249 001 A - A 74 304 000 A
	A 74 356 001 A - A 74 432 000 A
	A 75 072 001 A - A 75 200 000 A
	A 75 584 001 A - A 75 648 000 A
	A 75 712 001 A - A 77 184 000 A
	A 77 240 001 A - A 77 312 000 A
	A 77 440 001 A - A 89 984 000 A
50 lire	A 72 576 001 A - A 72 608 000 A
	A 72 672 001 A - A 72 896 000 A
	A 73 248 001 A - A 77 984 000 A
100 lire	A 88 640 001 A - A 89 984 000 A
500 lire	A 21 952 001 A - A 21 984 000 A
1000 lire	A 16 016 001 A - A 16 176 000 A

With a view to reducing the possibility of evasion of liras, all branches of the Allied Financial Agency were instructed on 30 March 1944 to avoid, in so far as possible, paying out unopened boxes of 50 lire which were printed in the early lots, and which do not state the denomination in words. On the same date the branches received detailed instructions covering the redemption of outdated 50 lire notes, as laid down in a telegram from the Combined Civil Affairs Committee.

C. Advances of AFA funds

1. Advances to Allied armed forces

In accordance with instructions from the Combined Chiefs of Staff, branches were instructed on 25 March to make payments to and to obtain receipts directly from certain Allied and all Dominion, or Colonial military units which are using out AM lire for military purposes, whenever it is physically possible for the Allied unit to draw from a AFA branch. In cases where it is found necessary to continue the current practice of issuing funds to the British Treasurer for distribution to such units, refunds will be made to the British Treasurer when receipts have been received from these Allied, Dominion, or Colonial officers who will be designated by CCS to receive funds from AFA. Records of past issues to these forces are being obtained from the British Deputy Treasurer in Chief so that refunds may be made to cover past issues of this character. On 22 March the British War Office reported that CCS would be asked to apply a similar procedure to all advances made to co-belligerents for military purposes, and also reminded the General War Office to report to AFA all advances made by the Royal Navy or the Royal Air Force to Allied, Dominion, or Colonial units.

2. Advances to the Italian treasury

Declassified E.O. 12356 Section 3.3/NND No. 785017

	A 75 584 001 A	- A 75 640 000 A
	A 75 712 001 A	- A 77 184 000 A
	A 77 240 001 A	- A 77 312 000 A
	A 77 440 001 A	- A 89 984 000 A
50 lire	A 72 576 001 A	- A 72 608 000 A
	A 72 672 001 A	- A 72 896 000 A
	A 73 280 001 A	- A 77 984 000 A
100 lire	A 88 640 001 A	- A 89 984 000 A
500 lire	A 21 952 001 A	- A 21 984 000 A
1000 lire	A 15 016 001 A	- A 15 176 000 A

With a view to reducing the possibility of raising 10 lire, all branches of the Allied Financial Agency were instructed on 30 March 1944 to avoid, in so far as possible, paying out unopened boxes of 10 lire which were printed in the early lots, and which do not state the denomination in words. On the same date the branches received detailed instructions covering the redemption of mutilated 10 lire notes, as laid down in an Allgram from the Combined Civil Affairs Committee.

6. Advances of AFA funds

1. Advances to Allied armed forces

In accordance with instructions from the Combined Chiefs of Staff, branches were instructed on 25 March to make payments to and to obtain receipts directly from certain Allied and all Dominion, or Colonial military units which are paying out AM lire for military purposes, whenever it is typically possible for the said Allied unit to draw from an AFA branch. In cases where it is found necessary to continue the current practice of issuing funds to the British Paymaster for distribution to such units, refunds will be made to the British Paymaster when receipts have been received from these Allied, Dominion, or Colonial officers who will be designated by CCS to receive funds from AFA. Records of past issues to these forces are being obtained from the British Deputy Paymaster in Chief so that refunds may be made to cover past issues of this character. On 22 March the British War Office requested that CCAO would be asked to apply a similar procedure to all advances made to co-belligerents for military purposes, and also reminded the Command Pay Office to request to AFA all advances made by the Royal Navy or the Royal Air Force to Allied, Dominion, or Colonial units.

2. Advances to the Italian treasury

A decision was made to control all financing of the Italian budgetary deficit under the supervision of the Finance Minister and the Finance Sub-Commission, ACC. Accordingly, after 1 April 1944, no further advances will be made to the Italian treasury, by any actual institutions or to the Bank of Italy or any other Italian bank by CMF or by any AAI officer other than those serving under the Senior Civil Affairs Officers with the Fifth and Eighth Armies, without the prior authorization of the Joint Directorate of the Finance Sub-Commission. Advances to provinces and communes are not affected by this directive. Wherever possible, it is hoped to provide

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

three of the first treaty applicants. As the existing procedure has involved a very great amount of time in proportion to the advance actually made, and the new procedure will involve even more, the Finance Branch of AFHQ has suggested that it be abandoned so far as U.S. nationals are concerned, and replaced by remittances initiated by the State Department to those persons indicated on its records as having been in Italy at the time of the closing of the U.S. Consulate, and not otherwise accounted for, in so far as this is possible.

H. Deposits with AFHQ:

1. Deposits by "A" Forces

On 10 March 1944, the branches of Bank and Naples were instructed to open deposit accounts from which payments will be made by Finance Officers of AOC/ASC, noting as agents of "A" Forces.

2. Deposits of U.S. Army unit funds

On 24 March, 1944, a memorandum was mailed to Lt. Stewart, of the Office of the Fiscal Director, War Department, and a number of the War Department Mission that visited Italy during the month, suggesting the following three methods by which AFHQ could avoid the immobilization of yellow seal dollars as cover for accounts representing deposits of U.S. Army unit funds, now made necessary by the requirement that the accounts be carried in dollars:

"(a) An Army directive providing that custodians of unit funds shall be liable only for the currency received by them and not liable in dollars.
(b) Deposit of these funds in line with (1), in the name of an Army Finance Officer, rather than in the name of the custodian, with the Army Finance Officer taking the exchange risk.
(c) Purchase by AFHQ from an Army Finance Officer of Treasurer's cheques, payable to the Allied Financial Agency, in Blue Seal dollars outside of Italy, or payable in Yellow Seal dollars in Italy, to be held on a reserve against the dollar liability which AFHQ would continue to assume."

J. Foreign exchange transactions

1. Remittances from the U.S. and the U.K.

The Combined Civil Affairs Committee of CCS was advised on 5 March that the Banco di Napoli was prepared to act as agent for effecting pure and remittances to Sardinia and to the ten provinces of Southern Italy which were listed in Section II, A.1 of the February Report. On 31 March CCS advised AFHQ that banks in the U.S. would begin to send remittances to this area on or about 15 April 1944. The license authorizing such credit has not as yet been received, but instructions have been sent by the Banco di Napoli to its branches.

In view of the duties expressed by additional U.S. banks to send credit once directly to the Banco di Sicilia, rather than through the normal

Declassified E.O. 12356 Section 3.3/NND No. 785017

On 10 March 1944, the branches of Bank were duly instructed to open deposit accounts from which payments will be made by Finance Officers of AMG/ACC, acting as agents of "A" Force.

2. Deposits of U.S. Army unit funds

On 24 March, 1944, a memorandum was handed to Col. Stewart, of the Office of the Fiscal Director, War Department, and a member of the War Department Mission that visited Italy during the month, suggesting the following three methods by which AFHQ could avoid the immobilization of yellow seal dollars as exchange cover for accounts representing deposits of U.S. Army unit funds, now made necessary by the requirement that the accounts be carried in dollars:

"(a) An Army directive providing that custodians of unit funds shall be liable only for the currency received by them and not liable in dollars.
(b) Deposit of these funds in lire with AFHQ, in the name of an Army Finance Officer, rather than in the name of the custodian, with the Army Finance Officer within the custodian's risk.
(c) Purchase by AFHQ from an Army Finance Officer of Treasurer's checks, payable to the Allied Financial Agency, in Blue Seal dollars outside of Italy, or payable in Yellow Seal dollars in Italy, to be held as a reserve against the dollar liability which AFHQ would continue to assume."

3. Foreign exchange transactions

1. Remittances from the U.S. and the U.K.

The Combined Civil Affairs Committee of CCS was advised on 5 March that the Banco di Napoli was required to set up agency for effecting personal remittances to Sardinia and to the ten provinces of southern Italy which were listed in Section II, A,1 of the February Report. On 21 March CCS advised AFHQ that banks in the U.S. would begin to send remittances to this area on or about 15 April 1944. The license authorizing such remittances has not as yet been received, but instructions have been sent by the Banco di Napoli to its branches.

In view of the desire expressed by additional U.S. banks to send remittances directly to the Banco di Sicilia, rather than through the seven correspondents who originally agreed to make remittances, the Banco di Sicilia was authorized to increase the number of its U.S. correspondents to twenty, and to effect remittances for non-account client banks if properly prepared and if accompanied by simultaneous confirmation of a dollar deposit with a correspondent bank to cover such remittance lists. Some modifications in British remittance procedure were transmitted to Palermo on 30 March, the chief of which was the agreement of the Bank of England to effect remittances for the starving area countries as well as the U.K., and the grant of permission to effect remittances to grandchildren, grandparents, brothers, and sisters of the remitters, in addition to the closer relatives previously specified. As of 16 March 1944, the sum of £ 82,350, representing 1,350 remittance orders, or an average of about £ 65.00

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

87

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

87

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

87

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

2.7.38

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

78

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

were being worked out with the Undersecretary of Finance for the remainder of the Italian budget figures and the supplying of AM lire in the amounts needed. As of the middle of December, Italian soldiers were already being paid in AM lire.

Funds for the purchase of exports from Italy are provided in AM lire. To date, however, there have been no large purchases of exports and the total expenditures for this purpose, as of November 30, were in the neighborhood of 11,500,000 lire.

(c) Currency Receipts of AM

Against these expenditures, AM has certain receipts. Civilian supplies imported by AM have been sold through Italian distribution channels and the proceeds received in lire by AM. To November 30, however, the total receipts from this source amounted to only 31,000,000 lire. Some such funds arising by the Controller of Property have been deposited with AMG (the Allied Military Financial Agency, Financial Agency for AM).

The banks, pursuant to various financial arrangements, have made also deposits with AMG. However, the total amount of currency withdrawn from circulation by deposits with AMG and by receipts from exports, as of November 30, will under 1,000,000,000 lire.

(d) Increase in the Circulation Medium

It is extremely difficult to arrive at any satisfactory estimate of the net increase in circulation since the invasion. The total amount of AM lire outstanding as of November 30 was slightly in excess of 14,000,000,000 lire. That all of this, of course, was in circulation. As has been pointed out above, practically all of the Army payroll goes into circulation and there are considerable expenditures of AM lire both with and by AMG with Italian banks. In the month of November, AM had an excess (over and above the 14 billion already mentioned) of 2,000,000,000 lire collected in the conquered territory. The results of the Italian census, which will be ascertained below, has thrown many out of the ranks of individuals who, it is likely each of this money have in their hands and which is reported circulation.

2735

It was estimated, in December, that circulation in Sicily alone had been increased, from military sources only, between 3 billion and 4 billion lire.

In any case, the net increase has been sufficient to have considerable effect upon the price level. The occupation portion of Italy together with the two islands

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

74

HEADQUARTERS
ALLIED CONTROL COMMISSION
ECONOMIC SUB-COMMISSION
APO 394

13021/F

31 March 1944.

SUBJECT: Comments on Section IV of FEA Report on Economic Activities of ACC

TO: Colonel D.S. Akers,
Executive Officer,
Economic Section.

INTRODUCTION

1. Reference your memorandum of 26 March 1944 on above subject.

2. Section IV of the FEA Report contains a statement of the inflationary situation in Italy and of the actions taken by ACC to control the trend. We believe that the report makes several errors of interpretation which lead to an incorrect appraisal of the situation and of the consequent actions of ACC.

3. Our position on these matters is given in Part I of this memorandum. Part II contains our comments on the Report's facts and figures, comments which, on the whole, do not materially affect the conclusions of the Report, but serve to improve its accuracy as a record of events. For convenience in reading, the sections in Part II have been made parallel to those in the FEA Report and the subjects discussed are in the same order.

PART I

COMMENTS ON THE MAJOR CONCLUSIONS AND INTERPRETATIONS OF THE REPORT.

A. The Inflation Situation

The Report states in many places that a considerable portion of the inflationary situation is the result of real food shortages in the cities and towns, a shortage created by poor 1943 harvests, woefully inadequate enforcement of the rationing laws, and an almost complete destruction of transportation facilities. We are in complete agreement with this point of view. Indeed, we believe that it would be difficult to over-emphasize the importance of these factors in an analysis of the present Italian inflation. However, in discussing the monetary aspects of the inflation, the Report sometimes forgets that "inflation" is the result of interaction of all forces at work in the economy, non-monetary as well as monetary, and discusses the cause and remedies of the situation in purely monetary terms. Moreover, we believe that the Report may lead one to the inference that some portion of

Declassified E.O. 12356 Section 3.3/NND No. 785017

Executive Officer,
Economic Section.

INTRODUCTION

1. Reference your memorandum of 26 March 1946 on above subject.

2. Section IV of the FEA Report contains a statement of the inflationary situation in Italy and of the actions taken by ACC to control the trend. We believe that the Report makes several errors of interpretation which lead to an incorrect appraisal of the situation and of the consequent actions of ACC.

3. Our position on these matters is given in Part I of this memorandum. Part II contains our comments on the Report's facts and figures, comments which, on the whole, do not materially affect the conclusions of the Report, but serve to improve its accuracy as a record of events. For convenience in reading, the sections in Part II have been made parallel to those in the FEA Report and the subjects discussed are in the same order.

PART I

COMMENTS ON THE MAJOR CONCLUSIONS AND INTERPRETATIONS OF THE REPORT.

A. The Inflation Situation

The Report states in many places that a considerable portion of the inflationary situation is the result of real food shortages in the cities and towns, a shortage created by poor 1945 harvests, woefully inadequate enforcement of the rationing laws, and an almost complete destruction of transportation facilities. We are in complete agreement with this point of view. Indeed, we believe that it would be difficult to over-emphasize the importance of these factors in an analysis of the present Italian inflation. However, in discussing the monetary aspects of the inflation, the Report sometimes forgets that "inflation" is the result of interaction of all forces at work in the economy, non-monetary as well as monetary, and discusses the cause and remedies of the situation in purely monetary terms. Moreover, we believe that the Report may give rise to the inference that some portion of the problem is the direct result of the issuance of AM lire and of the use of AM lire to finance the Italian Government. Finally, we disagree strongly with the conclusion reached by the FEA Mission that the dollar/sterling value of the lira is too low.

B. The Inflationary effect of AM lire

1. Under the heading "Inflationary Factors" the Report discusses the whole question of AM lire, implying that the use of AM lire created many of the inflationary problems. It is clear that the use of AM lire, in and of itself, is in no sense an inflationary force.

(a) AM lire was employed to supplement the metropolitan lire because it was believed that the Italian Government might attempt, as part of a "scorched earth" policy, to destroy large amounts of its currency;

Declassified E.O. 12356 Section 3.3/NND 785017

and because there would be no other source of currency for Army use, the Italian Government's printing presses being located in Central Italy.

(b) The FRA Report states that "advances to the various organs of the Italian Government for current expenditures will constitute a continuing drain on the AM lire", and that budgetary deficits will have to be made up by AMG. It is true that in the early stages of occupation direct advances had to be made to provincial and communal authorities to meet essential payrolls, provide relief, etc. However, as soon as provincial and regional governmental organizations were reconstituted, it has been AMG policy not to make further advances but rather to finance governmental deficits in the normal Italian way, i.e. by drawing on overdraft accounts at the central bank, the Banca d'Italia. At the present time, direct advances are being made only in forward areas by AMG officers attached to the 5th and 8th Armies. Regarding the central government deficit, the Report implies, in showing the estimated amount of the deficit for December, that the whole of future monthly deficits will be met by AMG through advances on a lire-for-lire basis. This was not and is not true. When the Italian Government had control over only 4 provinces of Puglia, but was responsible for the maintenance of the entire Italian Army, Navy, and Air Force, the Minister of Finance claimed that advances of AM lire were necessary to give the branches of the Banca d'Italia in Puglia an adequate currency reserve for the conduct of Government business. To the end of January 1944, these advances totalled only 690 million lire. No such advances have been made since 31 January, and it is not anticipated that any further advances will be necessary. The Government no longer needs advances because bankers' deposits and postal savings repospoits at the branches of the Banca d'Italia are more than adequate to meet the Government's currency needs. The Finance Sub-Commission is now taking steps to obtain repayment of the earlier advances from surplus currency in the Banca d'Italia.

(c) It is not to be thought that a procedure under which the Italian Government finances its current expenditure through drawing on an overdraft account at the central bank rather than spending AM lire advanced to it by AMG reduces in any way the inflationary pressure. Such pressure comes from the Italian Government deficit, and however that deficit were financed, other than through the extremely unlikely method of sales of government bonds to middle and lower income classes, the inflationary effect would have been the same. The FRA Report is entirely mistaken when it says "The problem is not so much one of financing this deficit as it is of providing the actual paper money which is needed to meet the Italian governmental payroll". The problem is reduction of the deficit; the particular method chosen to finance any given deficit is a matter of very little consequence. The FRA report has badly confused the issue in focussing so much attention upon the use of AM lire as one of the means used to finance a part of the deficit.

(d) The major monetary force contributing to the Italian inflation is the Italian Government deficit. At the present time, this deficit amounts to approximately 3 billion lire per month. Since 1 July 1943, the deficit [illegible] approximately 20 billion lire.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...not necessary not to make further advances but rather to finance governmental deficits in the normal Italian way, i.e. by drawing on overdraft accounts at the central bank, the Banca d'Italia. At the present time, direct advances are being made only in forward areas by AMG officers attached to the 5th and 8th Armies. Regarding the central government deficit, the Report implies, in showing the estimated amount of the deficit for December, that the whole of future monthly deficits will be met by AMG through advances on a lire-for-lire basis. This was not and is not true. When the Italian Government had control over only 4 provinces of Puglia, but was responsible for the maintenance of the entire Italian Army, Navy, and Air Force, the Minister of Finance claimed that advances of AM lire were necessary to give the branches of the Banca d'Italia in Puglia an adequate currency reserve for the conduct of Government business. To the end of January 1944, these advances totalled only 650 million lire. No such advances have been made since 31 January, and it is not anticipated that any further advances will be necessary. The Government no longer needs advances because bankers' deposits and postal savings redeposits at the branches of the Banca d'Italia are more than adequate to meet the Government's currency needs. The Finance Sub-Commission is now taking steps to obtain repayment of the earlier advances from surplus currency in the Banca d'Italia.

(c) It is not to be thought that a procedure under which the Italian Government finances its current expenditure through drawing on an overdraft account at the central bank rather than spending AM lire advanced to it by AMG reduces in any way the inflationary pressure. Such pressure comes from the Italian Government deficit, and however that deficit were financed, other than through the extremely unlikely method of sales of government bonds to middle and lower income classes, the inflationary effect would have been the same. The FEA Report is entirely mistaken when it says "The problem is not so much one of financing this deficit as it is of providing the actual paper money which is needed to meet the Italian governmental payroll". The problem is reduction of the deficit; the particular method chosen to finance any given deficit is a matter of very little consequence. The FEA report has badly confused the issue in focussing so much attention upon the use of AM lire as one of the means used to finance a part of the deficit.

(d) The major monetary force contributing to the Italian inflation is the Italian Government deficit. At the present time, this deficit amounts to approximately 3 billion lire per month. Since 1 July 1943, the deficit of that part of Italy now liberated is approximately 20 billion lire. There is little basis for effective control of the deficit either by the Italian Government or by AMG. To date the Italian Government has initiated little action and it has not wholeheartedly cooperated with us in our efforts to impose a system of effective expenditure control or to improve the collection of revenues.

(e) It is sometimes thought that AMG can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February when no currency advances were made clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of currency to the government.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

1062

Declassified E.O. 12356 Section 3.3/NND No. 785017

necessarily a large part of the work of this Sub-Commission has consisted in improvising day-to-day measures. Such improvisation has been necessary because both ACC and the Italian Government have been almost continuously in a process of reorganization.

When the Badoglio government fled from Rome and established itself at Brindisi, it was faced with the necessity of reestablishing central government machinery and lines of authority and control over provincial and local administration. This work had to be carried on by a Finance Ministry staffed, at the beginning, with only a handful of experienced personnel. It was not until 11 February, 1944, when Sicily, Sardinia, and the southern provinces of the mainland to the Bari - Salerno line came under the jurisdiction of the Badoglio government, that the Italian Ministry of Finance was in a position to exercise control over any significant portion of the liberated territory. Even now, it is now possible to speak of a central bank for the whole territory, rather than 22 provincial branches of the Banco d'Italia, which had been operating without central direction. The restoration of such an integrated structure is a first step in establishing effective currency control.

Likewise, it was not until February that the relationship of ACC to AMG was clarified. Pub doverse routine previously, the then formed areas (including Naples) were under AMG 15th Army Group. ACC authority was limited to the territory then under the Badoglio government (4 Sicilian provinces) and Region I (Sicily) and Region II (Southern Mainland) were under pure AMG. The Finance Sub-Commission now has jurisdiction over both ACC Regions I and II and AMG areas. (at present Regions III, IV and V).

Now that the long period of preparatory work is ending, the Finance Sub-Commission is reviewing all financial measures taken up to this point and developing a broad, coordinated program of the monetary measures that will contribute to internal stabilization. It is intended to submit this program in the near future to CAO for comment. It will deal with expenditure control, a realistic and effective tax program, price control, and governmental finances.

F. Currency Conversion

In the final paragraphs of Section II, the report points out the danger of permitting old occupation lire to circulate in Allied occupied Italy, and of planning to continue its use in newly won territory, when large quantities of such currency as well as the means and plates with which to make more are still under enemy control in German occupied Italy. The Finance Sub-Commission has had this problem continuously in mind. It is developing a plan for the peaceful conversion of all occupation lire now in liberated territory into AM lire in order to prevent German printed lire from coming into the area and in order to provide [redacted] through conversion at a rate less than one to one, to reduce such inflation as we may find in newly won territory. This plan, together with a technical examination of the administrative problems that its execution would create, is intended to be forwarded to CAO with a request for an expression of its views in the near future.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

ANNEX II

ORGANIZATIONS AND METHODS

A. Code of Ethics (para. 21 (a))

1. Food Aid Committee (para. 21 (a) (i))

The Food Aid Committee was formally established in the Committee on Commodity Problems (CCP) in May 1967 as a subsidiary body of this Committee. Its terms of reference are to keep under review the world food situation and to report to the CCP on any developments which may require action by governments. The Committee has been active in the preparation of the Food Aid Convention and has been responsible for the annual review of the Convention. It has also been responsible for the annual review of the Food Aid Recommendations. The Committee has been assisted in these tasks by a Working Party on Food Aid Questions and Principles.

2. Working Party on Food Aid Questions and Principles (para. 21 (a) (ii))

The Working Party on Food Aid Questions and Principles was established in 1967 by the Food Aid Committee to assist it in the preparation of the Food Aid Convention. It has been responsible for the annual review of the Convention and the Food Aid Recommendations. The Working Party has also been responsible for the annual review of the Food Aid Recommendations. The Working Party has also been responsible for the annual review of the Food Aid Recommendations.

B. Intergovernmental Bodies

1. Intergovernmental bodies dealing with food aid (para. 21 (b) (i))

The Food Aid Committee and the Working Party on Food Aid Questions and Principles are the only intergovernmental bodies dealing with food aid. The Committee on Commodity Problems (CCP) has been responsible for the preparation of the Food Aid Convention and the Food Aid Recommendations. The CCP has also been responsible for the annual review of the Convention and the Recommendations. The CCP has been assisted in these tasks by the Food Aid Committee and the Working Party on Food Aid Questions and Principles.

2. Relationship between bodies (para. 21 (b) (ii))

The relationship between the Food Aid Committee and the Working Party on Food Aid Questions and Principles is that of a parent body and a subsidiary body. The Working Party reports to the Food Aid Committee and the Committee reports to the CCP. The CCP has been responsible for the preparation of the Food Aid Convention and the Food Aid Recommendations. The CCP has also been responsible for the annual review of the Convention and the Recommendations. The CCP has been assisted in these tasks by the Food Aid Committee and the Working Party on Food Aid Questions and Principles.

We have been informed by the Labour Sub-Commission that a separate FCA Report has been prepared and forwarded to Washington on the programme of that Sub-Commission. In view of this, we have refrained from commenting on this section.

3. Inflationary Factors

1. Inflationary factors before Allied occupation (page 22 ff)

The Report points out that inflation was in rapid progress in Italy before the Allied invasion, a fact that, while obvious, is frequently forgotten. Since 1930, Italian budgets had consistently shown heavy deficits. Italy's additional war expenditure was 60 billion lire in 1940-41 and 80 billion lire in 1941-42. These heavy expenditures were financed without adequate taxation. The resulting government deficits coupled with continuously increasing shortages of goods and a great diversion of man power into the armed services had made inflation one of Italy's greatest internal problems before the Allied invasion. The Finance Sub-Commission estimates that food prices in Naples rose about 5% per month in the first half of 1943. When the Allied attack on Italy began, destruction of transportation facilities in Southern Italy and their use by the enemy added greatly to the food inflation problem. The existence of rapid inflation in food prices in Naples prior to the Allied occupation is demonstrated in the figures given in the January Report of this Sub-Commission. It is estimated there that the cost of living increased 200 per cent from July to September.

2. Financial Operations of Military Government

(a) Nature of the Currency (page 23 ff)

The FCA Report states that as soon as sufficient quantities of A. lire were available to replace the occupation currencies, paymasters discontinued the issuance of yellow seal dollars and BPA pounds. This is not quite correct. A sufficient quantity of A. lire was printed and distributed to U.S. Army finance officers to cover most of their August payrolls and to make unnecessary large payments of yellow seal dollars. British Army paymasters, on the other hand, have continued to pay out substantial quantities of BPA pounds until very recently, although they had already drawn 1,747 million A. lire by 31 October 1945, and have not required an appreciably increasing balance since that time. The decision as to the currency paid out is made by the British and American treasuries, and is not under the control of AFHQ. A. lire, yellow seal dollars, and BPA pounds are still legal tender under both AMG and Italian governmental regulations. However, Italian banks have been directed by AFHQ to redeem and hold yellow seal and BPA currency for the account of FA, which in turn delivers specified currencies to the respective treasuries for use in other theatres. There is a continuous, but small, influx of yellow seal and BPA currency in the form of funds in the personal possession of troops arriving in Italy. The following amounts, in lire value, had been withdrawn from circulation by AFA to the end of February:

	Lire values
Yellow seal dollars	240,015,636
BPA pounds	446,080,717

2723

Declassified E.O. 12356 Section 3.3/NND 785017

Since the FTA Mission left Italy, arrangements have been made for the printing of a new Italian currency in the United States. Designs for the new currency have been approved by the Minister of Finance, but it is estimated that this currency will not be available for 6 to 8 months.

(b) Expenditures of AM lire (page 24, 1)

The FTA Report states that the total amount of AM lire expended through American, British, and French military channels as of 30 November 1943 was 8.7 billion. The Report has confused the amount issued to paymasters with the amount expended. As of 30 November the Armies held about 4.2 billion AM lire in cash and had expended only 4.5 billion, plus a relatively small amount of repatriated currencies. As of 29 February 1944, the Allied Forces had received 17,956 million lire, but had spent only 12 billion lire. The monthly rate of expenditure has therefore been less than that indicated in the Report of FTA.

Secondly, the FTA Report estimates soldiers' expenditures in Italy on the basis of experience in North Africa. The Italian data now available indicate that personal expenditures are somewhat higher. Officers and men of the American armed forces in Italy spent 40 per cent of their cash pay in Italy in February, 30 percentage purchase 20 per cent of total pay and allowances, having regard to voluntary and compulsory allotments and the practice of permitting pay to accrue without drawing full amounts earned. A large part of pay and allowances to British officers and other ranks is retained in sterling and not paid in cash in Italy. Soldiers, especially American troops, are urged to buy war bonds and are offered ready facilities for remitting money home in order to reduce their expenditure in Italy.

Thirdly, it is stated that "a considerable portion of the military expenditures is attributable to the hire of local labour" and that such high rates of pay constitute a serious problem. This is not the case. Payments to civilian employees of the U.S. and British armies amount to only about 100 million lire per month, out of total gross expenditures of over 4.5 billion.

(c) Currency Receipts of AMG (page 25 (f)

After detailing the numerous channels through which AM lire have been put into circulation, the FTA Report lists only one of the channels through which it is absorbed, namely receipts from AMG sales to civilians. Other channels of absorption are commercial bank deposits with the Bank of Italy or with ACC, Italian Government and commercial bank repayment of AFA advances, and the accumulation of idle deposits in commercial banks by individuals and businesses.

(d) Increase in the circulating medium (page 26)

The Report estimates that the issuance of AM lire up to 30 November had increased the currency circulation 50%. This estimate rests on the

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

49

Declassified E.O. 12356 Section 3.3/NND No. 785017

27.728

Declassified E.O. 12356 Section 3.3/NND No. 785017

provinces for which information is available - approximately 3/4 of the area. Details of sales and redemption are tabulated on page 7 of the February issue of the ACC Monthly Financial Review of Italy, a copy of which is attached.

(d) With respect to the maturity on 15 December of the 9-year 4% Treasury bonds, the Report lends the reader to infer that 300 million lire was advanced by AFA and used in meeting the maturity. Arrangements were made to advance 20 lire to the Italian Government if it proved necessary to do so. However, payment of the issue was made in the usual way through the Banca d'Italia's Treasury sections and no specific advance was made by AFA to cover repayment of the bond issue except in Sicily, where 50 million lire was provided for this purpose because the Banca d'Italia had not been reopened at the date of maturity. Only approximately one quarter of the Sicilian advance was used. In other areas, the redemption was handled by the Banca d'Italia in the same way as other outpayments on Government account. The available figures on repayment of the bond issue up to 31 January are given in Table V of the ACC Monthly Financial Review of March 1944, a copy of which is attached. The Report also fails to note that the resumption of interest payments on the whole of the Italian Government debt began on 1 January.

3. Taxation (para 29)

Such data as is available on tax revenues is given in the January and February reports of the Finance Sub-Commission, attached. The February report contains an appendix stating our views on methods of increasing revenues and revising the tax structure. Among other things in the programs now under discussion are:

(a) requirement that taxpayers file annual returns of actual receipts for tax purposes;

(b) acceleration of assessment and collection of the excess profits and turnover taxes;

(c) requirement that persons engaged in businesses and professions keep books;

(d) a strengthening of the legal powers of tax officials to make supplementary assessments and to enforce penalties for incorrect returns.

4. Price Control (para 29 ff)

Comments on this section of the Report are being submitted by the Secretary of the Economic Stabilization Price Committee.

E. H. Foley, Jr.
Colonel,
Joint Director,
Finance Sub-Commission.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Reference "F"

CONFIDENTIAL

69

MONTHLY FINANCIAL REVIEW OF ITALY

March 1944

Prepared by:

Finance Sub-Commission, Allied Control Commission.

Col. E. H. Foley, Jr., Joint Director
Col. A. P. Grafftey-Smith, Joint Director
Captain Andrew Kamarck, Editor.

A. SUMMARY OF DEVELOPMENTS.

1. Based on figures for the Treasury account at the Banca d'Italia, the total excess of governmental payments over receipts in the eight months period from 1 July 1943 to 29 February 1944 amounted to 20,000 million lire or a monthly average of 2,500 million lire. The figure for February appears to exceed this average and to be close to 3,000 million lire. According to AFA estimates, the net payments to civilians by Allied Forces average 1,500 million lire a month. Italian government expenditures continue to be the most important single monetary inflationary force in Italy.

2. Net investment in government bills or short-term notes (buoni del Tesoro Ordinari) amounted to 262 million lire in February for the area from which reports are available. There is evident a tendency on the part of investors to adapt to purchase of shorter-term maturities than one-year although most of the B.T.O. purchased still are for the 12-month period. Prices of outstanding longer-term government securities have shown a tendency to rise, if the scanty information available is a reliable indication.

3. Total currency holdings of the Banca d'Italia in Liberated Italy on 29 February amounted to 4,000 million lire. This figure excludes mutilated and annulled currency and currency held as 100 percent cover for Allied deposits. Total current liabilities totalled 7,000 million lire of which 6,000 million was owed to banks and 1,000 million to non-banking individuals and institutions.

4. On 2 February a Commissioner and Vice-Commissioner of the Banca d'Italia for Liberated Italy were appointed to give a unified direction to the 20 branches of the central bank in Liberated Italy. Instructions were issued by the new Commissioner and the Minister of Finance to the branches of the Banca d'Italia to use all means possible, including the powers of the Inspectorate over the commercial banks, to discourage credit expansion by commercial banks for non-productive, hoarding, or speculative purposes. The Banca d'Italia was authorized by the Minister of Finance to pay 4 per cent interest (annual rate) on bankers' deposits with the Banca d'Italia deposited under condition of non-withdrawal for three months and 4.50 per cent for four months.

B. FINANCIAL STATISTICS.

1. Italian Government "deficit".

a. The first almost wholly complete summary of the Italian State account with the Banca d'Italia in Liberated Italy is given in Table I. These are the best

Declassified E.O. 12356 Section 3.3/NND No. 785017

1. Based on figures for the Treasury account at the Banca d'Italia, the total excess of governmental payments over receipts in the eight months period from 1 July 1943 to 29 February 1944 amounted to 20,000 million lire or a monthly average of 2,500 million lire. The figure for February appears to exceed this average and to be close to 3,000 million lire. According to AFA estimates, the net payments to civilians by Allied Forces average 1,500 million lire a month. Italian government expenditures continue to be the most important single monetary inflationary force in Italy.

2. Net investment in government bills or short-term notes (Buoni del Tesoro Ordinari) amounted to 282 million lire in February for the area from which reports are available. There is evident a tendency on the part of investors to adapt to purchase of shorter-term maturities than one-year although most of the B.T.O. purchased still are for the 12-month period. Prices of outstanding longer-term government securities have shown a tendency to rise, if the scanty information available is a reliable indication.

3. Total currency holdings of the Banca d'Italia in Liberated Italy on 29 February amounted to 4,000 million lire. This figure excludes mutilated and annulled currency and currency held as 100 percent cover for Allied deposits. Total current liabilities totalled 7,000 million lire of which 6,000 million was owed to banks and 1,000 million to non-banking individuals and institutions.

4. On 2 February a Commissioner and Vice-Commissioner of the Banca d'Italia for Liberated Italy were appointed to give a unified direction to the 30 branches of the central bank in Liberated Italy. Instructions were issued by the new Commissioner and the Minister of Finance to the branches of the Banca d'Italia to use all means possible, including the powers of the Inspectorate over the commercial banks, to discourage credit expansion by commercial banks for non-productive, hoarding, or speculative purposes. The Banca d'Italia was authorized by the Minister of Finance to pay 4 per cent interest (annual rate) on bankers' deposits with the Banca d'Italia deposited under condition of non-withdrawal for three months and 4.50 per cent for four months.

B. FINANCIAL STATISTICS.

1. Italian Government "Deficit".

a. The first almost wholly complete summary of the Italian State account with the Banca d'Italia in Liberated Italy is given in Table I. These are the best figures so far available to us on the size of the Italian government "deficit" in this area from 1 July 1943 to 29 February 1944. While far from ideal on balance it is felt that the figures do come somewhere near presenting a picture which approximates the true facts. The figures show roughly a total excess of payments on government account over receipts of 20,000 million lire from 1 July 1943 to 1 March 1944 or an average net addition to incomes in this area of 2,500 million lire a month since 1 July 1943. These figures may be compared to the estimate which has been made by the Allied Financial Agency that net payments by Allied troops in Italy to civilians amounted to around 1,500 million lire a month.

b. According to this data, the excess of 20,000 million lire payments out of the government account was met principally by over-draft on the Banca d'Italia to a total of 5,500 million lire, depletion of the balance held by the government at the

2727

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

S. 2

TABLE I

Italian State Account at Banca d'Italia
1 July 1943 through 29 February 1944
(in millions of lire)

	Salerno	Lucania	Calabria	Puglia less Foggia	Sardinia	Sicily	Total King's Italy	Campobasso	Foggia
1. "Deficit" in State Account.									
Total outpayments less payments on account of Buoni del Tesoro ordinari	440	420	1,824	7,903	4,253	n.d.		303	253
Total inpayments less receipts on account of Buoni del Tesoro ordinari	53	45	139	1,224	289	n.d.		32	90
	387	375	1,689	6,679	3,964	2,852	15,946	271	163
2. How State "Deficit" Was Met.									
Advances from AFA and AM	0	75	170	650	675	2,852	4,422	32	0
Funds supplied from Rome	0	200	200	900	-	n.d.	1,300	0	0
Credit advanced by Banca d'Italia to State	72	0	208	2,134	1,579	n.d.	4,073	0	0
Decrease in balance held by State at Banca d'Italia on 1 July 1943	337	142	1,160	1,210	1,111	n.d.	3,960	200	104
Net receipts from Buoni del Tesoro ordinari or net repayment (-)	-16	-51	-1	142	74	n.d.	148	-7	-7
Increase or decrease (-) in Contabilita' Speciale accounts and in deposits in cash as guarantees	-6	9	-128	1,043	525	n.d.	1,443	46	72
Total	387	375	1,689	6,679	3,964	2,852	15,946	271	168

n.d. - no data.

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE I

Italian State Account at Banca d'Italia
1 July 1943 through 29 February 1944
(in millions of lire)

	Salerno	Lucania	Calabria	Puglia less Foggia	Sardinia	Sicily	Total King's Italy	Campobasso	Foggia	Campania less Salerno	Grand Total of All Liberated Italy
s on ac- ordinari	440	420	1,624	7,903	4,253	n.d.		303	258	4,131	
s on ac- ordinari	53	15	199	1,224	289	n.d.		32	90	673	
	387	375	1,689	6,679	3,964	2,852	15,946	271	168	3,458	19,843
	0	75	170	650	675	2,852	4,422	32	0	0	4,454
	0	200	200	900	-	n.d.	1,300	0	0	1,927	3,227
lia	72	0	218	2,732	1,579	n.d.	4,673	0	0	870	5,543
ate 43	337	142	1,160	1,210	1,111	n.d.	3,960	200	104	959	5,223
ero)	-16	-51	-1	142	74	n.d.	~~881~~ 148	-7	-7	-42	~~162~~ 92
te- l in a	-6	9	-128	1,043	525	n.d.	1,443	46	71	344	~~1,495~~ 1,904
	387	375	1,689	6,679	3,964	2,852	15,946	271	168	3,458	19,843

various branches of the Banca d'Italia at the beginning of the fiscal year, 5,200 million lire, advances from Allied Financial Agency 4,500 million lire, and funds transferred from Rome 2,600 million lire.

c. While we now have a report on the status of the state account at all of the branches of the Banca d'Italia in Liberated Italy, with the exception of Sicily, as of 29 February 1944, we do not have complete reports on the movement in the account during February. From the reports that have come in, it would appear that the excess of payments over receipts was around 3,000 million lire for the month.

d. There are a number of cautions to be observed in considering the figures shown in Table I.

(1) Not all of the Italian government deficit is included.

(a) The table shows a total of AFA and AMG advances of 4,454 million lire whereas the total advanced was over 1,100 millinn lire more or 5,576 million lire. That is, advances made directly by AFA and AMG to meet local and provincial deficits do not, except in the Sicily figure, appear in the Table.
(b) That part of the Sicilian deficit which was met by another means than AFA advances is also not included.
(c) The financing of that part of the local and provincial deficits prior to our occupation of a province which did not go through a Ministry budget likewise would not be included in these figures. The expenditures which were made by the central government from Rome in this area without passing the funds through a local branch of the Banca d'Italia are not included in this computation. On the other hand, income to the central government originating in this area which did not go through the state account on the provincial level also does not appear. It is doubtful that the latter would out-balance the former.
(d) The payments out of the account, and therefore the deficit, are under-stated by the exclusion of payments of interest on Buoni del Tesoro Ordinari. These interest payments are lumped in with the figures on repayment of capital and the two together are offset by investment in the Buoni del Tesoro ordinari.

(2) The payments from the state account which were simply added to the balances of parastatal institutions and other organizations should not be considered as being an inflationary influence and represent in this sense a subtraction from the size of the deficit. The total increase shown in the Contabilita' Speciale accounts over this period should, therefore, for this purpose be subtracted from the deficit. This total was somewhat less than 1,904 million lire for the periods as the deposits of cost guarantees which are included with the Contabilita' Speciale accounts in the table are an entirely different problem so far as this discussion is concerned.

(3) The results can not be used to compare the situation in one province with another. For example, the expenditures for the Italian army in Campania are to be found in the regular state account, not in the Campania account. Similarly, revenues actually originating in one province may not appear on the state account in that province but in another province. It is only when as large a number of provinces as possible are included that

Declassified E.O. 12356 Section 3.3/NND No. 785017

(1) Not all of the Italian government deficit is included.

(a) The table shows a total of AFA and AMG advances of 4,454 million lire whereas the total advanced was over 1,100 million lire more or 5,578 million lire. That is, advances made directly by AFA and AMG to meet local and provincial deficits do not, except in the Sicily figure, appear in the Table.

(b) That part of the Sicilian deficit which was met by another means than AFA advances is also not included.

(c) The financing of that part of the local and provincial deficits prior to our occupation of a province which did not go through a Ministry budget likewise would not be included in these figures. The expenditures which were made by the central government from Rome in this area without passing the funds through a local branch of the Banca d'Italia are not included in this computation. On the other hand, income to the central government originating in this area which did not go through the state account on the provincial level also does not appear. It is doubtful that the latter would out-balance the former.

(d) The payments out of the account, and therefore the deficit, are under-stated by the exclusion of payments of interest on Buoni del Tesoro Ordinari. These interest payments are lumped in with the figures on repayment of capital and the two together are offset by investment in the Buoni del Tesoro ordinari.

(2) The payments from the state account which were simply added to the balances of parastatal institutions and other organizations should not be considered as being an inflationary influence and represent in this sense a subtraction from the size of the deficit. The total increase shown in the Contabilita' Speciale accounts over this period should, therefore, for this purpose be subtracted from the deficit. This total was somewhat less than 1,905 million lire for the period, as the deposits of cash guarantees which are included with the Contabilita' Speciale accounts in the table are an entirely different problem so far as this discussion is concerned.

(3) The results can not be used to compare the situation in one province with another. For example, the expenditures for the Italian army in Campania are to be found in the Puglia state account, not in the Campania account. Similiarly, revenues actually originating in one province may not appear on the state account in that province but in another province. It is only when as large a number of provinces as possible are included that the transfers and differences due to accounting procedure begin to balance out and that the total becomes meaningful.

2726

(4) The final word of caution is that it is to be realized that these are figures originating from Italian provincial sources, and largely processed by Italian provincial accountants. Uniformity in procedure among the various branches of the Banca d'Italia at times leaves much to be desired. And bluntly, the standards of statistical accuracy that have been encountered so far are not high: errors of hundreds of millions are almost common place.

Declassified E.O. 12356 Section 3.3/NND No. 785017

2. Investment in Government Securities.

a. During February, there was net investment in the only type of government security being sold (Buoni del Tesoro ordinari) in every province and region from which reports have been received. The total net investment amounted to 262 million lire of which two-thirds came from the four provinces of Puglia.

During February, the largest amounts of the B.T.O. sold were the 12-month maturities. But compared to last year an increasingly large portion of the sales were for shorter maturities. We do not yet have complete data showing the type of maturities purchased, but from what has been reported the change from last year is evident. For the first time, for example, the Salerno branch of the Banca d'Italia sold B.T.O.'s with a maturity of less than 12 months. And in Naples over one-third of the total investment was in B.T.O.'s of one month maturity.

b. In Table III is presented our first summary of the investment in B.T.O.'s since 1 July 1943 in the regions making up Liberated Italy. The total net investment in all the provinces of Liberated Italy amounts, for this whole period, to only 236 million lire. It is clear that not until the month of February when there was a net investment of 262 million lire was the net dis-investment of the summer made up.

TABLE II

Investment in Buoni del Tesoro Ordinari

February 1944.

	B.T.O. Issued (Nominal capital)	B.T.O. Paid	Net Investment During Month
Salerno	10	7	3
Lucania	11	8	3
Calabria	10	4	6
Puglia (less Foggia)	250	62	188
Sardinia	20	6	14
Sicily	n.d.	n.d.	n.d.
Campobasso	3	1	2
Foggia	n.d.	n.d.	n.d.
Naples	88	42	46
Avellino	n.d.	n.d.	n.d.
Benevento	n.d.	n.d.	n.d.
Caserta	n.d.	n.d.	n.d.
Total of above	392	130	262

TABLE III

Investment in Buoni del Tesoro Ordinari
1 July 1943 - 29 February 1944

	B.T.O. Issued (Nominal capital)	B.T.O. Paid	Net Investment During Month (Excess of repayments (-))
Salerno	24	42	18

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] 6 month maturity.

b. In Table III is presented our first summary of the investment in B.T.O.'s since 1 July 1943 in the regions making up Liberated Italy. The total net investment in all the provinces of Liberated Italy amounts, for this whole period, to only 236 million lire. It is clear that not until the month of February when there was a net investment of 262 million lire was the net dis-investment of the summer made up.

TABLE II

Investment in Buoni del Tesoro Ordinari

February 1944.

	B.T.O. Issued (Nominal capital)	B.T.O. Paid	Net Investment During Month
Salerno	10	7	3
Lucania	11	8	3
Calabria	10	4	6
Puglia (less Foggia)	250	62	188
Sardinia	20	6	14
Sicily	n.d.	n.d.	n.d.
Campobasso	3	1	2
Foggia	n.d.	n.d.	n.d.
Naples	88	42	46
Avellino	n.d.	n.d.	n.d.
Benevento	n.d.	n.d.	n.d.
Caserta	n.d.	n.d.	n.d.
Total of above	392	130	262

TABLE III

Investment in Buoni del Tesoro Ordinari
1 July 1943 - 29 February 1944

	B.T.O. Issued (Nominal capital)	B.T.O. Paid	Net Investment During Month (Excess of repayments (-))
Salerno	24	42	- 18
Lucania	94	141	- 47
Calabria	61	60	1
Puglia (less Foggia)	588	422	166
Sardinia	123	44	79
Sicily	273 •	177 •	96 •
Campobasso	13	20	- 7
Foggia	33	38	- 5
Campania (less Salerno)	346	375	- 29
Total Liberated Italy	1,555	1,319	236

• Incomplete, through January for Palermo. 30 January for rest of Sicily.

Declassified E.O. 12356 Section 3.3/NND No. 785017

3. Prices of Government Securities.

The Banco di Napoli has supplied to the Allied Financial Agency a list of prices at which government securities are being traded in Naples. These are unofficial quotations and in many cases represent prices asked rather than bid prices. Still, an upward trend in the recent months in prices of government securities is evident from the data.

TABLE IV

Prices of Government Securities
(Unofficial market prices at Naples)

(Lire)

	31 Dec. 1943	31 Jan. 1944	15 Feb. 1944	17 Mar. 1944
9-year bonds, 5% 1944	85.00	94.00	n.d.	95.00 - 97.00
5-year bonds, 5% 1948	n.d.	n.d.	n.d.	86.75 - 87.25
9-year bonds, 5% 1949	70.00	81.50	79.25	84.75 - 85.25
9-year bonds, 5% 1950 1st issue	70.00	81.50	79.25	84.25 - 84.75
9-year bonds, 5% 1950 2nd issue	70.00	81.50	79.25	84.00 - 84.50
9-year bonds, 5% 1951	70.00	81.50	79.25	83.50 - 84.00
9-year bonds, 4% 1951	64.50	74.50	69.00	72.75 - 73.25
Rente Italiane, 5%	67.00	81.00	80.00	83.25 - 83.75
Rente 3.50% (1906)	80.25	90.90	91.50	95.75 - 96.25
Redeemable long-term bonds, 5%	n.d.	n.d.	n.d.	84.00 - 84.50
Redeemable long-term bonds, 3.50%	63.25	71.45	n.d.	67.00 - 68.00

4. Payment of Maturity of 15 December 1943, 4% nine-year bonds.

Based on the samples of Campania, Calabria, Lucania, it would appear that about one-quarter of the total of the bonds outstanding in Liberated Italy have been paid to 29 February 1944. To the end of February, a total of 65 million lire has been reported PAID in Liberated Italy of the probable total of almost 300 million held in the area. As the German puppet-government of northern Italy also announced that it would service the part of the issue held on its side of the lines, the bulk of the 2,000 million of the issue must have been paid by them.

TABLE V.

Payment on 15 December 1943 Maturity of
4% Nine Year Bonds
15 Dec. 1943 through 29 February 1944
(In Lire)

AREA	TOTAL OUTSTANDING	TOTAL PAID	% PAID OF TOTAL OUTSTANDING.
Salerno	6,674,500	1,755,000	27
Lucania	n.d.	2,032,000	
Calabria	17,043,000	2,618,000	15
Puglia (less Foggia)	n.d.	6,417,000	
Sardinia	n.d.	2,354,000	
Sicily	not 5b,000,000		

2725

(Unofficial market prices at Naples)

(Lire)

	31 Dec. 1943	31 Jan. 1944	15 Feb. 1944	17 Mar. 1944
9-year bonds, 5% 1944	85.00	94.00	n.d.	95.00 - 97.00
5-year bonds, 5% 1948	n.d.	n.d.	n.d.	86.75 - 87.25
9-year bonds, 5% 1949	70.00	81.50	79.25	84.75 - 85.25
9-year bonds, 5% 1950 1st issue	70.00	81.50	79.25	84.25 - 84.75
9-year bonds, 5% 1950 2nd issue	70.00	81.50	79.25	84.00 - 84.50
9-year bonds, 5% 1951	70.00	81.50	79.25	83.50 - 84.00
9-year bonds, 4% 1951	64.50	74.50	69.00	72.75 - 73.25
Rente Italiane, 5%	67.00	81.00	80.00	83.25 - 83.75
Rente 3.50% (1906)	80.25	90.50	91.50	95.75 - 96.25
Redeemable long-term bonds, 5%	n.d.	n.d.	n.d.	84.00 - 84.50
Redeemable long-term bonds, 3.50%	63.25	71.45	n.d.	67.00 - 68.00

4. Payment of Maturity of 15 December 1943, 4% nine-year bonds.

Based on the samples of Campania, Calabria, Lucania, it would appear that about one-quarter of the total of the bonds outstanding in Liberated Italy have been paid to 29 February 1944. To the end of February, a total of 65 million lire has been reported paid in Liberated Italy of the probable total of almost 300 million held in the area. As the German puppet-government of northern Italy also announced that it would service the part of the issue held on its side of the lines, the bulk of the 2,000 million of the issue must have been paid by them.

TABLE V.

Payment on 15 December 1943 Maturity of
4% Nine Year Bonds
15 Dec. 1943 through 29 February 1944
(In Lire)

AREA	TOTAL OUTSTANDING	TOTAL PAID	% PAID OF TOTAL OUTSTANDING.
Salerno	6,674,500	1,755,000	27
Lucania	n.d.	2,032,000	
Calabria	17,043,000	2,618,000	15
Puglia (less Foggia)	n.d.	6,417,000	
Sardinia	n.d.	2,354,000	
Sicily	est.54,000,000	13,304,000 •	25
Campobasso	n.d.	1444,000 •	
Foggia	n.d.	939,000	
Campania (less Salerno	126,533,500	34,274,000	28
Total of above	204,241,000	65,137,000	
Total Italy	2,000,000,000	n.d.	

• Through January.

Declassified E.O. 12356 Section 3.3/NND No. 785017

2725

3. Postal Savings.

a. In several provinces, principally Sicily, no buoni postali frutiferi (postal savings bonds) have been on sale because of the shortage of certificates for issue. On 26 March 1944, full service was resumed in all liberated territory with provisional certificates available to ensure continuity of service until the new issue of blank bonds is ready.

b. The Ministry of Finance has requested data on the movement of postal savings but as yet no information has been received, other than from Puglia (less Foggia). Even the figures on Puglia are not complete. We also have a report from our own officers in Sardinia.

c. During February (with Bari figures on current accounts missing) in Puglia the figures show a net increase in money deposited in postal savings offices. There was a net increase of 16 million lire in postal savings books and a net decrease in postal savings bonds of 14 million lire. Current accounts (with Bari missing) showed an increase of 28 million lire. Total inflow of funds reported totaled 30 million lire.

d. The monthly increase in savings in Sardinia remained fairly steady around 11 million lire a month in both January and February 1944.

TABLE VIa

Postal Savings in Puglia (less Foggia)
February 1944
(In thousands of lire)

	Bari	Brindisi	Lecce	Taranto	Total
Postal Savings Bonds	-7,914	-1,479	-2,386	-2,084	-13,863
Postal Savings Books	7,204	1,374	4,157	2,749	15,584
Current Accounts	n.a.	16,186	13,196	958	28,424 (incomp)
Total	710 (incomplete)	16,081	14,967	-293	30,135 (incomplete)

TABLE VIb

Postal Savings in Sardinia
(In thousands of lire)

January 1944.	Cagliari	Sassari	Nuoro	Total
Postal Savings Bonds	-3,152	1,725	-406	-1,833
Postal Savings Books	7,008	3,797	1,984	12,789
Total	3,856	5,522	1,578	10,956
February 1944.				
Postal Savings Bonds	850	429	-195	1,084
Postal Savings Books	6,194	3,493	1,500	10,184
Total	7,044	3,919	1,305	11,268

Declassified E.O. 12356 Section 3.3/NND No. 785017

c. During February (with Bari figures on current accounts missing) in Puglia the figures show a net increase in money deposited in postal savings offices. There was a net increase of 16 million lire in postal savings books and a net decrease in postal savings bonds of 14 million lire. Current accounts (with Bari missing) showed an increase of 28 million lire. Total inflow of funds reported totaled 30 million lire.

d. The monthly increase in savings in Sardinia remained fairly steady around 11 million lire a month in both January and February 1944.

TABLE VIa

Postal Savings in Puglia (less Foggia)
February 1944
(In thousands of lire)

	Bari	Brindisi	Lecce	Taranto	Total
Postal Savings Bonds	-7,914	-1,479	-2,386	-2,084	-13,863
Postal Savings Books	7,204	1,374	4,157	2,749	15,584
Current Accounts	n.d.	16,186	13,196	958	28,424 (incomp)
Total	710 (incomplete)	16,081	14,967	-293	30,135 (incomplete)

TABLE VIb

Postal Savings in Sardinia
(In thousands of lire)

January 1944.	Cagliari	Sassari	Nuoro	Total
Postal Savings Bonds	-3,152	1,725	-406	-1,833
Postal Savings Books	7,008	3,797	1,984	12,789
Total	3,856	5,522	1,578	10,956
February 1944.				
Postal Savings Bonds	850	429	-195	1,084
Postal Savings Books	6,194	2,490	1,500	10,184
Total	7,044	2,919	1,305	11,268

6. Currency holdings of the Banca d'Italia.

The total "spendable" (excluding mutilated and dirty currency and currency held as cover for Allied deposits) currency holdings of the Banca d'Italia in Liberated Italy at the end of February 1944 totalled 4,000 million lire (See Table VII). Of this, 1,800 million lire was Italian-printed lire and 2,200 million lire consisted of currencies introduced during the Allied occupation. The uneven composition of the currency reserves between the various areas is particularly to be noted. In Sicily where currency reserves of the Banca d'Italia had been in large part destroyed or shipped out prior to our occupation, the bulk of the holdings are AM Lire. In Naples, the opposite is true.

Declassified E.O. 12356 Section 3.3/NND No. 785017

66

7. Current Liabilities of the Banca d'Italia.

In Table VIII is presented for the first time a report on the current liabilities of the Banca d'Italia in Liberated Italy with the exception of Sicily for which no reports have been received. As of 29 February 1944, the total of funds which the Banca d'Italia could be called upon to pay, exclusive of the government account, amounted to 7,000 million lire, of which 6,000 million lire was owed to banking institutions and 1,000 million to non-banking institutions and individuals. The total of interest-bearing accounts amounted to around 4,800 million lire. The residual available on advances, secured by government securities comes to 1,500 million. The principal part of the residual available on advances was concentrated in Campania and Puglia

The "current accounts at no interest" item refers to the accounts in which the Banca d'Italia carries the income from securities received on behalf of others until the income is withdrawn or transferred to another account. The very large sum of 2,000 million shown here for Calabria probably is due to this particular region carrying its AFA accounts in this classification.

8. OTHER FINANCIAL DEVELOPMENTS.

1. The Present Organization of the Banca d'Italia.

a. As mentioned in our monthly reports, Arturo Atti, senior member of the Superior Council of the Banca d'Italia, on 2 February 1944, was appointed Commissioner of the Banca d'Italia in Liberated Italy with all the powers of the Superior Council, the Governor, Director General, and the Vice-Director General of the Bank over the branches in Liberated Italy.

The following powers of the Superior Council are to be exercised by the Commissioner only with the express approval of the Minister of Finance.

(1) Deliberation on the form and characteristics of bank notes, vaglia cambiari and assegni bancari;
(2) Creation and issuance of bank notes and the destruction of the retired and annulled notes.
(3) Determination of the rules and the conditions for the operations of the bank,
(4) Authorization of contracts which have to do with the disposal of real property of a value greater than 100,000 lire, and transactions having to do with credits of a sum greater than 100,000 lire, and all other contracts and actions which the Governor of the Bank believes important enough to submit to the approval of the Superior Council.
(5) Deliberations on cancellations, reductions, and restrictions of mortgages written in favor of the bank, and surrogations in favor of third parties when the credit is not entirely extinguished (above 100,000 lire mentioned).

b. A Vice-Commissioner, Alceto Pettinari, Managing Director of the Banca d'Italia, was appointed at the same time to assist Atti, particularly in the coordination of the branches of the Banca d'Italia. Pettinari was likewise appointed Managing Director of the Naples branch of the Banca d'Italia.

Declassified E.O. 12356 Section 3.3/NND No. 785017

The "current accounts at no interest" item refers to the accounts in which the Banca d'Italia carries the income from securities received on behalf of others until the income is withdrawn or transferred to another account. The very large sum of 2,000 million shown here for Calabria probably is due to this particular region carrying its AFA accounts in this classification.

C. OTHER FINANCIAL DEVELOPMENTS.

1. The Present Organization of the Banca d'Italia.

a. As mentioned in our monthly reports, Arturo Atti, senior member of the Superior Council of the Banca d'Italia, on 2 February 1944, was appointed Commissioner of the Banca d'Italia in Liberated Italy with all the powers of the Superior Council, the Governor, Director General, and the Vice-Director General of the Bank over the branches in Liberated Italy.

The following powers of the Superior Council are to be exercised by the Commissioner only with the express approval of the Minister of Finance.

(1) Deliberation on the form and characteristics of bank notes, vaglia cambiari and assegni bancari;
(2) Creation and issuance of bank notes and the destruction of the retired and annulled notes.
(3) Determination of the rules and the conditions for the operations of the bank.
(4) Authorization of contracts which have to do with the disposal of real property of a value greater than 100,000 lire, and transactions having to do with credits of a sum greater than 500,000 lire, and all other contracts and actions which the Governor of the Bank believes important enough to submit to the approval of the Superior Council.
(5) Deliberations on cancellations, reductions, and restrictions of mortgages written in favor of the bank, and surrogations in favor of third parties when the credit is not entirely extinguished (above 400,000 lire mentioned).

2123

b. A Vice-Commissioner, Alceto Pettinari, Managing Director of the Banca d'Italia, was appointed at the same time to assist Atti, particularly in the coordination of the branches of the Banca d'Italia. Pettinari was likewise appointed Managing Director of the Naples branch of the Banca d'Italia.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

(p. 4-)

TABLE VII

29 February 1944 Currency Holdings of Banca d'Italia, Liberated Italy
(excludes AM lire held as 100% cover for AFA and other Allied deposits, excludes all currency which because of condition cannot be paid out)
(In millions of Lire)

	State Notes	Banca d'Italia	Titoli Stampigliati	AM Lire	BdA Notes	Dollars	Sub-Total Italian Printed	Sub-Total War C
Salerno	4	117	(1)	121	12	(1)	121	
Lucania	4	19	(1)	153	14	(1)	23	
Calabria	7	87	3	229	4	(1)	97	
Puglia (less Foggia)	71	167	0	119	12	(1)	238	
Sardinia	6	66	6	102	(1)	0	78	
Sicily	•	335 •	n.d.	1,153	n.d.	n.d.	335	1,
Campobasso	4	71	0	8	1	0	75	
Foggia	2	18	0	32	25	(1)	20	
Campania (less Salerno)	10	763	(1)	198	8	2	773	
Total	108 •	1,643 •	9	2,115	76	2	1,760	2,

(1) Total less than 500,000 lire.
• State notes included with Banca d'Italia notes in Sicily.

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE VII

29 February 1944 Currency Holdings of Banca d'Italia, Liberated Italy
(excludes AM lire held as 100% cover for AFA and other Allied deposits, excludes all currency which because of condition cannot be paid out)
(In millions of Lire)

State Notes	Banca d'Italia	Titoli Stampigliati	AM Lire	BIA Notes	Dollars	Sub-Total Italian Printed	Sub-Total War Currencies	Grand Total
4	117	(1)	121	12	(1)	121	133	254
4	19	(1)	153	14	(1)	23	167	190
7	87	3	229	4	(1)	97	233	330
71	167	0	119	12	(1)	238	131	369
6	66	6	102	(1)	0	78	102	180
•	335 •	n.d.	1,153	n.d.	n.d.	335	1,153	1,488
4	71	0	8	1	0	75	9	84
2	18	0	32	25	(1)	20	57	77
10	763	(1)	198	8	2	773	208	981
08 •	1,643 •	9	2,115	76	2	1,760	2,193	3,953

an 500,000 lire.
ncluded with Banca d'Italia notes in Sicily.

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE VIII

Current Liabilities of Banca d'Italia
(excluding vaglia)
29 February 1944
(In millions of Lire)

	Due to Banks			Due to Non-Bank Creditors		
	Non-interest bearing current accounts	Interest-bearing current accounts	Residual available on advances	Non-interest bearing current accounts	Interest-bearing current accounts	Residual available on advances
Salerno	(1)	65	40	74	18	49
Lucania	(1)	20	21	174	7	14
Calabria	228 •	166	134	67	21	40
Puglia (less Foggia)	(1)	1,398	412	127	58	136
Sardinia	(1)	824	129	1	11	33
Sicily	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Campobasso	0	30	16	0	5	18
Foggia	(1)	10	50	13	0	16
Campania (less Salerno)	(1)	2,132	1,417	157	64	77
Total of above	228	4,615	1,219	613	184	383

(1) Less than 500,000 lire.
• Believed to include 201 million of AFA accounts.

2172

Declassified E.O. 12356 Section 3.3/NND No. 785017

TABLE VIII

Current Liabilities of Banca d'Italia
(excluding vaglia)
29 February 1944
(In millions of Lire)

Due to Banks		Due to Non-Bank Creditors					
Interest-bearing current accounts	Residual available on advances	Non-interest bearing current accounts	Interest-bearing current accounts	Residual available on advances	Sub-Total due to banks	Sub-Total due to non-bank creditors	Grand Total
65	40	74	18	49	105	141	246
20	21	174	7	14	41	195	236
166	134	67	21	40	528	128	656
1,398	412	127	58	136	1,810	321	2,131
824	129	1	11	33	953	45	998
n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
30	16	0	5	18	46	23	69
10	50	13	0	16	60	29	89
2,132	1,417	157	64	77	2,549	298	2,847
4,615	1,219	613	184	383	6,092	1,180	7,272

ion of AFA accounts.

c. Atti has remained at his home in Bari. Pettinari divides his time between the Banca d'Italia in Naples, outside King's Italy, and the branch in Bari, inside of King's Italy. He is thus the Managing Director of two out of the three principal offices of the Banca d'Italia in Liberated Italy. The third "sede" of the Banca d'Italia in Liberated Italy is in Palermo, Sicily. The central banking situation in Sicily is complicated by the fact that the Banco di Sicilia dominates the financial life of Sicily and has never completely accepted subordination to the Banca d'Italia, which it rather regards as a foreign intruder.

d. Dottore Domenico Busotti of the Central Administration of the Banca d'Italia has been made head of a new Office of Coordination for the Banca d'Italia in Liberated Italy and is located at the seat of the Italian Government in Salerno. In a certain sense this is the present real head office of the Banca d'Italia of liberated Italy.

2. Credit Policy of the Banca d'Italia.

a. Policy directive issued by head office of Banca d'Italia.

As his first act, on 3 February 1944, Commissioner Atti issued a letter to the branches of the Banca d'Italia outlining the credit policy to be pursued. The following are the main points of the letter:-

(1) The Banca d'Italia by direct contact with banks must discourage the financing of speculative operations or hoarding. The banks should aid any productive activity which makes an effective contribution to the economic reconstruction of the nation, to the renewal of productive activity, and to the struggle against unemployment. The banks should refuse any form of credit which directly or indirectly can result in speculative or hoarding operations.

(2) Any action of psychological or other nature should be avoided which would provoke disorder in the banking field with repercussions on the already troubled life of the country.

(3) Little attention need be paid by the Banca d'Italia to its discount operations since the discounting now performed consists in the most part of re-discount operations and these are progressively diminishing.

(4) The advances made by the Bank on securities are important in view of the present and future development of advances and since the value of government securities is influenced by the advances. The advances are principally secured by five and nine-year bonds. For advances, the value of these bonds should be taken as the price at which they were issued less 20 per cent. (The rate charged by the bank on advances is the same as the discount rate, 4.50 per cent.)

(5) However, advances should be refused to private individuals who do not demonstrate an effective and urgent need of the advance for such legitimate ends as listed in (1) and (2) above.

(6) Advances should be made to agricultural and industrial undertakings only when they meet the criteria enumerated in paragraph (1).

Declassified E.O. 12356 Section 3.3/NND No. 785017

2. Credit Policy of the Banca d'Italia.

a. Policy directive issued by head office of Banca d'Italia.

As his first act, on 3 February 1944, Commissioner Atti issued a letter to the branches of the Banca d'Italia outlining the credit policy to be pursued. The following are the main points of the letter:-

(1) The Banca d'Italia by direct contact with banks must discourage the financing of speculative operations or hoarding. The banks should aid any productive activity which makes an effective contribution to the economic reconstruction of the nation, to the renewal of productive activity, and to the struggle against unemployment. The banks should refuse any form of credit which directly or indirectly can result in speculative or hoarding operations.

(2) Any action of psychological or other nature should be avoided which would provoke disorder in the banking field with reprecussions on the already troubled life of the country.

(3) Little attention need be paid by the Banca d'Italia to its discount operations since the discounting now performed consists in the most part of re-discount operations and these are progressively diminishing.

(4) The advances made by the Bank on securities are important in view of the present and future development of advances and since the value of government securities is influenced by the advances. The advances are principally secured by five and nine-year bonds. For advances, the value of these bonds should be taken as the price at which they were issued less 20 per cent. (The rate charged by the bank on advances is the same as the discount rate, 4.50 per cent.)

(5) However, advances should be refused to private individuals who do not demonstrate an effective and urgent need of the advance for such legitimate ends as listed in (1) and (2) above.

(6) Advances should be made to agricultural and industrial undertakings only when they meet the criteria enumerated in paragraph (1).

(7) Advances should be made to banking and credit institutions for their legitimate needs, always qualifying "legitimate" as defined in paragraph (1) above.

(8) The managing directors of the branches are requested to keep the head office informed of the important developments in their zones.

(9) The branches are especially requested to maintain frequent contact with the banks and other credit institutions in their areas in order to be able to impress upon them the importance of carrying out the goals outlined in paragraphs (1) and (2) and to enable the banks to find in the Banca d'Italia a support and a comfort in the difficulties of the present.

Declassified E.O. 12356 Section 3.3/NND No. 785017

64

b. Instructions of Minister of Finance to Banca d'Italia.

On 1 March 1944, the Minister of Finance issued a letter of instructions to the Commissioner of the Banca d'Italia in which he implemented the policy directive already issued by Atti. A summary of the letter follows:

(1) At the present time, in view of the extreme scarcity of commodities, every commercial operation which is not ordered or approved by the authority in charge of the distribution of food or of essential products, will result in fact, in speculation or hoarding.

(2) Therefore, the principal task of the Inspectorate of Credit (of the Banca d'Italia) is to put care and maximum energy into the surveillance of the operations of banks to avoid inflationary consequences.

(3) Inspections should be made as frequently as convenient and any deviation from the rules laid down by the letter of Atti to the banks should be reported to the Ministry of Finance.

3. Increase in Interest Rates on Bankers' Deposits at Banca d'Italia.

By decree of the Minister of Finance dated 27 February 1944, and approved by the Chief of Financial Institutions, the Banca d'Italia was authorized to raise the rate of interest on bankers' deposits. The Bank was authorized to pay 4% on bankers' deposits with the Banca d'Italia when these are deposited under conditions of non-withdrawal for a period of 3 months and 4.50% under condition of non-withdrawal for 4 months.

The reason for this action, as stated by the Minister of Finance was that: in view of the fact that the Banca d'Italia was attempting to curtail investment opportunities of banks, the interest rate paid on bankers' deposits at the Banca d'Italia should be raised "to keep the banks happy".

After this decree, the schedule of interest rates on bankers deposits at the Banca d'Italia and on government bills and short-term notes, "Buoni del Tesoro ordinari" is as follows:

TABLE IX

Annual Interest Rates Payable
Investment of Banking Funds in Banca d'Italia and in B.T.O.

	Bankers' Deposits at Banca d'Italia	Investment in Buoni del Tesoro ordinari
Funds available at call	1.00 - 1.50%	——
" " at 8 days notice	2.50	——
" " at 15 days notice	3.00	——
" invested for 1-2 months	——	3.25%
" " " 3 months	4.00	3.75
" " " 4 months	4.50	3.75
" " " 5-6 months	——	3.75
" " " 7-8-9 months	——	4.75
" " " 10-11-12 months	——	5.00

4. Extension of Interest Payments on Matured Government Securities.

2722

Declassified E.O. 12356 Section 3.3/NND No. 785017

Banca d'Italia) is to put care and maximum energy into the surveillance of the operations of banks to avoid inflationary consequences.

(3) Inspections should be made as frequently as convenient and any deviation from the rules laid down by the letter of Atti to the banks should be reported to the Ministry of Finance.

3. Increase in Interest Rates on Bankers' Deposits at Banca d'Italia.

By decree of the Minister of Finance dated 27 February 1944, and approved by the Chief of Financial Institutions, the Banca d'Italia was authorized to raise the rate of interest on bankers' deposits. The Bank was authorized to pay 4% on bankers' deposits with the Banca d'Italia when these are deposited under conditions of non-withdrawal for a period of 3 months and 4.50% under condition of non-withdrawal for 4 months.

The reason for this action, as stated by the Minister of Finance was that: in view of the fact that the Banca d'Italia was attempting to curtail investment opportunities of banks, the interest rate paid on bankers' deposits at the Banca d'Italia should be raised "to keep the banks happy".

After this decree, the schedule of interest rates on bankers deposits at the Banca d'Italia and on government bills and short-term notes, "Buoni del Tesoro ordinari" is as follows:

TABLE IX

Annual Interest Rates Payable
Investment of Banking Funds in Banca d'Italia and in B.T.T.

	Bankers' Deposits at Banca d'Italia	Investment in Buoni del Tesoro ordinari
Funds available at call	1.00 - 1.50%	——
" " at 8 days notice	2.50	——
" " at 15 days notice	3.00	——
" invested for 1-2 months	——	3.25%
" " " 3 months	4.00	3.75
" " " 4 months	4.50	3.75
" " " 5-6 months	——	3.75
" " " 7-8-9 months	——	4.75
" " " 10-11-12 months	——	5.00

4. Extension of Interest Payments on Matured Government Securities.

2722

On 2 March 1944, the King issued a decree extending the payment of interest on certain matured government securities which were not presented for payment on the date of maturity because of circumstances connected with the war. On the matured Buoni del Tesoro ordinari (which pay from 3.25 to 5 percent depending upon their period) interest will continue to accrue at the rate of 5% annually from the date of maturity to the date when the B.T.T. are redeemed. On the nine-year 4% bonds which came due 15 December 1943, interest will continue to accrue at the rate of 4% annually until they are presented for payment.

Declassified E.O. 12356 Section 3.3/NND No. 785017

5. Lifting of Restrictions on Transactions in Lands and Buildings.

Early in March, the Italian government lifted the prohibition and restrictions upon transactions in lands and buildings imposed by Proclamation No. 5 in former AMG territory. This relaxation of controls has also been extended to present AMG territory by General Order No. 23, 9 March 1944. The Finance Minister took this action on the basis that it was not necessary as very few transactions occurred in Puglia where no ban existed. If a large increase in transactions in real estate representing a flight from currency occurrs the ban is to be re-imposed. No statistics have been received from the Italian government as yet showing the volume of transactions actually taking place.

D. DESCRIPTION OF THE ITALIAN FINANCIAL SYSTEM.

The Public Debt in Italy.

In last month's Financial Review, an outline of the Italian Public Debt was given. In Section d. Forced Loans the Special Series of 5% nine-year Treasury Bonds(1944) which should have been likewise classed as a forced loan was not included. A brief description of this forced loan follows.

Special Series 5% nine-year Treasury Bonds, 1944.

a. According to the Royal Decree of 28 August 1935, all Italian citizens resident in the Kingdom or in the possessions were required to transfer to the Italian foreign exchange institution (Istituto Nazionale per i Cambi con l'estero) all foreign credits and foreign securities owned by them and to receive in exchange Treasury bonds. There were certain exceptions made from the decree for the foreign direct investments of Italian companies, bankers with foreign liabilities and insurance companies that had assumed foreign risks. The value of foreign credits was converted into lire at the prevailing foreign exchange quotation on the Milan exchange. The value of securities was taken at the prevailing price on the market of issue at the date of the decree and converted into lire at the prevailing foreign exchange quotation. The same conversion applied to Italian securities issued abroad except that the date taken was 8 December 1934 and no price above par was paid.

b. Nine-year bonds were issued in exchange except that where there was a remainder due which was less than the smallest denomination of bond available, cash was paid for this remainder. The bonds issued consisted of a Special Series of nine-year Treasury bonds maturing on 1 September 1935. They were made exempt from any impost existing or future and received all other rights of the other series of buoni novennali in circulation.

c. Based on the interest charges budgeted for, it is estimated that the total of this series outstanding amounts to around 2,000 million lire. In liberated Italy, we have data on the amount that were issued for two compartments. This information is given in Table I.

TABLE I

Special Series, Buoni del Tesoro
Novennali, 5%, 1 September 1944

(In Lire)

Region of Issue.	Registered	Bearer	Total

Declassified E.O. 12356 Section 3.3/NND NO. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

3. DESCRIPTION OF THE ITALIAN FINANCIAL SYSTEM.

The Public Debt in Italy.

In last month's Financial Review, an outline of the Italian Public Debt was given. In Section d. Forced Loans the Special Series of 5% nine-year Treasury Bonds(1944) which should have been likewise classed as a forced loan was not included. A brief description of this forced loan follows.

Special Series 5% nine-year Treasury Bonds, 1944.

a. According to the Royal Decree of 28 August 1935, all Italian citizens resident in the Kingdom or in the possessions were required to transfer to the Italian foreign exchange institution (Istituto Nazionale per i Cambi con l'estero) all foreign credits and foreign securities owned by them and to receive in exchange Treasury bonds. There were certain exceptions made from the decree for the foreign direct investments of Italian companies, bankers with foreign liabilities and insurance companies that had assumed foreign risks. The value of foreign credits was converted into lire at the prevailing foreign exchange quotation on the Milan exchange. The value of securities was taken at the prevailing price on the market of issue at the date of the decree and converted into lire at the prevailing foreign exchange quotation. The same conversion applied to Italian securities issued abroad except that the date taken was 8 December 1934 and no price above par was paid.

b. Nine-year bonds were issued in exchange except that where there was a remainder due which was less than the smallest denomination of bond available, cash was paid for this remainder. The bonds issued consisted of a Special Series of nine-year Treasury bonds maturing on 1 September 1935. They were made exempt from any impost existing or future and received all other rights of the other series of buoni novennali in circulation.

c. Based on the interest charges budgeted for, it is estimated that the total of this series outstanding amounts to around 2,000 million lire. In liberated Italy, we have data on the amount that were issued for two compartments. This information is given in Table I.

TABLE I
Special Series, Buoni del Tesoro
Novennali, 5%, 1 September 1944

(In Lire)

Region of Issue	Registered	Bearer	Total
Calabria	121,600	3,026,900	3,148,500
Campania	2,312,100	84,893,500	87,205,600
Total	2,433,700	87,920,400	90,354,100

Declassified E.O. 12356 Section 3.3/NND No. 785017

63

ANNEX 'C'

HEADQUARTERS
ALLIED CONTROL COMMISSION
FRANCE DE-OCCUPATION
APO 394

29 March 1946.

[illegible] by delegate Germans that the dollar value of [illegible] with be banned.

[illegible] U.S. Army,
[illegible] Executive Officer,
[illegible] Public Safety Section,
[illegible] Control Council.

[illegible] the Germans has requested [illegible] the Control Council [illegible] the Soviet Union [illegible] the Control Council [illegible] the Soviet Union [illegible] the Control Council [illegible] the Soviet Union

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

principal disadvantage of an over valued currency - i.e. difficulty of developing exports.

(c) Political prestige would accrue to the present Italian Government.

In view of the general opinion amongst Italians as to the weakness of the economic position of Italy and the general distrust of the Italian currency, it is doubtful if there would be any real or prolonged political value to an unjustified and unreasonable manipulation of the exchange rate.

2. If the Italian Finance Minister believes that an appreciated lira rate would be untenable over a longer period of time and that a depreciation would subsequently be required, the argument against a change becomes stronger. The Italian Government would then be guilty of attempting to manipulate the exchange rate deliberately to profit at our expense. It would be indefensible to permit an alteration of the rate under these circumstances.

3. Insofar as a reduction in soldier expenditure constitutes the major objective of the Italian Government, it would be improper to change the rate for this purpose. The problem of soldier expenditures is not confined to liberated Italy, but exists in Great Britain, and will be met in all areas liberated by Allied Forces. It should be considered directly as such, and appropriate measures applied to all areas in which the problem arises. The larger problem should not be met on a piece-meal basis, and indirectly through a change in the rate of exchange. Conversely, the rate of exchange should be considered in terms of the considerations relevant to fixing the rate and not as a device to control payments to troops.

4. Moreover, even assuming some important effective to soldier expenditures, a sharp appreciation in the value of the lira would immediately cut the income of troops in lira. The [redacted] of our troops would be seriously affected by such a drastic step. There are other methods of meeting the problem with far less effect, if any, on soldier morale.

III. The Allied Control Commission is vitally interested in controlling inflation in Italy, and it is important that effective measures be taken. The change in the exchange rate is not an effective step.

1. During a period of global war, the normal relationships between exchange rates, prices and incomes are destroyed. There are few normal effects of Italian prices caused by the present rates of exchange fixed for the lira.

2720

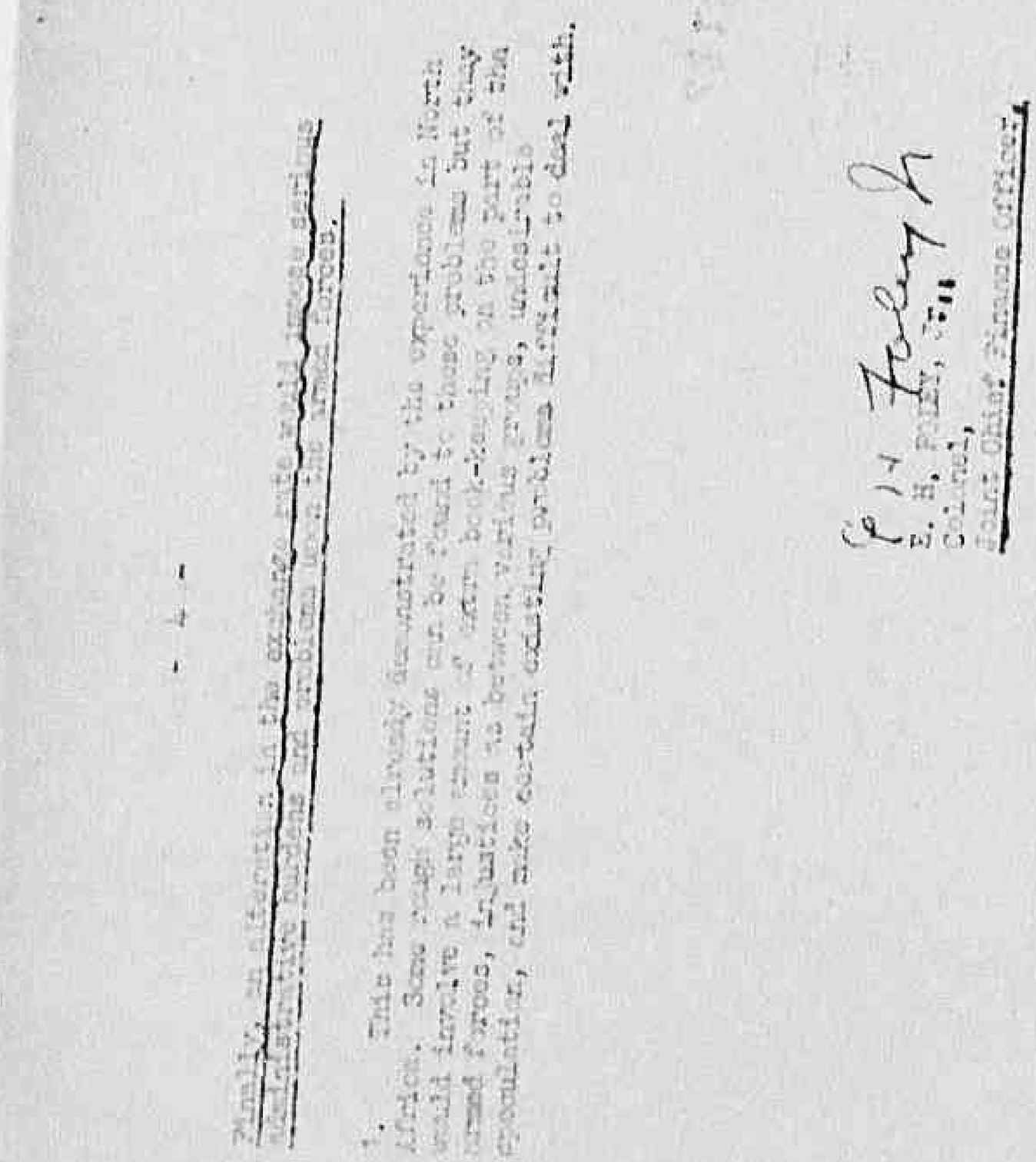
2. The basic elements of an anti-inflation policy include expenditure control; adequate tax policies; borrowing of savings from the people; direct price fixing; and adequate and effective rationing of essential commodities. There is a great deal which the Italian Government can do in these fields which would go far towards achieving price stabilization. Such measures should be strongly pressed and will far outweigh any effects which a change in the rate of exchange might have on inflation.

3. The Finance Sub-Commission is preparing currently a comprehensive programme of monetary and price stabilization for liberated Italy. With the cooperation of the Italian Government, notable improvements in the control of inflation should be possible.

Declassified E.O. 12356 Section 3.3/NND 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017



61

C O P Y .

File No. 543 Salerno, 24/2/1944.

OFFICE OF THE CHIEF OF GOVERNMENT

TO : GENERAL NOEL MASON MACFARLANE
Chief of the Allied Control Commission
Naples

My dear General Macfarlane:-

At Brindisi, at the meeting at which for the first time the final text of the Armistice agreement, which I afterwards signed at Malta on September 29, 1943, was submitted to me, General W. B. Smith, Chief of Staff of General Eisenhower, wrote, other things told me that upon with the declaration of war of Italy on Germany a state of co-belligerency would exist between Italy and the Allies, the rate of exchange fixed by the Allies between the Lira, the Pound Sterling and the Dollar would be reviewed.

I have not failed to call at every opportunity the attention of both the Allied Military Mission, as also the Allied Control Commission, upon the serious damage which is inflicted on the Italian economy and monetary situation by the fact that the exchange has been established on the basis of one Pound Sterling equal to Lire 400 and one Dollar equal to Lire 100.

The same has been done by the Vice-Secretariat, and, subsequently, by the Ministers of Finance and Industry, Commerce and Labour, in their contacts with the various members of the above mentioned Mission and Commission.

Accordingly, at the meeting of the Consultative Commission for Italy, held at Naples on January 17th, to which I was invited, I presented a Memorandum in which the question of exchange, together with that of food, was indicated as being the most serious and pressing.

Also the Minister of Finance has during the past few months repeatedly supplied data on the exchange problem to various members of the Allied Control Commission and has not failed to emphasize the gravity and urgency of the situation.

The inflationary tendency in Italy has been and is still being determined, over beyond the scarcity of prime necessity goods, and among these especially foodstuffs, in an absolutely predominating fashion by the spending of the Allied troops in Italy and especially the spending of individual members of these same Allied Forces. The effects of this spending, which is at any rate out of proportion with the purchasable goods available in Italy, have notably multiplied in a sense unfavourable to the economic and monetary position of the Country, due to the exchange rate which injects into Italian circulation an excessive amount of lire, greatly superior to what, were the exchange rate more in keeping with the real situation of the internal exchange of the Country, would be required to obtain the same goods and services.

2713

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

At Brindisi, at the meeting at which for the first time the final text of the Armistice agreement, which I afterwards signed at Malta on September 29, 1943, was submitted to me, General W. B. Smith, Chief of Staff of General Eisenhower, among other things told me that when with the declaration of war of Italy on Germany a state of co-belligerency would exist between Italy and the Allies, the rate of exchange fixed by the Allies between the Lira, the Pound Sterling and the Dollar would be reviewed.

I have not failed to call at every opportunity the attention of both the Allied Military Mission, as also the Allied Control Commission, upon the serious damage which is inflicted on the Italian economy and monetary situation by the fact that the exchange has been established on the basis of one Pound Sterling equal to Lire 400 and one Dollar equal to Lire 100.

The same has been done by the Vice-Secretaries, and, subsequently, by the Ministers of Finance and Industry, Commerce and Labour, in their contacts with the various members of the above mentioned Mission and Commission.

Accordingly, at the meeting of the Consultative Commission for Italy, held at Naples on January 11th, to which I was invited, I presented a Memorandum in which the question of exchange, together with that of food, was indicated as being the most serious and pressing.

Also the Minister of Finance has during the past two months repeatedly supplied data on the exchange problem to various members of the Allied Control Commission, and has not failed to emphasize the priority and urgency of the situation.

The inflationary tendency in Italy has been and is still being determined, even beyond the scarcity of prime necessity goods, and among these especially foodstuffs, in an absolutely predominating fashion by the spending of the Allied troops in Italy and especially the spending of individual members of these same Allied Forces. The effects of this spending, which is at any rate out of proportion with the procurable goods available in Italy, have notably multiplied in a sense unfavourable to the economic and monetary position of the Country, due to the exchange rate which injects into Italian circulation an excessive amount of lire, greatly superior to what, were the exchange rate more in keeping with the real situation of the internal exchange of the Country, would be required to obtain the same goods and services.

2713

This state of affairs, the dangerous influence of which has been felt by everyone in Italy from the very day of the Armistice, has gradually grown worse following the increasing importance of the Italian Front. The Germans have considerably increased the number of divisions on this front, which necessitated a rapid increase in Allied effectives in Italy. The war of movement having been transformed into a war of position, has brought with it the concentration of a constantly increasing number of Allied troops within a territory which, with

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND NO. 785017

[illegible] tendency to consider above all their responsibility in relation to the territory under their charge, have often considered each Province as a State by itself.

All this has brought with it among the Italian people a state of mind, which it is absolutely vital to counteract. It is indeed harmful for the present and future life of the Country, if the opinion spreads and takes a root that the Allies have the precise intention to ruin Italy unnecessarily and voluntarily, and that consequently to individual Italians, in the midst of general ruin, it remains but to try and take unscrupulous advantage for their own exclusive benefit of any opportunity, which even for a moment fate may offer them.

I feel it my duty to point out to you, my dear General, the seriousness and urgency of the problem.

In my opinion, therefore, a decisive step in the matter of exchange is necessary to bring about a very clear psychological movement, which will reverse the direction of the mentality of the Italian people in economic and monetary matters.

This decisive step, to my mind, can but be a substantial revision of the rate of exchange.

For the common responsibility, which both you and I have for the living conditions of the Italian People; for the fact that Italy (or rather only one third of its Territory) is the field of the first Allied control experiment of defeated or liberated countries; for the necessity that behind the lines of any Army so large as that which the Allies landed in Italy, there be a state of calm and orderly life and possibly of useful activity for the purposes of the war; for the spirit of deep, sincere and loyal collaboration which both myself and my Government have always shown; for the firm will of all the Italian People to take part with every effort in the fight against the common enemy and in the work of reconstruction of the world; I must ask you, my dear General, to give your kind and enlightened consideration to this question of exchange.

Very cordially Yours

/s/ Bonomi

501

SECRET

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13071/7 10 March 1944.

REPORT OF THE FINANCE SUB-COMMISSION HQ ACC

FOR FEBRUARY 1944.

During February the Headquarters of the Finance Sub-Commission continued to be located in Naples, with representation at Salerno, the present seat of the Italian Government. The DCFO was absent during the month and the CFI was Acting DCFO.

I. PRICES AND THE COST OF LIVING

A. Price and Cost of Living Developments in February

1. Increase in bread ration

The most important development in prices and the cost of living during February was an increase in the bread ration to 200 grams per person per day, announced for all of occupied Italy beginning 7 February. Previously the ration was 125 grams in Naples and 150 grams in most of the other provinces. It is not yet known whether this ration is in fact being distributed in provinces other than Naples.

2. The cost of living

In Naples the effect of the increase in the bread ration was to reduce the weekly expenditure necessary for the purchase of 2 kilos of bread nearly 50%, from about 150 lire in the first week of February to about 80 lire after the increase. Increases in the prices of other foods over the January average have partially offset this gain, but the cost of purchasing the representative food budget for one person for one week (detailed in the January report), declined to about 320 lire for the week ending 15 February. Comparable figures for other recent dates are as follows:

month of January	-	348
week ending 30 January	-	391
" " 7 February	-	369
" " 15 February	-	319
" " 23 February	-	334
" " 29 February	-	342

3. Bread prices

2718

The price of black market bread in Naples rose sharply during January

Declassified E.O. 12356 Section 3.3/NND 785017

During February the Headquarters of the Finance Sub-Commission continued to be located in Naples, with representation at Salerno, the present seat of the Italian Government. The DCFO was absent during the month and the CFI was Acting DCFO.

I. PRICES AND THE COST OF LIVING

A. Price and Cost of Living Developments in February

1. Increase in bread ration

The most important development in prices and the cost of living during February was an increase in the bread ration to 200 grams per person per day, announced for all of occupied Italy beginning 7 February. Previously the ration was 125 grams in Naples and 150 grams in most of the other provinces. It is not yet known whether this ration is in fact being distributed in provinces other than Naples.

2. The cost of living

In Naples the effect of the increase in the bread ration was to reduce the weekly expenditure necessary for the purchase of 2 kilos of bread nearly 50%, from about 150 lire in the first week of February to about 80 lire after the increase. Increases in the prices of other foods over the January average have partially offset this gain, but the cost of purchasing the representative food budget for one person for one week (detailed in the January report), declined to about 320 lire for the week ending 15 February. Comparable figures for other recent dates are as follows:

month of January		-	348
week ending 30 January		-	391
"	" 7 February	-	369
"	" 15 February	-	319
"	" 23 February	-	334
"	" 29 February	-	342

3. Bread prices

2718

The price of black market bread in Naples rose sharply during January and the first week of February, reaching 135 lire per kilo. After the increase in the ration the price fell to 120 lire on 15 February and rose again to 130 lire, the current price. Since the price has not declined appreciably it is probable that civilians have continued to spend the bulk of their income for black market bread in order to increase their total bread consumption.

Declassified E.O. 12356 Section 3.3/NND No. 785017

4. Other prices

The Naples black market prices of potatoes, pasta, olive oil, and milk have shown little change during the month. Fruits, greens, fish, and cheese, however, have increased sharply. The increase in fish and cheese prices (about 50%) has brought the relationship between meat, fish, and cheese prices into line with the rest of liberated Italy.

B. Price Recommendations

1. Seed wheat

The opinion of the Sub-Commission was requested on the price to be charged farmers on 550 tons of seed wheat proposed to be distributed for seed use. A price of 600 lire per quintal was recommended on the conditions that:

(a) the farmers receiving the wheat be required to demonstrate a need for seed, to explain why they are without seed, and to agree to account for the disposition of their new crop through the Ammasi; and

(b) that the Consorzio keep adequate records of the distribution of the seed.

2. Rents

An increase of 12% in living quarter rentals and 15% in other rentals has been proposed by the Italian Government. This Sub-Commission has recommended that the increase not be granted. While it is true that rents are very low in comparison with other prices, we believe that the hardship that would be imposed upon hard-pressed urban workers by a rent increase would not justify an increased income to the owners of urban real estate who are for the most part wealthy and who are holding real estate more as a hedge against inflation than as a source of current income.

3. Coal

(a) In view of the underestimate of the cost of sea transport for Sardinian coal moving from Sardinia to Sicily and the mainland, it has been recommended that the average price of such coal should be increased from the 600 lire per metric ton agreed upon at the price meeting in Algiers to 750 lire. It was also recommended that the subsidy making possible the sale of Sardinian coal in Sardinia at 150 lire be discontinued and that the price be increased to 350 lire, the approximate cost of production.

(b) It was recommended that coal imported from other areas be sold by the Italian coal agencies for use in Allied military purposes at a price adequate to cover costs plus a reasonable profit. Payment would be made in the form of a payment certificate

Declassified E.O. 12356 Section 3.3/NND No. 785017

1. Seed wheat

The opinion of the Sub-Commission was requested on the price to be charged farmers on 550 tons of seed wheat proposed to be distributed for seed use. A price of 600 lire per quintal was recommended on the conditions that:

(a) the farmers receiving the wheat be required to demonstrate a need for seed, to explain why they are without seed, and to agree to account for the disposition of their new crop through the Ammasi; and

(b) that the Consorzio keep adequate records of the distribution of the seed.

2. Rents

An increase of 12% in living quarter rentals and 15% in other rentals has been proposed by the Italian Government. This Sub-Commission has recommended that the increase not be granted. While it is true that rents are very low in comparison with other prices, we believe that the hardship that would be imposed upon hard-pressed urban workers by a rent increase would not justify an increased income to the owners of urban real estate who are for the most part wealthy and who are holding real estate more as a hedge against inflation than as a source of current income.

3. Coal

(a) In view of the underestimate of the cost of sea transport for Sardinian coal moving from Sardinia to Sicily and the mainland, it has been recommended that the average price of such coal should be increased from the 600 lire per metric ton agreed upon at the price meeting in Algiers to 750 lire. It was also recommended that the subsidy making possible the sale of Sardinian coal in Sardinia at 150 lire be discontinued and that the price be increased to 350 lire, the approximate cost of production.

(b) It was recommended that coal imported from other areas be sold by the Italian coal agencies for use in Allied military purposes at a price adequate to cover costs plus a reasonable profit. Payment would be made in the form of a payment certificate convertible by the coal agency through the Government. Coal used for other than Allied military purposes would be billed to the Italian Government at landed cost and sold by the Government to the coal agencies at a price permitting the latter to distribute the coal at current maximum retail prices. At present the Italian Government charges the coal agencies 1200 lire per metric ton. It was recommended that the price charged by the Government should be low enough to permit the coal to be sold at retail at not over 1400 lire per metric ton.

4. Telegraph rates

The Italian Government has proposed a 100% increase in telegraph rates. This proposal was referred to the Telecommunications, Postal Sub-Commission in

Declassified E.O. 12356 Section 3.3/NND No. 785017

order that they might make a decision in keeping with the decision on telephone rates which are currently being reviewed. We believe that telegraph rates are of little importance either to Italian businesses or Italian individuals.

II. ALLIED FINANCIAL AGENCY

A. Foreign Exchange Transactions

A large part of the time of officers of the Headquarters, Allied Financial Agency, and the personnel of the branch office in Palermo was employed in perfecting arrangements for financial transactions with the U.S. or U.K. and other allied or neutral countries.

1. Remittances from the U.S. and the U.K.

On 7 February 1944 the U.S. Treasury and War Department announced the restoration of facilities for living expenses remittances to Sicily, and the Treasury Department issued General License No. 32A, from which relevant paragraphs are quoted below:

"(1) Certain remittances to Sicily for living expenses authorized.

A general license is hereby granted authorizing remittances by any individual through any domestic bank to any individual within Sicily, and any domestic bank is authorized to effect such remittances, provided the following terms and conditions are complied with:

(a) Such remittances are made only for the necessary living expenses of the payee and his household;

(b) If the payee is not a citizen of the United States, the total of all remittances to such payee and his household effected in any three month period under this general license may not exceed $ 100;

(c) If the payee is a citizen of the United States, the total of all remittances to such payee and his household effected in any one calender month under this general license may not exceed $ 75, except that additional sums not exceeding £ 20 in any one calender month may be remitted for each member of such payee's household in addition to the payee who is a citizen of the United States, provided that in no case shall 2717 in excess of £ 150 per calender month be remitted to any such payee and his household;

(d) Such remittances are not made from a blocked account other than from an account in a banking institution within the United States in the name of, or in which the

Declassified E.O. 12356 Section 3.3/NND No. 785017

employed in perfecting arrangements for financial transactions with the U.S. or U.K. and other allied or neutral countries.

1. Remittances from the U.S. and the U.K.

On 7 February 1944 the U.S. Treasury and War Department announced the restoration of facilities for living expenses remittances to Sicily, and the Treasury Department issued General License No. 32A, from which relevant paragraphs are quoted below:

"(1) Certain remittances to Sicily for living expenses authorized.

A general license is hereby granted authorizing remittances by any individual through any domestic bank to any individual within Sicily, and any domestic bank is authorized to effect such remittances, provided the following terms and conditions are complied with:

(a) Such remittances are made only for the necessary living expenses of the payee and his household;

(b) If the payee is not a citizen of the United States, the total of all remittances to such payee and his household effected in any three month period under this general license may not exceed £ 100;

(c) If the payee is a citizen of the United States, the total of all remittances to such payee and his household effected in any one calendar month under this general license may not exceed £ 75, except that additional sums not exceeding £ 25 in any one calendar month may be remitted for each member of such payee's household in addition to the payee who is a citizen of the United States, provided that in no case shall a sum in excess of £ 150 per calendar month be remitted to any such payee and his household;

(d) Such remittances are not made from a blocked account other than from an account in a banking institution within the United States in the name of, or in which the beneficial interest is held by, a citizen of the United States who is the payee or a member of his household; and

(e) Such remittances are effected only by the payment of the dollar amount of the remittance to a domestic bank for credit to a post-liberation blocked account in the name of "Bank of Sicily, Account AF".

"(2) Duty of individuals and domestic banks acting under this license.

All individuals making such remittances and all domestic banks effecting such remittances shall satisfy themselves that the foregoing terms and conditions are complied with. ....

Declassified E.O. 12356 Section 3.3/NND 785017

"(4) Reports by domestic banks maintaining post-liberation blocked accounts.

Domestic banks maintaining post-liberation blocked accounts in the name of "Bank of Sicily AF" shall report promptly the establishment of such accounts, and the balances therein at the end of each calendar month, to the appropriate Federal Reserve Bank.

"(5) Refunds.

Domestic banks are authorized to refund the amount of any remittance ordered pursuant to this general license when such domestic banks are advised that such remittance cannot be effected.

"(6) Waiver of General Ruling No. 11 and General Ruling No. 5A.

Transactions authorized herein and communications with persons in Sicily relating thereto are authorized notwithstanding General Ruling No. 11. Domestic banks are authorized, notwithstanding General Ruling No. 5A, to send to and receive from the Bank of Sicily non-negotiable bank payment orders covering remittances or refunds authorized herein.

"(7) Definitions.

As used in this general license:

(a) The term "household" shall mean:

(i) those individuals sharing a common dwelling as a family; or

(ii) any individual not sharing a common dwelling with others as a family.

(b) The term "post-liberation blocked account" shall mean a blocked account:

(i) which is established pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account;

(ii) to which funds may be credited only pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account; and

(iii) with respect to which payments, transfers, or withdrawals or other dealings may not be made or effected except pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account."

Declassified E.O. 12356 Section 3.3/NND No. 785017

remittance ordered pursuant to this general license when such domestic banks are advised that such remittance cannot be effected.

"(6) Waiver of General Ruling No. 11 and General Ruling No. 5A.

Transactions authorized herein and communications with persons in Sicily relating thereto are authorized notwithstanding General Ruling No. 11. Domestic banks are authorized, notwithstanding General Ruling No. 5A, to send to and receive from the Bank of Sicily non-negotiable bank payment orders covering remittances or refunds authorized herein.

"(7) Definitions.

As used in this general license:

(a) The term "household" shall mean:

(i) those individuals sharing a common dwelling as a family; or

(ii) any individual not sharing a common dwelling with others as a family.

(b) The term "post-liberation blocked account" shall mean a blocked account:

(i) which is established pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account;

(ii) to which funds may be credited only pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account; and

(iii) with respect to which payments, transfers, or withdrawals or other dealings may not be made or effected except pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account."

T&M Airgram 1, which transmitted this General License to this Headquarters also quoted relevant paragraphs from letters addressed to the Banco di Sicilia by the Guaranty Trust Company, the Chase National Bank, the National City Bank, and the Irving Trust Company. The remaining four correspondent banks chosen by the Banco di Sicilia had not as yet prepared communications for the Banco di Sicilia, at the time of issuance of the General License. Some nine other U.S. financial institutions have already applied to the Banco di Sicilia to act as correspondents for remittance purposes, but no additions to the existing list of correspondents are being made without the prior approval of AFA Headquarters, because of the limited staff available to AFA

Declassified E.O. 12356 Section 3.3/NND No. 785017

branches for processing correspondence and for effecting the necessary accounting entries on the books of the Allied Financial Agency.

TAM Airgram 1 also required certain changes in the procedure outlined in the original proposal made by the Allied Financial Agency, in that credits to the AF dollar accounts held by U.S. correspondents for the Banco di Sicilia would not be effected until the U.S. banks were notified that the payee had received lire. This will avoid the necessity for debiting these AF accounts when refunds must be made to the remitter because lire cannot be paid to the designated beneficiary. The relevant passages from the Airgram are quoted below:

"2. Banks designated in your cable 21 January 1944 have been notified of their selection by the Bank of Sicily as correspondents, and these banks have been instructed to forward their remittance schedules as outlined in your 16 January 1944 letter addressed to 'Banco di Sicilia, APO No. 4400 c/o Postmaster, New York, New York.' Replies have been procured thus far from New York banks only. With respect to accounts to be opened by such designated banks, you are requested to facilitate prompt submission to these banks by Banco di Sicilia of following:

(a) Request from Banco di Sicilia that account be opened on terms specified, i.e., that credits to accounts for remittances will be made only after banks here have received:

(i) receipts executed by designated beneficiaries; and

(ii) guarantees by the Banco di Sicilia that designated persons received the payments;

(b) Specimen signatures of persons authorized to operate accounts and execute guarantees that designated beneficiaries received remittance payments;

(c) Authentication by appropriate Allied Military Authorities of signatures and authority of persons who will operate accounts and execute guarantees."

In accordance with the instructions contained in the two documents just mentioned, the branch office in Palermo took measures to procure and transmit to the U.S. banks the necessary documents. Correspondence from the U.S. banks is addressed to the Banco di Sicilia at APO 4400, and is then collected by AFA Palermo. This correspondence is given to the Banco di Sicilia, after appropriate records are made by AFA. Correspondence from the Banco di Sicilia is now addressed to the U.S. correspondent banks through channels, but AFA Palermo has suggested that a special Post Office address, such as the Federal Reserve Bank of New York, be utilized for routine matter passing to the U.S. banks.

In order to effect payments to U.S. citizens at the higher level contemplated by the General License, the Palermo branch of the Allied Financial Agency has notified us that the following

Declassified E.O. 12356 Section 3.3/NND No. 785017

7916

"2. Banks designated in your cable 21 January 1944 have been notified of their selection by the Bank of Sicily as correspondents, and these banks have been instructed to forward their remittance schedules as outlined in your 16 January 1944 letter addressed to 'Banco di Sicilia, APO No. 4400 c/o Postmaster, New York, New York.' Replies have been procured thus far from New York banks only. With respect to accounts to be opened by such designated banks, you are requested to facilitate prompt submission to these banks by Banco di Sicilia of following:

(a) Request from Banco di Sicilia that account be opened on terms specified, i.e., that credits to accounts for remittances will be made only after banks here have received:

(i) receipts executed by designated beneficiaries; and

(ii) guarantees by the Banco di Sicilia that designated persons received the payments;

(b) Specimen signatures of persons authorized to operate accounts and execute guarantees that designated beneficiaries received remittance payments;

(c) Authentication by appropriate Allied Military Authorities of signatures and authority of persons who will operate accounts and execute guarantees."

In accordance with the instructions contained in the two documents just mentioned, the branch office in Palermo took measures to procure and transmit to the U.S. banks the necessary documents. Correspondence from the U.S. banks is addressed to the Banco di Sicilia at APO 4400, and is then collected by AFA Palermo. This correspondence is given to the Banco di Sicilia, after appropriate records are made by AFA. Correspondence from the Banco di Sicilia is now addressed to the U.S. correspondent banks through channels, but AFA Palermo has suggested that a special Post Office address, such as the Federal Reserve Bank of New York, be utilized for routine matter passing to the U.S. banks.

2918

In order to effect payments to U.S. citizens at the higher level contemplated by the General License, the Palermo branch of the Allied Financial Agency has notified us that the following arrangements have been made with Consul General Nestor in Palermo:

"all remittance lists covering payments to American citizens will be submitted to the Consul General for certification that the payees are in fact American nationals. However, Mr. Nestor again pointed out that most of his documents are in Washington and that it will be necessary for him to refer to the State Department in those cases where the documents of a payee are insufficient to enable him to express an opinion as to citizenship status. Moreover, payees who are not domiciled in Palermo will be required to forward to the Consul General their citizenship papers before payment

Declassified E.O. 12356 Section 3.3/NND No. 785017

can be made, thereby involving a certain amount of correspondence and delay."

As the Combined Civil Affairs Committee, through the Combined Chiefs of Staff, has directed that the dollar and sterling proceeds of remittances be under the "exclusive supervision and control of the Allied Financial Agency", AFA Palermo was directed to secure a signed undertaking from the Banco di Sicilia that orders of payment, either mail or cable, on its AF dollar or sterling accounts with its foreign correspondents, would be promptly delivered to the order of AFA Headquarters, upon presentation of demands for such orders of payment, which in all cases must be signed by two officers of AFA Headquarters. (The authorized signatures of the officers of AFA Headquarters have been transmitted to all branches of AFA with instructions to distribute to all interested banks.)

With respect to remittances from the United Kingdom, the Bank of England addressed a letter to the Banco di Sicilia on 10 February 1944, agreeing to open a non-interest bearing "AF account" for the Banco di Sicilia, and setting forth the terms and conditions for operating the account. These are in agreement with the procedure outlined in the January report. The Banco di Sicilia has accepted these terms by cable, and will confirm the acceptance by letter.

On 1 March 1944, following the conclusion of negotiations with the Banco di Napoli, the Military Government Section of AFHQ was advised that the Banco di Napoli is prepared to effect remittances to Sardinia and to the following provinces on the mainland, following the Sicilian procedure, as soon as the necessary authorization is obtained from the authorities in the United States and the United Kingdom:

Reggio Calabria	Brindisi
Cosenza	Lecce
Catanzaro	Taranto
Potenza	Avellino
Matera	Benevento
Foggia	Salerno
Bari	Napoli

As in the case of the Banco di Sicilia, AFA Headquarters will reserve the right to limit the total number of correspondents in the United States, as this is dictated by the practical limitations imposed by the limited personnel available to the branch office of AFA in Naples.

It is also hoped that no authorization for remittances to American nationals on a differential scale will be authorized by this second General License, as there are no consular representatives in Sardinia or on the mainland who may pass on the nationality of American applicants, and reference to the Consul General in Sicily is impracticable.

2. Advances to British, American and other Allied Nationals

The procedure outlined in the report for January was embodied in a

Declassified E.O. 12356 Section 3.3/NND No. 785017

transmitted to all branches of AFA with instructions to distribute to all interested banks.)

With respect to remittances from the United Kingdom, the Bank of England addressed a letter to the Banco di Sicilia on 10 February 1944, agreeing to open a non-interest bearing "AF account" for the Banco di Sicilia, and setting forth the terms and conditions for operating the account. These are in agreement with the procedure outlined in the January report. The Banco di Sicilia has accepted these terms by cable, and will confirm the acceptance by letter.

On 1 March 1944, following the conclusion of negotiations with the Banco di Napoli, the Military Government Section of AFHQ was advised that the Banco di Napoli is prepared to effect remittances to Sardinia and to the following provinces on the mainland, following the Sicilian procedure, as soon as the necessary authorization is obtained from the authorities in the United States and the United Kingdom:

Reggio Calabria	Brindisi
Cosenza	Lecce
Catanzaro	Taranto
Potenza	Avellino
Matera	Benevento
Foggia	Salerno
Bari	Napoli

As in the case of the Banco di Sicilia, AFA Headquarters will reserve the right to limit the total number of correspondents in the United States, as this is dictated by the practical limitations imposed by the limited personnel available to the branch office of AFA in Naples.

It is also hoped that no authorization for remittances to American nationals on a differential scale will be authorized by this second General License, as there are no consular representatives in Sardinia or on the mainland who may pass on the nationality of American applicants, and reference to the Consul General in Sicily is impracticable.

2. Advances to British, American and other Allied Nationals

The procedure outlined in the report for January was embodied in a draft executive memorandum designed to be circulated by the Allied Control Commission. However, the Political Section of ACC has not as yet approved this draft. In the meantime the various Regional Finance Commissioners are making advances in cases where they are satisfied that the applicants are nationals and that the funds are required to cover minimum essential needs. The principal difficulty which has delayed the establishment of a uniform procedure is the fact that there is no U.S. consular representative in Sardinia or on the mainland of Italy, while the Consul General at Palermo is reluctant to render decisions as to nationality of American applicants, as he has pointed out that most of the files of the old Sicilian Consulate are still in the State Department in Washington. There appears to be no alternative open to field officers of AAI/ACC at present other than to refuse assistance and to transmit to

Declassified E.O. 12356 Section 3.3/NND No. 785017

the Finance Sub-Commission, for Consul General Nestor, the supporting documents submitted by American applicants who do not possess:

(a) A U.S. passport valid on 30 June 1941;

(b) an American certificate of registration valid on 30 June 1941;

(c) a notice of official approval by a proper officer of the State Department of application for a certificate of registration for a period extending beyond 30 June 1941;

(d) satisfactory evidence that the applicant was receiving advances through Swiss diplomatic representatives prior to his appearance in liberated Italy.

The obligation to repay is fixed in terms of dollars or sterling, but repayment may be made in lire equivalent to the dollar obligation at the rate of exchange prevailing on the date of repayment or equivalent to the sterling obligation at the rate of exchange prevailing on the date on which the advance was granted.

Requests have been made by the Greek and Czech missions and by other allied missions in Italy that the Allied Financial Agency advance lump sums to them for the relief of their destitute nationals, who are not actually employed by the staffs of the missions. In view of the fact that the governments of these missions have provided no funds and given no directions, through CCAC, similar to those provided by the British and American Governments, and in the light of the severe limitations on actual advances imposed both by regulation and by administrative difficulties in the case of British and American nationals, the Allied Financial Agency considers that it has no authority to grant advances of this type. In cases of extreme necessity, some Allied nationals are receiving advances as individuals, however, in amounts exceeding the Italian relief scale.

3. Foreign Exchange Resulting From Exports

Correspondence was exchanged with the Military Government Section, AFHQ, regarding the appropriate procedure for setting up AF accounts in which the proceeds of exports from Italy to Allied and neutral countries will be deposited, but no such accounts have as yet been opened.

P. Financial Transactions with the Allied Armed Forces

During the month the Allied armed forces continued to draw funds from the branches of AFA according to standard procedure. In response to a request for information on the types of Italian currency acceptable to the Bank of Italy, AF Headquarters advised the Finance Officer of the Fifth Army that the Bank of Italy would supply sets of notes now acceptable to serve as a guide to the finance officers of that army.

2715

The Allied Financial Agency was advised that the Military Government Section of AFHQ had suggested, on 7 February, that the British Treasury and other British Ministries concerned consider the possibility of establishing bank accounts with the Banco di Napoli and the Banco di Sicilia, for the purpose of effecting British military and naval

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...statory evidence that the applicant was receiving advances through Swiss diplomatic representatives prior to his appearance in liberated Italy.

The obligation to repay is fixed in terms of dollars or sterling, but repayment may be made in lire equivalent to the dollar obligation at the rate of exchange prevailing on the date of repayment or equivalent to the sterling obligation at the rate of exchange prevailing on the date on which the advance was granted.

Requests have been made by the Greek and Czech missions and by other allied missions in Italy that the Allied Financial Agency advance lump sums to them for the relief of their destitute nationals, who are not actually employed by the staffs of the missions. In view of the fact that the governments of these missions have provided no funds and given no directions, through CCAC, similar to those provided by the British and American Governments, and in the light of the severe limitations on actual advances imposed both by regulation and by administrative difficulties in the case of British and American nationals, the Allied Financial Agency considers that it has no authority to grant advances of this type. In cases of extreme necessity, some Allied nationals are receiving advances as individuals, however, in amounts exceeding the Italian relief scale.

3. Foreign Exchange Resulting From Exports

Correspondence was exchanged with the Military Government Section, AFHQ, regarding the appropriate procedure for setting up AF accounts in which the proceeds of exports from Italy to Allied and neutral countries will be deposited, but no such accounts have as yet been opened.

B. Financial Transactions with the Allied Armed Forces

During the month the Allied armed forces continued to draw funds from the branches of AFA according to standard procedure. In response to a request for information on the types of Italian currency acceptable to the Bank of Italy, AFA Headquarters advised the Finance Officer of the Fifth Army that the Bank of Italy would supply sets of notes now acceptable to serve as a guide to the finance officers of that army.

2715

The Allied Financial Agency was advised that the Military Government Section of AFHQ had suggested, on 7 February, that the British Treasury and other British Ministries concerned consider the possibility of establishing bank accounts with the Banco di Napoli and the Banco di Sicilia, for the purpose of effecting British military and naval payments by cheque, thus avoiding transfers of physical cash, on the assumption that there might already be enough cash in the hands of banks in the regions where the military disbursements take place. AFA has received no information as to the action taken on this recommendation, but should such a decision be made, it appears probable that army transport would be needed in many cases to move physical cash for the Bank of Italy and/or the private Italian bank concerned, to areas such as the front lines.

C. Accounting

Statements of assets and liabilities were prepared by the AFA branches at Palermo and Bari as of 10 February 1944, as a result of the change from AMG to

ACC in Regions I and II. It has, however, been decided to refer to the Headquarters and to all branches of the Allied Financial Agency by that title, instead of retaining the name of Allied Military Financial Agency for the Naples branch, and other branches in AMG territory.

D. Lire Currency

The branches of the Allied Financial Agency were directed to prepare twice a month a statement showing the total number of unopened boxes of AM Lire held by them in each denomination, together with a similar report on the number of unopened boxes held by Italian banks. These reports will be consolidated at AFA Headquarters, to provide current data on the supply available in each area.

E. Foreign Assets and Foreign Currency

On 12 February authority was requested of the Combined Chiefs of Staff to authorize Italian banks to accept blue seal dollars and pound sterling notes at the current exchange rate in lire, for account of the Allied Financial Agency. The Military Government Section of AFHQ has authorized this procedure, subject to confirmation by the Combined Chiefs of Staff, which has not yet been received by AFA.

In response to a request from the War Office in London, MGS was advised of the various types of currency being brought in to Italy by Yugoslav refugees. Besides notes issued under Alexander I and Peter II, these include Croatian kunas printed in Germany since 10 April 1941, and Italian lire currency. No authority has as yet been received to accept any of these notes for account of the Allied Financial Agency.

The Chief of AFA met with the Finance Commissioner of Region III to discuss the voluntary opening of safe deposit boxes in that area. It was reported that 12,000 out of 19,650 boxes in Naples City had been opened and that a list of the small amount of foreign assets taken into custody by the Finance Officers was being prepared.

F. Relations with Italian Treasury

The Chief of AFA participated in conferences with the Minister of Finance in the Italian Government which will result in the provision of overdraft credits by the Banca d'Italia to the Italian Treasury in Sicily to cover public deficits. This will make use of the large supplies of currency now in the hands of the Banca d'Italia there and conserve unopened boxes of AM Lire for subsequent disbursement to the Allied armed forces.

The desirability was discussed of withdrawing some currency now in circulation for the purpose of avoiding excess reserves in the Italian banking system, and thus facilitating supervision of budgetary expenditure. The Chief of AFA recommended the establishment of a new account in the Banca d'Italia for the Allied Financial Agency, to be covered at all times by 100 per cent cash reserve in lire. In this account would be deposited the surplus cash of the Banca d'Italia, in repayment of advances previously made to the Treasury by AFA. It would be hoped that AFA would not be called upon to draw much of this account in physical cash, as personnel is not available for counting large sums. It

Declassified E.O. 12356 Section 3.3/NND No. 785017

Headquarters, to provide current data on the supply available in each area.

E. Foreign Assets and Foreign Currency

On 12 February authority was requested of the Combined Chiefs of Staff to authorize Italian banks to accept blue seal dollars and pound sterling notes at the current exchange rate in lire, for account of the Allied Financial Agency. The Military Government Section of AFHQ has authorized this procedure, subject to confirmation by the Combined Chiefs of Staff, which has not yet been received by AFA.

In response to a request from the War Office in London, MGS was advised of the various types of currency being brought in to Italy by Yugoslav refugees. Besides notes issued under Alexander I and Peter II, these include Croatian kunas printed in Germany since 10 April 1941, and Italian lire currency. No authority has as yet been received to accept any of these notes for account of the Allied Financial Agency.

The Chief of AFA met with the Finance Commissioner of Region III to discuss the voluntary opening of safe deposit boxes in that area. It was reported that 12,000 out of 19,650 boxes in Naples City had been opened and that a list of the small amount of foreign assets taken into custody by the Finance Officers was being prepared.

F. Relations with Italian Treasury

The Chief of AFA participated in conferences with the Minister of Finance in the Italian Government which will result in the provision of overdraft credits by the Banca d'Italia to the Italian Treasury in Sicily to cover public deficits. This will make use of the large supplies of currency now in the hands of the Banca d'Italia there and conserve unopened boxes of AM Lire f.. subsequent disbursement to the Allied armed forces.

The desirability was discussed of withdrawing some currency now in circulation for the purpose of avoiding excess reserves in the Italian banking system, and thus facilitating supervision of budgetary expenditure. The Chief of AFA recommended the establishment of a new account in the Banca d'Italia for the Allied Financial Agency, to be covered at all times by 100 per cent cash reserve in lire. In this account would be deposited the surplus cash of the Banca d'Italia, in repayment of advances previously made to the Treasury by AFA. It would be hoped that AFA would not be called upon to draw much of this amount in physical cash, as personnel is not available for counting large sums. It was also pointed out that some conflict arises between the objective of facilitating budgetary control and the desire to secure investment of excess reserves in public securities, thus reducing interest rates on government securities.

G. Statistical and other Information

A member of the Headquarters staff participated in the elaboration of a statistical questionnaire to be sent to all branches of the Banca d'Italia and tabulated by the head office of that institution. An attempt was made to include in this report all the items of information which will be of value to the Allied

Declassified E.O. 12356 Section 3.3/NND No. 785017

Financial Agency in future months.

Data were collected from the Banca d'Italia and from other sources for several special studies being undertaken by the Sub-Commission.

H. Inspection Trip

The Chief and Vice-Chief of AFA visited Matera, Bari, and Foggia on 21 - 23 February. At Matera they were informed by the Regional Finance Officer that Italian civilians in Apulia and in Region II had always had access to their saf deposit boxes without restriction, and that consequently almost no foreign assets had been impounded either by AFA or by the Finance officers of AMG. Fascist bank accounts had been blocked, and some securities and other assets belonging to such persons taken into custody. The Acting Regional Finance Officer of Region II agreed that he would return to AFA a large number of unopened boxes of AM Lire which had been deposited by Finance Officers in Italian banks in Region II.

At Bari the vaults in which reserve cash is stored were inspected and found to be satisfactory. The principal problem faced by the branch manager of AFA in that city is consideration of the demands presented to him by various Allied missions for funds to be expended on the relief of their nationals. As explained heretofore, he has no authority to extend such advances.

At Foggia it was arranged that Region V will draw necessary funds from the branch at Bari, if possible. Eventually a branch of AFA may be established in Region V.

I. Establishment of New Branches

As of 31 January, books were opened for a branch of the Allied Financial Agency in Region IV. The files of this branch are at present maintained in the office of AFA Headquarters.

Declassified E.O. 12356 Section 3.3/NND No. 785017

III. FINANCIAL INSTITUTIONS

A. General

1. New management for the Bank of Naples and the Bank of Italy, Naples.

Arrangements were made through the Public Relations Officer, ACC, and the Psychological Warfare Board for wide newspaper publicity to be given to the appointment of Mr. Cesare Ricciardi as Special Commissioner of the Bank of Naples, Mr. Arturo Rossignoli as General Manager of the same bank, and Mr. Arturo Atti as Commissioner of the Bank of Italy in liberated Italy. Their appointments were announced on 15 February and were well received. On the eve of the public announcement the Italian Minister of Finance convened a meeting of Naples bankers to acquaint them with the names of the Government's appointees and to stress the importance of the role of the banks in Italy's economic future. In order that the action of the Italian Government might have effect in Region III, the Legal Sub-Commission at our request drafted General Orders 21 and 22, making applicable to AMG Territory the relative Italian Government decrees.

2. Implementation of AFHQ Administrative Memorandum No. 95

Following the 17 January meeting of the Local Resources (Italian) Board (see January operations report), the Finance Sub-Commission developed a comprehensive program whereby the Italian Government is to pay for all goods and services furnished to the Allied Armed forces. In brief, it is planned that a voucher will be given to each supplier, showing the goods or services furnished and the cost thereof. The supplier will present such voucher to the Intendente di Finanza of his province and the Intendente, after receiving a duplicate voucher direct from the Army, will order payment to the supplier through the Banca d'Italia or the post office system.

After discussion with interested sections of AFHQ Advanced Administrative Echelon and American and British finance officers, representatives of the Finance Sub-Commission met with Brigadier General Hamblen, AFHQ, who approved the plan in principle. Subsequently a voucher form and a draft instruction from AFHQ directing that the plan be instituted were drawn up and cleared with the Army. The Italian Government was consulted early in the planning and the Minister of Finance has agreed to the arrangements and is issuing appropriate instructions to his Intendentes. It now remains to present the final documents to AFHQ, which will instruct the British and American armies, navies, and air forces and the supply services to apply the procedure in procuring goods and services.

3. Payment of interest during a moratorium period

In January it was agreed that Article 2, Section 2 of

Declassified E.O. 12356 Section 3.3/NND No. 785017

given to the appointment of Mr. Cesare Ricciardi as Special Commissioner of the Bank of Naples, Mr. Arturo Rossignoli as General Manager of the same bank, and Mr. Arturo Attl as Commissioner of the Bank of Italy in liberated Italy. Their appointments were announced on 15 February and were well received. On the eve of the public announcement the Italian Minister of Finance convened a meeting of Naples bankers to acquaint them with the names of the Government's appointees and to stress the importance of the role of the banks in Italy's economic future. In order that the action of the Italian Government might have effect in Region III, the Legal Sub-Commission at our request drafted General Orders 21 and 22, making applicable to AMG Territory the relative Italian Government decrees.

2. Implementation of AFHQ Administrative Memorandum No. 95

Following the 17 January meeting of the Local Resources (Italian) Board (see January operations report), the Finance Sub-Commission developed a comprehensive program whereby the Italian Government is to pay for all goods and services furnished to the Allied Armed forces. In brief, it is planned that a voucher will be given to each supplier, showing the goods or services furnished and the cost thereof. The supplier will present such voucher to the Intendente di Finanze of his province and the Intendente, after receiving a duplicate voucher direct from the Army, will order payment to the supplier through the Banca d'Italia or the post office system.

After discussion with interested sections of AFHQ Advanced Administrative Echelon and American and British finance officers, representatives of the Finance Sub-Commission met with Brigadier General Hamblen, AFHQ, who approved the plan in principle. Subsequently a voucher form and a draft instruction from AFHQ directing that the plan be instituted were drawn up and cleared with the Army. The Italian Government was consulted early in the planning and the Minister of Finance has agreed to the arrangements and is issuing appropriate instructions to his Intendentes. It now remains to present the final documents to AFHQ, which will instruct the British and American armies, navies, and air forces and the supply services to apply the procedure in procuring goods and services.

3. Payment of interest during a moratorium period

In January it was agreed that Article 2, Section 2 of Proclamation No. 5 should be amended by deleting the clause providing for the non-accrual of interest during a moratorium period. After this action was taken, a question arose whether in new areas it would not be desirable in the case of fixed term obligations to stop the accrual of interest between the date of maturity of the obligation and the termination of the moratorium. The question was discussed with the Legal Sub-Commission and it was found that the weight of Italian legal precedent is on the side of allowing interest to accrue on all obligations, demand as well as fixed-term, during a moratorium period. The Finance Officers of Region IV and AMG Fifth Army were accordingly advised that in future Proclamation No. 5 should be interpreted strictly, i.e., that payment of interest is unaffected by the moratorium.

Declassified E.O. 12356 Section 3.3/NND No. 785017

4. Termination of restrictions on real property transactions

The Minister of Finance informed us that in the provinces of Bari, Brindisi, Lecce, and Taranto (where no restrictions were ever applied) the volume of real property transactions has shown a decline rather than an increase and that he recommended lifting the restriction both in the area under control of the Italian Government and AMG territory. After consideration of the question the Sub-Commission agreed with this recommendation, on the grounds that (a) unnecessary restrictions should be lifted, and (b) the Italian Government would increase its revenues through the turnover tax applicable to land transfers. Accordingly, the Minister of Finance was informed that the Finance Sub-Commission was prepared to permit the Italian Government to terminate the restriction provided that statistics on the volume of real property transactions are furnished to us at regular intervals of a few weeks. The Minister of Finance agreed to do so. A General order will be published in AMG territory lifting the prohibition.

5. Paper for Buoni del Tesoro Ordinari and Banca d'Italia vaglia

We were advised by MSS, AFHQ that supplies of first grade bond paper could be made available to the Italian Government for the printing of B.T.O's and vaglia. An order was placed on behalf of the Government for 175,000 sheets for B.T.O's and 215,000 sheets for vaglia.

6. Financial controls program

In connection with the program of blocking and other financial controls, an analysis was begun of Italian foreign exchange, foreign trade and trading with the enemy decrees, in order to determine whether modifications are required at the present time. Work was continued on report requested by CCS showing the number of bank accounts blocked in Italy, the value of such accounts and the ownership thereof. Representatives of the Finance Sub-Commission also collaborated with the Controller of Property in considering what action ACC desires of the Italian Government toward property of German, Hungarian, Rumanian and Bulgarian nationals.

7. Clearance of draft decrees.

The Finance Sub-Commission consulted with the Legal Sub-Commission on the preparation of a memorandum setting forth the procedure whereby Italian Government draft decrees are to be cleared by ACC.

8. Financing of highway construction

Arrangements were concluded whereby road repairs requested of the Public Works Sub-Commission by the Allied armies will be financed out of a newly established capital in the budget of the Italian Ministry of Public Works. Actual disbursement, where practicable, will be by means of mandati or vaglia. It is estimated that the cost for 1944 will exceed six hundred million lire

Declassified E.O. 12356 Section 3.3/NND No. 785017

Accordingly, the Minister of Finance was informed that the Finance Sub-Commission was prepared to permit the Italian Government to terminate the restriction provided that statistics on the volume of real property transactions are furnished to us at regular intervals of a few weeks. The Minister of Finance agreed to do so. A general order will be published in AMG territory lifting the prohibition.

5. Paper for Buoni del Tesoro Ordinari and Banca d'Italia vaglia

We were advised by MBS, AFHQ that supplies of first grade bond paper could be made available to the Italian Government for the printing of B.T.O's and vaglia. An order was placed on behalf of the Government for 175,000 sheets for B.T.O's and 215,000 sheets for vaglia.

6. Financial controls program

In connection with the program of blocking and other financial controls, an analysis was begun of Italian foreign exchange, foreign trade and trading with the enemy decrees, in order to determine whether modifications are required at the present time. Work was continued on a report requested by CCS showing the number of bank accounts blocked in Italy, the value of such accounts and the ownership thereof. Representatives of the Finance Sub-Commission also collaborated with the Controller of Property in considering what action ACC desires of the Italian Government toward property of German, Hungarian, Roumanian and Bulgarian nationals.

7. Clearance of draft decrees.

The Finance Sub-Commission consulted with the Legal Sub-Commission on the preparation of a memorandum setting forth the procedure whereby Italian Government draft decrees are to be cleared by ACC.

8. Financing of highway construction

Arrangements were concluded whereby road repairs requested of the Public Works Sub-Commission by the Allied armies will be financed out of a newly established capital in the budget of the Italian Ministry of Public Works. Actual disbursement, where practicable, will be by means of mandati or vaglia. It is estimated that the cost for the remainder of calendar year 1944 will exceed six hundred million lire and may eventually reach two billion lire.

2713

Declassified E.O. 12356 Section 3.3/NND 785017

B. Commercial Insurance

1. Formation of Naples insurance committee

Activities of the Insurance Unit, CFI, have been directed to the formation of a committee of insurance interests in Naples to act as a responsible and representative body with which the Finance Sub-Commission can deal and through which instructions can be transmitted to insurance companies. The formation of such a committee was suggested to the Under Secretary of Commerce and Industry, who approved and placed the matter in the hands of senior officials of the leading companies. An announcement of the committee's formation is expected in the immediate future.

2. Revocation of Region II insurance directive.

During the month, Region II reported the cancellation of their orders to insurance agents dated 20 December 1943, which had been the cause of considerable apprehension to Company officials and to the Under-Secretary of Commerce and Industry (see January report). Agents in Region II are now required to place themselves under the orders of their nearest Company superiors, and the offer of AFA advances for the claims they were supposed to pay has been cancelled.

3. Authority of Naples offices over local agents

Considerable attention has been devoted to bringing the Naples offices of insurance companies into control of their organizations in liberated Italy, as it was known that the most important companies had empowered their Naples offices to assume this control in the event of severed communications with their Head Offices, and had provided them with funds for the purpose. The Under-Secretary of Commerce and Industry expressed his strong wish that this should be accomplished as soon as possible, as the present uncoordinated activities of agents in liberated territory might, unless properly controlled by company officials, have undesirable effects. Some delay has been experienced in securing details of the powers granted by Head Offices to their Naples offices, and the Insurance Unit is not prepared to recommend a formal assumption of control by these branches until it is fully informed as to the extent of such powers. A draft instruction was prepared during the month, however, and requires only the insertion of the names of the Companies concerned before being submitted for approval as a definite AOC order to Regions. Copies of the powers granted to the Naples officials of the Assicurazioni Generali, and the Allgemeine Vita (of the Generali group) were received in the Insurance Unit on the last day of February. The document for the former Company is a power of attorney dated 11 August 1943; that for the latter a Company Circular dated July 1943 covering not only south Italy, but other territory as well. Both documents appear to give ample powers to the officials named fully to represent their companies and take charge of their interests in liberated Italy. Considering the importance of these documents, it is to be regretted that their existence was not

Declassified E.O. 12356 Section 3.3/NND No. 785017

Secretary of Commerce and Industry, who approved and placed the matter in the hands of senior officials of the leading companies. An announcement of the committee's formation is expected in the immediate future.

2. Revocation of Region II insurance directive.

During the month, Region II reported the cancellation of their orders to insurance agents dated 20 December 1943, which had been the cause of considerable apprehension to Company officials and to the Under-Secretary of Commerce and Industry (see January report). Agents in Region II are now required to place themselves under the orders of their nearest Company superiors, and the offer of AFA advances for the claims they were supposed to pay has been cancelled.

3. Authority of Naples offices over local agents

Considerable attention has been devoted to bringing the Naples offices of insurance companies into control of their organizations in liberated Italy, as it was known that the most important companies had empowered their Naples offices to assume this control in the event of severed communications with their Head Offices, and had provided them with funds for the purpose. The Under-Secretary of Commerce and Industry expressed his strong wish that this should be accomplished as soon as possible, as the present uncoordinated activities of agents in liberated territory might, unless properly controlled by company officials, have undesirable effects. Some delay has been experienced in securing details of the powers granted by Head Offices to their Naples offices, and the Insurance Unit is not prepared to recommend a formal assumption of control by these branches until it is fully informed as to the extent of such powers. A draft instruction was prepared during the month, however, and requires only the insertion of the names of the Companies concerned before being submitted for approval as a definite AGC order to Regions. Copies of the powers granted to the Naples officials of the Assicurazioni Generali, and the Alleanza Vita (of the Generali group) were received in the Insurance Unit on the last day of February. The document for the former Company is a power of attorney dated 11 August 1943; that for the latter a Company Circular dated July 1943 covering not only south Italy, but other territory as well. Both documents appear to give ample powers to the officials named fully to represent their companies and take charge of their interests in liberated Italy. Considering the importance of these documents, it is to be regretted that their existence was not brought to the notice of the Insurance Unit at an early date by the Regional authorities, when a comprehensive instruction to all Regions might have been possible, thus largely obviating the present unsatisfactory situation created by independent Regional actions. Similar powers exist for the Istituto Nazionale di Assicurazioni, and when a copy of these is obtained, the Insurance Unit should have enough data to justify issue of the instruction referred to above. In the case of Riunione Adriatica di Sicurta, another of the three big Italian insurance bodies, similar powers were granted, but to the office in Rome. The Naples officials are seeking an extension of these powers to themselves from the Italian Government, which is known to be favourably disposed, and if their request is granted, the greater proportion of insurance interests in liberated

Declassified E.O. 12356 Section 3.3/NND 785017

Italy can be put on a sound administrative footing with a central point (the Naples Committee) at which Allied or Italian governmental contact can be efficiently maintained.

4. Plan for handling insurance problems in Rome

A memorandum has been drafted and submitted to the CFI outlining certain information on insurance that will be needed when Rome is reached and a plan for handling the operations of insurance companies. This plan has been devised because it is considered that the existence of Head Offices in Rome (particularly that of the Istituto Nazionale di Assicurazioni) will present problems of the type which will be encountered later in Milan and Turin. The plan embodies provisions to remove certain administrative difficulties hitherto experienced by the Insurance Unit which to a great extent prevented earlier co-ordination in Regions II and III, and may cause considerable trouble later if left untouched.

5. Insurance intelligence

During the month, copies of the 1942 accounts of the two largest Companies (Assicurazioni Generali & Riunione Adriatica) were obtained and forwarded to the CFI, attention being drawn to the high proportion of real estate (the only asset subdivided by countries) owned by both Companies in certain occupied European countries. From the 1942 Italian Insurance Annual a fairly up-to-date list of Companies operating in Italy was compiled and submitted, also showing published details of the sequestration of British and French Companies in 1940/41. From the same Annual, leading statistics of all Companies are now available up to the end of 1940.

6. Investigation of Naples insurance company.

Direction has been sought for the investigation of the head office of the Naples "Compagnia Partenopea di Assicurazioni e Riassicurazioni", which is known to be actively engaged in marine business. Although it is only a small Company with assets of about 2 million lire, investigation is recommended on the lines visualised for Rome if only for the practical experience to be gained thereby.

7. Marine insurance

On 9 February 1944, representatives of the Insurance Unit attended a meeting in Naples of shipowners and marine insurance officials. The business discussed was war risks and ordinary marine risks on vessels of 300 tons and less. The meeting was informed that in view of the complete lack of facilities for insuring war risks in AMG areas, AOC was willing to authorise extension to these areas of Proclamation No. 9 of the Italian Government in which the Government announced that assumption of such risks would be undertaken by the Government in substitution for the former facilities in Rome. Region III had earlier ruled to the Companies that the Government scheme was not applicable to the Naples area. In the course of general discussion, the shipowners expressed doubts as to the

Declassified E.O. 12356 Section 3.3/NND No. 785017

3712

existence of Head Offices in Rome (particularly that of the Istituto Nazionale di Assicurazioni) will present problems of the type which will be encountered later in Milan and Turin. The plan embodies provisions to remove certain administrative difficulties hitherto experienced by the Insurance Unit which to a great extent prevented earlier co-ordination in Regions II and III, and may cause considerable trouble later if left untouched.

5. Insurance intelligence

During the month, copies of the 1942 accounts of the two largest Companies (Assicurazioni Generali & Riunione Adriatica) were obtained and forwarded to the CFI, attention being drawn to the high proportion of real estate (the only asset subdivided by countries) owned by both Companies in certain occupied European countries. From the 1942 Italian Insurance Annual a fairly up-to-date list of Companies operating in Italy was compiled and submitted, also showing published details of the sequestration of British and French Companies in 1940/41. From the same Annual, leading statistics of all Companies are now available up to the end of 1940.

6. Investigation of Naples insurance company.

Direction has been sought for the investigation of the head office of the Naples "Compagnia Partenopea di Assicurazioni e Riassicurazioni", which is known to be actively engaged in marine business. Although it is only a small Company with assets of about 2 million lire, investigation is recommended on the lines visualised for Rome if only for the practical experience to be gained thereby.

7. Marine insurance

On 9 February 1944 representatives of the Insurance Unit attended a meeting in Naples of shipowners and marine insurance officials. The business discussed was war risks and ordinary marine risks on vessels of 500 tons and less. The meeting was informed that in view of the complete lack of facilities for insuring war risks in AMG areas, AOC was willing to authorise extension to those areas of Proclamation No. 9 of the Italian Government in which the Government announced that assumption of such risks would be undertaken by the Government in substitution for the former facilities in Rome. Region III had earlier ruled to the Companies that the Government scheme was not applicable to the Naples area. In the course of general discussion, the shipowners expressed doubts as to the security of the scheme (doubts which appeared to be based on a lack of confidence in the Government, and on what subsequently proved to be a misunderstanding of a decision of the Government to assume, but to defer payment on, war risks undertaken by the Fascist Government). On receipt of the Insurance Unit's report on the meeting, the Finance Sub-Commission declined to proceed with the extension of the Government's scheme, on the grounds that it was apparently not desired by the shipowners. Both the latter and the insurers have been informed accordingly, but while it is expected that their definite agreement will eventually be received, the present situation is that of a standstill. The meeting was unanimous that

2712

Declassified E.O. 12356 Section 3.3/NND 785017

present facilities in liberated Italy are inadequate for coverage of ordinary marine risks on these vessels. The amount of cover that local insurance officials can provide is clearly limited (although it is being stretched as far as is reasonably possible by reinsurance amongst themselves), and wider cover is desirable. Insurers and shipowners requested the intervention of ACC with a view to procuring access for them to the British insurance market. They were informed that under present conditions this is not possible.

8. Aid to insurance companies in communicating with agents and policy-holders

Conversations have taken place with the Telecommunications - Postal Sub-Commission with a view to aiding the Naples offices of insurance companies to establish postal communications with their agencies and policyholders. It is understood that an internal service is now in operation in Italian Government territory, but connection of Naples to it has not yet been established. The handicap worked on the companies by this lack of postal services is emphasised. The [illegible] has also managed to facilitate the travel of officials of companies for the purpose of inspecting agents normally under their care, and has secured a number of passes for them from the appropriate authority.

C. Social Insurance

1. Problems of authorization

There are a number of situations in which institutions continue to collect funds for a specific type of disbursement, but have not continued or resumed payments on the ground that they were not authorized to do so. Under Royal Decree Law No. 5 dated 8 January 1942 Italian employers are directed to set aside one twelfth of the total yearly salary paid to their employees for an indemnity on termination of employment. The amount varies with length of service and rate of remuneration and the funds are held by Istituto Nazionale delle Assicurazioni, the Naples office of which is withholding payment of these indemnities because no instruction was received from Rome prior to our occupation. The matter was previously raised in Sicily in September and after due consideration we recommended the resumption of payments throughout Sicily, which establishes a clear precedent for similar authorization on the mainland. It is recommended that this authorization should be issued in all areas under our direct jurisdiction, and that the Italian government should be approached to determine whether action is necessary in Regions I and II.

Royal Decree Law No. 1345 dated 30 October 1941 directed provincial offices of Istituto di Previdenza Sociale to pay allowances on behalf of the Italian Government to dependents of non-manual workers employed in Africa. The Naples office of Previdenza is, however,

Declassified E.O. 12356 Section 3.3/NND No. 785017

3. Aid to insurance companies in communicating with agents and policy-holders

Conversations have taken place with the Telecommunications - Postal Sub-Commission with a view to aiding the Naples offices of insurance companies to establish postal communication with their agencies and policyholders. It is understood that an internal service is now in operation in Italian Government territory, but connection of Naples to it has not yet been established. The handicap worked on the companies by this lack of postal services is emphasized. The [illegible] has also managed to facilitate the travel of officials of companies for the purpose of inspecting agents normally under their care, and has secured a number of passes for them from the appropriate authority.

C. Social Insurance

1. Problems of authorization

There are a number of situations in which institutions continue to collect funds for a specific type of disbursement, but have not continued or resumed payments on the ground that they were not authorized to do so. Under Royal Decree Law No. 5 dated 8 January 1942 Italian employers are directed to set aside one-twelfth of the total yearly salary paid to their employees for an indemnity on termination of employment. The amount varies with length of service and rate of remuneration and the funds are held by Istituto Nazionale delle Assicurazioni, the Naples Office of which is withholding payment of these indemnities because no instruction was received from Rome prior to our occupation. The matter was previously raised in Sicily in September and after due consideration we recommended the resumption of payments throughout Sicily, which establishes a clear precedent for similar authorization on the mainland. It is recommended that this authorization should be issued in all areas under our direct jurisdiction, and that the Italian government should be approached to determine whether action is necessary in Regions I and II.

Royal Decree Law No. 1345 dated 30 October 1944 directed provincial offices of Istituto di Previdenza Sociale to pay allowances on behalf of the Italian Government to dependents of non-manual workers employed in Africa. The Naples office of Previdenza is, however, withholding these payments in the absence of instructions from Rome or other competent authority. Meanwhile it is understood that the Italian government has authorized resumption of these payments in the territory under its control. It is recommended that resumption of these payments be authorised, which will put an end to the anomalous situation of permitting contributions to be collected while not authorising payment of benefits.

2. Problems of coverage

Employment of large numbers of civilians by Allied armed forces, including AOC, has raised certain problems relative to their

Declassified E.O. 12356 Section 3.3/NND No. 785017

status under Italian social insurance laws. Employers contracting with our armed forces should be subject to the same obligations relative to social insurance of their employees, as are other private employers. Under international law, and by the terms of our own proclamations, statutes not formally abrogated by us remain in effect. As long ago as 5 November 1943 the Italian Government agreed (No 2492/AC) to reimburse all accident claims of civilian employees of the Allied armies whom it is compulsory to insure under Italian law. It is emphasized that this law (No 1765 of 1935) applies only to scheduled extra-hazardous occupations and, whether publicly or privately employed, clerical and administrative employees are not covered. Thus the employees of AMG or AOC coming within this latter category are excluded.

In consequence of a report received by the CPO of difficulties being experienced by Eighth Army in connection with claims settlements in respect of accidents to civilians employed by them, due to non-availability of officials of Istituto Nazionale Infortuni in the forward areas, arrangements have been made for the National Secretary of the Istituto in Naples personally to visit Main HQ Eighth Army with a view to making suitable arrangements to meet the situation.

The Italian Government has now adopted a plan for covering all necessary social insurances for civilian employees of the Allied armies, for 20% of payroll (plus a fraction of one per cent for expenses). This accords with our recommendation in January that only essential coverages be considered. The application of this plan, however, has met with certain objections:

(a) the armed forces cannot recognize any right to be taxed by hitherto existing public authority.

(b) they hesitate to accept any situation which tends to multiply their already large volume of paper work.

(c) for security reasons, they cannot reveal to any civilian agency the size of their civilian payroll.

It is understood that the Italian Government is willing to assume the financial burden, in order to solve the first objection. Simplification of coverages and forms which is now being studied by the Italian Government may meet the second objection. The third objection might be met by calculating premium payments on an annual basis in arrears, as this would appear to dispose of the security difficulty.

3. Contributions

2711

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

[illegible] accident claims of civilian employees of the Allied armies whom it is compulsory to insure under Italian law. It is emphasized that this law (No 1765 of 1935) applies only to scheduled extra-hazardous occupations and, whether publicly or privately employed, clerical and administrative employees are not covered. Thus the employees of AMG or ACC coming within this latter category are excluded.

In consequence of a report received by the CPO of difficulties being experienced by Eighth Army in connection with claims settlements in respect of accidents to civilians employed by them, due to non-availability of officials of Istituto Nazionale Infortuni in the forward areas, arrangements have been made for the National Secretary of the Istituto in Naples personally to visit Main HQ Eighth Army with a view to making suitable arrangements to meet the situation.

The Italian Government has now adopted a plan for covering all necessary social insurances for civilian employees of the Allied armies, for 20% of payroll (plus a fraction of one per cent for expenses). This accords with our recommendation in January that only essential coverages be considered. The application of this plan, however, has met with certain objections:

(a) the armed forces cannot recognize any right to be taxed by hitherto existing public authority.

(b) they hesitate to accept any situation which tends to multiply their already large volume of paper work.

(c) for security reasons, they cannot reveal to any civilian agency the size of their civilian payroll.

It is understood that the Italian Government is willing to assume the financial burden, in order to solve the first objection. Simplification of coverages and forms which is now being studied by the Italian Government may meet the second objection. The third objection might be met by calculating premium payments on an annual basis in arrears, as this would appear to dispose of the security difficulty.

2711

3. Contributions

Social insurance institutions continue to operate under financial difficulties in the area so far liberated. In this area the balance between contributions and disbursements was always less favorable than in the country as a whole. Contributions have not been received in satisfactory volume, however, by any of the institutions concerned. Enforcement of collections from contractors with the armed forces was until recently lax. Industrial employment has been reduced in many areas owing to the destruction of factories and equipment by military action, and materials shortages complicate this difficulty. Istituto di Previdenza Sociale is further hampered by shortages of stamps by which payment of contributions is ordinarily effected. Other methods of payment, especially for large groups of manual workers, result in widespread violations difficult to detect due to instability of employment, lack of suitable records, and inadequate inspections and audits. Pensions are paid both for old-age and invalidity and for accidents involving death

and permanent disability. For such cases reserves are set aside out of contributory income, but if still safe, most of such reserves are in Rome. The unavailability of these past contributions adds greatly to the present financial weakness of social insurance institutions in liberated Italy.

4. Suspended reimbursements and the wage base

The Labour Sub-Commission has recently become interested in incorporating a number of indemnities in the basic wage, among them the indennità di presenza (bonus for presence at work). They hold that the indemnity has become regarded as part of the worker's normal compensation, and that its termination would be widely interpreted as a wage-cut. They propose (a) that suspension of reimbursement of part of the indemnity by Istituto di Previdenza Sociale be lifted, (b) that this be made retroactive to 1 October 1943, and (c) that the whole matter be thoroughly studied with a view to finding a more satisfactory solution eliminating IPS entirely from the picture. There is, however, a more direct route to the principal objective. It is not recommended to reconstitute a discredited system for the brief period during which necessary action is to be taken which will completely replace it. IPS does not have the funds to make these reimbursements, and resumption of them would further add to the advances currently being made by AMG. It has not been shown that Italian employers generally are unable to advance the full indemnity themselves, and apparently this is the ultimate intention of the proponents. It is recommended that these reimbursements should be permanently revoked and if it seems just collection of the 5% payroll tax, a part of the proceeds of which may partially have covered these reimbursements. It is also recommended that there should be consultation with the Italian Government to insure uniform action.

5. Problem of benefits

The report on proposed state pension increases, submitted by the Insurance Unit on 11 February, estimated that additional payments of from L. 25,000,000 to L. 26,000,000 will probably be required monthly in the 26 provinces completely liberated when the estimate was made. Pressure for a similar adjustment of private pensions must be expected, we concluded, and anticipating this, we should ask corresponding adjustment of contribution rates to resist not only an inflationary tendency, but undermining of the actuarial foundations of the system. We had been asked to study alternative scales of increase so graduated as to help the small pensioner more generously. It appears that these pensioners do not generally stand in need of more generous treatment, but have other sources of income, either from other pension payments or in respect of present employment. Few recipients of small pensions have worked for the State or served in the armed forces for extended periods of time. Survivors receiving "indirect" pensions appear to be clearly entitled to the

Declassified E.O. 12356 Section 3.3/NND No. 785017

The Labour Sub-Commission has recently become interested in incorporating a number of indemnities in the basic wage, among them the indennita di presenza (bonus for presence at work). They hold that the indemnity has become regarded as part of the worker's normal compensation, and that its termination would be widely interpreted as a wage-cut. They propose (a) that suspension of reimbursement of part of the indemnity by Istituto di Previdenza Sociale be lifted, (b) that this be made retroactive to 1 October 1943, and (c) that the whole matter be thoroughly studied with a view to finding a more satisfactory solution eliminating IPS entirely from the picture. There is, however, a more direct route to the principal objective. It is not recommended to reconstitute a discredited system for the brief period during which necessary action is to be taken which will completely replace it. IPS does not have the funds to make these reimbursements, and resumption of them would further add to the advances currently being made by AFA. It has not been shown that Italian employers generally are unable to advance the full indemnity themselves, and apparently this is the ultimate intention of the proponents. It is recommended that these reimbursements should be permanently revoked and if it seems just collection of the 5% payroll tax, a part of the proceeds of which may partially have covered these reimbursements. It is also recommended that there should be consultation with the Italian Government to insure uniform action.

5. Problem of benefits

The report on proposed state pension increases, submitted by the Insurance Unit on 11 February, estimated that additional payments of from L. 25,000,000 to L. 26,000,000 will probably be required monthly in the 26 provinces completely liberated when the estimate was made. Pressure for a similar adjustment of private pensions must be expected, we concluded, and anticipating this, we should ask corresponding adjustment of contribution rates to resist not only an inflationary tendency, but undermining of the actuarial foundations of the system. We had been asked to study alternative scales of increase so graduated as to help the small pensioner more generously. It appears that these pensioners do not generally stand in need of more generous treatment, but have other sources of income, either from other pension payments or in respect of present employment. Few recipients of small pensions have worked for the State or served in the armed forces for extended periods of time. Survivors receiving "indirect" pensions appear to be clearly entitled to the proposed increases. Government pension rolls are believed to contain few cases of doubtful validity. "Direct" military pensions, on the other hand, have quite generally been awarded without regard to length or nature of service, and frequently as a reward for Fascist party service. We recommended establishment of provincial or regional commissions to study applications for increases by all military pensioners, pensioned subsequent to 22 September 1922 (March on Rome).

The recent change in the status of the Italian Government necessitates reconsideration of the "modus operandi" in effecting any increase in state pensions. At a meeting held on 10 February, these recommendations regarding state pensions were adopted so far as ACC is concerned, and are being discussed with representatives of the Italian Government.

Declassified E.O. 12356 Section 3.3/NND 785017

D. Post Office Financial Services

1. Preparation of temporary savings certificate

Stocks of postal savings bonds are running low throughout liberated Italy and vigorous efforts were made during February to provide a temporary certificate and to begin reprinting of the original bonds. The design of the temporary certificate was worked out with the Telecommunications-postal Sub-Commission and the Under Secretary for Posts and Telecommunications of the Italian Government. Paper was secured from AFHQ and a first order for 250,000 certificates was placed. Deliveries to the post office system will be made at the beginning of March.

2. Reprinting of postal savings bonds

The reprinting of the original form of postal savings bonds has been delayed by difficulties in obtaining supplies of suitable paper. Paper has finally been secured from stocks requisitioned at Foggia and is in process of delivery to the printer. Certain essential chemicals have also to be provided. It is estimated that the new bonds will not be on sale for at least three to four months.

3. Responsibility for operation of post office financial services

As a result of several meetings with the Telecommunications-Postal Sub-Commission during the month a procedure was drafted setting forth the responsibilities of each sub-commission for the operation of post office financial services. A memorandum embodying this procedure was submitted to the Executive Commissioner's office for appropriate distribution.

Declassified E.O. 12356 Section 3.3/NND 785017

vigorous efforts were made during February to provide a temporary certificate and to begin reprinting of the original bonds. The design of the temporary certificate was worked out with the Telecommunications-Postal Sub-Commission and the Under Secretary for Posts and Telecommunications of the Italian Government. Paper was secured from AFHQ and a first order for 250,000 certificates was placed. Deliveries to the post office system will be made at the beginning of March.

2. Reprinting of postal savings bonds

The reprinting of the original form of postal savings bonds has been delayed by difficulties in obtaining supplies of suitable paper. Paper has finally been secured from stocks requisitioned at Foggia and is in process of delivery to the printer. Certain essential chemicals have also to be provided. It is estimated that the new bonds will not be on sale for at least three to four months.

3. Responsibility for operation of post office financial services

As a result of several meetings with the Telecommunications-Postal Sub-Commission during the month a procedure was drafted setting forth the responsibilities of each sub-commission for the operation of post office financial services. A memorandum embodying this procedure was submitted to the Executive Commissioner's office for appropriate distribution.

2713

Declassified E.O. 12356 Section 3.3/NND No. 785017

IV. ITALIAN GOVERNMENT FINANCE - EXPENDITURES AND REVENUES

A. Budget and Expenditure Control

1. Present position

(a) The absence of effective expenditure control

To date there has been little effective control of Italian Government expenditures either by the Italian Government itself or by ACC. This has been the result of the inadequacies of the Italian system as presently operated by the Government, disruptions due to war, and serious shortage of ACC supervisory personnel.

At the present time there is no budget to provide a control over expenditures. The Italian budget was made in Rome and included expenditures for all of Italy. To meet this difficulty the Minister of Finance has required that "accredimenti", authorizations formerly issued by particular Ministries to permit certain agencies or officials to make expenditures within the budget, be signed by the Minister of Finance. This device, however, provides little control, for accredimenti have no time period and expenditures in any period may be greater or smaller than the amount of accredimenti issued in that period. Indeed, many Ministries are still using accredimenti issued by the Fascist Government. Through the use of accredimenti the Government is not able either to control the expenditures of the Ministries or to know what their expenditures are. Furthermore, the accredimenti system provides even less knowledge of military expenditures than of civil expenditures since the armed forces are permitted to disburse funds before obtaining accredimenti. Finally, no adequate figures of disbursements can be obtained even after the disbursements have been made, since reports of large amounts of Civil government disbursements are grouped under the heading "pagamenti collettivi", rather than under the Ministry for whose account the disbursements were made.

(b) Budget estimates

The Italian Government has submitted the budget data shown below. These data do not represent a budget in the sense of authorizations to spend. They are rather estimates of the Minister of Finance submitted to ACC in connection with an analysis of whether the Government's cash position would cover the requirements of the coming month. The data make possible comparison of the Minister's estimates for February with estimates for earlier months. They refer to civil government operations in Puglia (less Foggia) and [illegible] Italy.

Declassified E.O. 12356 Section 3.3/NND 785017

To date there has been little effective control of Italian Government expenditures either by the Italian Government itself or by ACC. This has been the result of the inadequacies of the Italian system as presently operated by the Government, disruptions due to war, and serious shortage of ACC supervisory personnel.

At the present time there is no budget to provide a control over expenditures. The Italian budget was made in Rome and included expenditures for all of Italy. To meet this difficulty the Minister of Finance has required that "accredimenti", authorizations formerly issued by particular Ministries to permit certain agencies or officials to make expenditures within the budget, be signed by the Minister of Finance. This device, however, provides little control, for accredimenti have no time period and expenditures in any period may be greater or smaller than the amount of accredimenti issued in that period. Indeed, many Ministries are still using accredimenti issued by the Fascist Government. Through the use of accredimenti the Government is not able either to control the expenditures of the Ministries or to know what their expenditures are. Furthermore, the accredimenti system provides even less knowledge of military expenditures than of civil expenditures since the armed forces are permitted to disburse funds before obtaining accredimenti. Finally, no adequate figures of disbursements can be obtained even after the disbursements have been made, since reports of large amounts of Civil government disbursements are grouped under the heading "pagamenti collettivi", rather than under the Ministry for whose account the disbursements were made.

(b) Budget estimates

The Italian Government has submitted the budget data shown below. These data do not represent a budget in the sense of authorizations to spend. They are rather estimates of the Minister of Finance submitted to ACC in connection with an analysis of whether the Government's cash position would cover the requirements of the coming month. The data make possible comparison of the Minister's estimates for February with estimates for earlier months. They refer to civil government operations in Puglia (less Foggia) and to military needs in all of liberated Italy.

Government Budget Estimates

	December 1943	January 1944	February 1944
	(millions of lire)		
Finance	93.0	20.0	20.0
Justice	2.5	5.0	5.0
Foreign Affairs	1.0	1.0	1.0
Education	7.0	13.0	13.0
Interior	100.0	55.0	70.0
Public Works	5.0	6.0	10.0

Declassified E.O. 12356 Section 3.3/NND No. 785017

Government Budget Estimates (Contd.)

	December 1943	January 1944	February 1944
	(millions of lire)		
Communications	165.0	190.0	210.0
Agriculture	1.0	3.0	5.0
Industry & Commerce	1.0	.5	.5
Popular Culture	1.0	-	-
Total Civil Ministries	376.5	293.5	332.5
Monopolies	1.0	7.0	45.0
Lottery	.1	.5	.5
Public Debt	5.0	16.0	22.0
Buoni del Tesoro Ordinari	21.0		
Buoni del Tesoro Poliennali	2.0	Meaningless capital	
Enti Militari	3.0	and transfer items	
Contabilità Speciale - Varie	25.0	incorrectly included in	
Fondi Soppressi	86.0	December estimates.	
Collettivi Varie	25.0		
Sub Total	168.1	86.5	67.5
Total (exclusive of military)	544.6	380.0	400.0
Army	577.0	578.2	614.4
Navy	135.4	257.6	281.0
Air Force	143.1	134.4	78.1
Total Military	855.5	920.3	973.5
Total	1,400.1	1,300.3	1,041.0

(c) Cash Disbursements

Figures submitted by the Banca d'Italia on cash disbursements by the Civil Ministries in Puglia are very incomplete. They total only 30 million lire for December and 40 million lire for January, only 8% and 14% respectively, of the budget estimates for these months. The great incompleteness of these data is shown below:

Comparison of Estimates for Civil Ministries made by Minister of Finance with disbursements recorded by the Banca d'Italia (Puglia)

(thousands of lire)

Declassified E.O. 12356 Section 3.3/NND No. 785017

Popular Culture	1.0	-	-
Total Civil Ministries	376.5	293.5	332.5
Monopolies	1.0	7.0	45.0
Lottery	.1	.5	.5
Public Debt	5.0	16.0	22.0
Buoni del Tesoro Ordinari	21.0	Meaningless capital and transfer items incorrectly included in December estimates.	
Buoni del Tesoro Poliennli	2.0		
Enti Militari	3.0		
Contabilita Speciale - Varie	25.0		
Fondi Sovraministrati	86.0		
Collettivi Varie	25.0		
Sub Total	168.1	86.5	67.5
Total (exclusive of military)	544.6	380.0	400.0
Army	577.0	578.2	614.4
Navy	135.4	237.6	281.0
Air Force	143.1	104.4	78.1
Total Military	855.5	920.3	973.5
Total	1,400.1	1,300.3	1,044.0

(c) Cash Disbursements

Figures submitted by the Banca d'Italia on cash disbursements by the Civil Ministries in Puglia are very incomplete. They total only 30 million lire for December and 40 million lire for January, only 8% and 14% respectively, of the budget estimates for those months. The great incompleteness of these data is shown below:

Comparison of Estimates for Civil Ministries made by Minister of Finance with disbursements recorded by the Banca d'Italia (Puglia)

(thousands of lire)

Ministry	Dec 1943 Estimates	Dec 1943 Disbursements	Jan 1944 Estimates	Jan 1944 Disbursements
Finance	93,000	24,032	20,000	29,575
Justice	2,500	1,645	5,000	3,426
Foreign Affairs	1,000	2	1,000	2
Italian Africa	-	3	-	1
Education	7,000	2,223	13,000	3,937
Interior	100,000	992	55,000	1,434
Public Works	5,000	449	6,000	548
Communications	165,000	45	190,000	336

2706

Declassified E.O. 12356 Section 3.3/NND No. 785017

Comparison of Estimates (Contd.)

Ministry	Dec 1943 Estimates	Dec 1943 Disbursements	Jan 1944 Estimates	Jan 1944 Disbursements
Agriculture	1,000	270	3,000	445
Industry and Commerce	1,000	56	500	108
Popular culture	1,000	-	-	-
Foreign Exchange	-	-	-	-
Total Civilian Ministries	376,500	29,717	295,500	39,812

In addition to these disbursements, the Italian Government makes large disbursements grouped under the heading "pagamenti collettivi". This heading covers disbursements made by banks for the account of the Italian Government which are not charged to the books of the Ministry concerned until the entire transaction has been completed. For example, the pay roll for a given project would be turned over to a bank and disbursements on the pay roll would appear as "pagamenti collettivi" until all the workers had drawn their wages, perhaps several years later. The heading includes, among other things, disbursements for the account of the civil Ministries. These disbursements totalled 490 million lire in December 1943 and 514 million lire in January 1944. Thus to the total known Ministerial expenditures of 40 million lire would have to be added an unknown part of undifferentiated expenditures totalling 514 million lire if true monthly cash disbursement figures for January were to be obtained.

(d) The accreditamenti system

Under the present system the Minister of Finance signs "accreditamenti" or authorizations for the Ministries to make expenditures. From the inception of the Badoglio Government to the end of December, the total of accreditamenti issued was 1,535 million lire, 611 for the Civil Ministries and 924 for the Armed forces. These figures do not represent disbursements, however, since the accreditamenti need not be used in the period in which they are issued, and, for the military forces, accreditamenti need not be obtained before disbursements are made.

(e) It is sometimes thought that ACC can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February when no currency advances were made clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of

Declassified E.O. 12356 Section 3.3/NND 785017

Total Civilian Ministries	376,500	29,717	293,500	39,812

In addition to these disbursements, the Italian Government makes large disbursements grouped under the heading "pagamenti collettivi". This heading covers disbursements made by banks for the account of the Italian Government which are not charged to the books of the Ministry concerned until the entire transaction has been completed. For example, the pay roll for a given project would be turned over to a bank and disbursements on the pay roll would appear as "pagamenti collettivi" until all the workers had drawn their wages, perhaps several years later. The heading includes, among other things, disbursements for the account of the civil Ministries. These disbursements totalled 490 million lire in December 1943 and 514 million lire in January 1944. Thus to the total known Ministerial expenditures of 40 million lire would have to be added an unknown part of undifferentiated expenditures totalling 514 million lire if true monthly cash disbursement figures for January were to be obtained.

(d) The accredimenti system

Under the present system the Minister of Finance signs "accredimenti" on authorizations for the Ministries to make expenditures. From the inception of the Badoglio Government to the end of December, the total of accredimenti issued was 1,535 million lire, 611 for the Civil Ministries and 924 for the Armed forces. These figures do not represent disbursements, however, since the accredimenti need not be used in the period in which they are issued, and, for the military forces, accredimenti need not be obtained before disbursements are made.

(e) It is sometimes thought that ACC can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February when no currency advances were made clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of currency to the government. General control cannot be achieved because total Government expenditures are only one of the factors which affect the cash position of the Banca d'Italia and, therefore, the necessity for making currency advances. With effective control of the money market and with popular confidence in the government, the return flow of currency to the Banca d'Italia through government revenues, sale of government securities, and growth of bankers' deposits at the Banca d'Italia should normally be enough to take care of the currency needs of the government. The provision by ACC of currency to fill the gap in the currency circuit is quite a different problem from that of expenditure control. Effective expenditure control must, therefore, depend upon direct methods.

Declassified E.O. 12356 Section 3.3/NND ON 785017

(f) The Expenditure Control Officer is submitting a complete report on Italian State expenditures, with recommendations for future policy, to the CFO.

2. New plan for expenditure control

(a) Sicily. The unreliable state of communications between the provincial capitals in Sicily and the Italian Government in Salerno make it obviously impossible to restore expenditure control to the peacetime pattern of centralization. The shortage of qualified Italian personnel make it desirable for ACC officers to continue for the time being some of their functions and to assist such Italian personnel as can be assigned to Sicily. The present political situation in Sicily makes it necessary that any regional expenditure office be established in such a way as to avoid an appearance of autonomy. With these three points in mind a plan for expenditure control in Sicily was developed by Finance Sub-Commission Headquarters and representatives of the ACC regional office in Palermo. This plan was presented to the Italian Government and agreement in principle was obtained. The details of operation were then worked out with the Italian administrative officials concerned and the necessary instructions drafted. In essence the plan provides that ACC personnel in Sicily will continue to function as in the past until 1 April 1944. Thereafter the Italian Government with a quasi-branch office in Palermo will operate the system now used by ACC with some modifications. These modifications provide for a monthly financial program for each of the agencies of the Government. The budget period is 1 April to 30 June. Monthly estimates and subsequent authorities to spend will be based on the appropriate financial programs. A central recording office for the Banca d'Italia figures is provided in Salerno where detailed records of past expenditure will be made available to the Italian Government. State aid to local governments will be channelled through Palermo, thus limiting the size of the financing problem.

(b) Mainland. For that portion of the mainland now under the Italian Government no instructions have been issued, but agreement has been reached that this area will be administered from 1 April under the procedure now in effect for Puglia. This should materially curtail the work of ACC in Region II. It was agreed that in this Region, as in Sicily, the forms used by ACC will be employed for the first three months to obtain information on which the Minister of Finance can base his budget for 1 July 1944 to 30 June 1945. With respect to the communal budgets for 1 January to 31 March 1944, which will be approved by the ACC regional staff, it was agreed that no new expenditures for rehabilitation will be approved, but work already in progress will not be stopped

Declassified E.O. 12356 Section 3.3/NND No. 785017

ation. The shortage of qualified Italian personnel make it desirable for ACC officers to continue for the time being some of their functions and to assist such Italian personnel as can be assigned to Sicily. The present political situation in Sicily makes it necessary that any regional expenditure office be established in such a way as to avoid an appearance of autonomy. With these three points in mind a plan for expenditure control in Sicily was developed by Finance Sub-Commission Headquarters and representatives of the ACC regional office in Palermo. This plan was presented to the Italian Government and agreement in principle was obtained. The details of operation were then worked out with the Italian administrative officials concerned and the necessary instructions drafted. In essence the plan provides that ACC personnel in Sicily will continue to function as in the past until 1 April 1944. Thereafter the Italian Government with a quasi-branch office in Palermo will operate the system now used by ACC with some modifications. These modifications provide for a monthly financial program for each of the agencies of the Government. The budget period is 1 April to 30 June. Monthly estimates and subsequent authorities to spend will be based on the appropriate financial programs. A central recording office for the Banca d'Italia figures is provided in Palermo where detailed records of past expenditure will be made available to the Italian Government. State aid to local governments will be channelled through Palermo, thus limiting the size of the financing problem.

(b) Mainland. For that portion of the mainland now under the Italian Government no instructions have been issued, but agreement has been reached that this area will be administered from 1 April under the procedure now in effect for Puglia. This should materially curtail the work of ACC in Region II. It was agreed that in this Region, as in Sicily, the forms used by ACC will be employed for the first three months to obtain information on which the Minister of Finance can base his budget for 1 July 1944 to 30 June 1945. With respect to the communal budgets for 1 January to 31 March 1944, which will be approved by the ACC regional staff, it was agreed that no new expenditures for rehabilitation will be approved, but work already in progress will not be stopped. Reports will be rendered to the Italian Finance Ministry by the Banco di Napoli concerning uncompleted liquidation of Fascist organizations in order that decisions may be taken as to disposition of assets and reallocation of essential functions.

2708

B. Revenues

1. Revenue stimulation

Trips were made to Sicily and Foggia and to parts of Region II by officers of the Revenue Sub-Section. Their purpose was to encourage the resumption of normal activities by the Italian tax offices and tax officials.

Declassified E.O. 12356 Section 3.3/NND No. 785017

A number of provinces were visited, and various problems were investigated. This procedure is considered effective, and it is intended that it should be continued throughout all liberated territory. Reports will be prepared by the visiting officers for discussion with the CFO, CRO, and appropriate Italian officials.

2. Tax revision

A program for increasing the State Revenues and improving the revenue system was further discussed. A preliminary memorandum was prepared, discussed with the CFO, and handed to the Italian Minister of Finance on 27 February 1944. The memorandum, a copy of which is attached as Exhibit "A", contains plans for

(a) emergency measures to increase the State Revenues by temporary duties,
and (b) initial steps to revise the Italian tax structure.

3. Monopolies

Tobacco formerly produced approximately 90% of the monopoly revenues; salt 5-6%. Monopoly receipts in the three months to 31 December 1943, compared with the corresponding period in 1942, show for the four provinces of Bari, Brindisi, Lecce, and Taranto an increase of about 50%, from 84 million to 125 million lire. The tobacco factories at Bari and Lecce escaped damage and continued to operate. Tobacco factories in Cava dei Terreni, Scafati, and Naples were not in continuous production. Large quantities of manufactured tobacco were seized by the Germans. The cigarette factory at Naples was wrecked by the enemy and now has only three machines in operation. Difficulties now being encountered are lack of transport to move leaf tobacco to factories, lack of cigarette and packing paper, and destruction or requisitioning by the army of a large proportion of the curing and drying warehouses. Transport is now being allotted as available. Cigarette paper has been ordered from the U.S., and machines are being repaired and put into operation where possible. The problem of requisitioning has not been fully met, but representations have been made to the Army.

Tobacco retail prices were increased as from 1 January 1944 by 100% and the Italian Government has proposed an increase of 70% in the purchase price of the 1943 tobacco crop. This proposal is being studied by the Finance Sub-Commission but no decision has yet been reached. The 1942 tobacco crop has not yet been fully absorbed.

4. Consumption tax

The consumption tax was in the past a major source of communal revenues, normally producing 40% to 50% of such revenues. This source of revenue has declined sharply, and is now 50% or less of what it was formerly. Investigation indicates that this decline is due to shortages of commodities (meat, gas, and electric power were principal sources of this tax) [illegible]

Declassified E.O. 12356 Section 3.3/NND No. 785017

discussed with the CPO, and handed to the Italian Minister of Finance on 27 February 1944. The memorandum, a copy of which is attached as Exhibit "A", contains plans for

(a) emergency measures to increase the State Revenues by temporary duties,
and (b) initial steps to revise the Italian tax structure.

3. Monopolies

Tobacco formerly produced approximately 90% of the monopoly revenues; salt 5-6%. Monopoly receipts in the three months to 31 December 1943, compared with the corresponding period in 1942, show for the four provinces of Bari, Brindisi, Lecce, and Taranto an increase of about 50%, from 84 million to 123 million lire. The tobacco factories at Bari and Lecce escaped damage and continued to operate. Tobacco factories in Cava dei Terreni, Scafati, and Naples were not in continuous production. Large quantities of manufactured tobacco were seized by the Germans. The cigarette factory at Naples was wrecked by the enemy and now has only three machines in operation. Difficulties now being encountered are lack of transport to move leaf tobacco to factories, lack of cigarette and packing paper, and destruction or requisitioning by the army of a large proportion of the curing and drying warehouses. Transport is now being allotted as available. Cigarette paper has been ordered from the U.S., and machines are being repaired and put into operation where possible. The problem of requisitioning has not been fully met, but representations have been made to the Army.

Tobacco retail prices were increased as from 1 January 1944 by 100% and the Italian Government has proposed an increase of 70% in the purchase price of the 1943 tobacco crop. This proposal is being studied by the Finance Sub-Commission but no decision has yet been reached. The 1942 tobacco crop has not yet been fully absorbed.

4. Consumption tax

The consumption tax was in the past a major source of communal revenues, normally producing 40% to 50% of such revenues. This source of revenue has declined sharply, and is now 50% or less of what it was formerly Investigation indicates that this decline is due to shortages of commodities (meat, gas, and electric power were principal sources of this tax), transactions in the black market, and the fact that the tax is assessed on a per quantum rather than an ad valorem basis. Further, the schedule of taxable commodities has not been revised for some time to take account of shifts in consumption habits and availabilities. A report on the consumption tax has been prepared, recommending higher rates on the old schedules (the maximum rates remained unchanged from 1932 to 1943, when a 10% increase was applied), inclusion of new items which are objects of present expenditure, and substantial revision of the collection machinery.

5. Taxation of Allied Forces by Italian Government

At the request of MGS, AFHQ careful consideration was given to the problem of preserving the principle that no Italian taxes shall be assessed against imports, purchases, or acts of the Allied Forces in connection with

Declassified E.O. 12356 Section 3.3/NND No. 785017

their official duties. It is believed that personal or unofficial activities, however, might properly be subjected to taxation. A detailed plan was prepared which proposed certification by Army officers making official purchases that such were in fact official purchases, thus allowing Italian vendors adequate protection against assessment of taxes on such sales.

This proposal was prepared for forwarding to AFHQ by Dr. Henry Grady, Deputy Vice President, Economic Section, ACC, under date of 24 February 1944. The approval of AFHQ has not yet been received.

6. Proposal for increasing alcohol distillation from native wine, subsidized by increased wine tax

A proposal was received from Region I that the surplus of wine in that Region might be utilized to enlarge the normal operations of Ente Distillazione Materie Vinose, which customarily buys wine at an artificial price from growers and sells it to distillers at a lower price for subsidized manufacture of alcohol. The proposed increase in alcohol output would entail an increase in the tax on wine. The matter was discussed with the Minister of Finance and it was agreed that sectional tax revision was to be avoided. The matter was closed, however, when the Industry and Commerce Sub-Commission, ACC advised on 1 March 1944 that the project was impractical and uneconomical owing to the existence of adequate stocks of the type of alcohol to be produced, to the scarcity of fuel for the distillers, and to the inferior grade of alcohol which would result.

7. Revenue Statistics

Comparative State revenue returns from all provinces in liberated Italy for the fiscal years 1942/43 and 1943/44 have not yet been received, but those provinces for which returns are available show the following results:

TOTAL REVENUE RECEIPTS (EXCLUDING CAPO X[b])

(millions of lire)

Province	Jan 1944[b]	Jan 1943[b]	Seven months ending Jan 1944	Seven months ending Jan 1943	% seven months ending Jan 1944 to seven months ending Jan 1943
Catanzaro	5	10	41	72	59
Matera	2	1	12	15	80
Bari	53	71	472	399	118
Brindisi	3	2	38	26	142
Lecce	5	4	57	45	126
Taranto	4	7	48	76	63

Declassified E.O. 12356 Section 3.3/NND No. 785017

6. Proposal for increasing alcohol distillation from native wine, subsidized by increased wine tax

A proposal was received from Region I that the surplus of wine in that Region might be utilized to enlarge the normal operations of Ente Distillazione Materie Vinose, which customarily buys wine at an artificial price from growers and sells it to distillers at a lower price for subsidized manufacture of alcohol. The proposed increase in alcohol output would entail an increase in the tax on wine. The matter was discussed with the Minister of Finance and it was agreed that sectional tax revision was to be avoided. The matter was closed, however, when the Industry and Commerce Sub-Commission, ACC advised on 1 March 1944 that the project was impractical and uneconomical owing to the existence of adequate stocks of the type of alcohol to be produced, to the scarcity of fuel for the distillers, and to the inferior grade of alcohol which would result.

7. Revenue Statistics

Comparative State revenue returns from all provinces in liberated Italy for the fiscal years 1942/43 and 1943/44 have not yet been received, but those provinces for which returns are available show the following results:

TOTAL REVENUE RECEIPTS (EXCLUDING CAPO X[a])

(millions of lire)

Province	Jan 1944[b]	Jan 1943[b]	Seven months ending Jan 1944	Seven months ending Jan 1943	% seven months ending Jan 1944 to seven months ending Jan 1943
Catanzaro	5	10	41	72	59
Matera	2	1	12	15	80
Bari	53	71	472	399	118
Brindisi	3	2	38	26	142
Lecce	5	4	57	45	126
Taranto	4	7	48	76	63
Foggia	2	8	51	86	59
Benevento	4	2	9	23	40
Naples	30	145	463	906	51
	108	250	1,191	1,648	72

[a] CAPO X represents revenue from sale of government securities and miscellaneous Treasury transfers.

[b] January is not a tax payment month; therefore figures have limited significance.

2707

Declassified E.O. 12356 Section 3.3/NND No. 785017

As pointed out last month, tax collections are higher than last year in those areas that escaped the disruption of war, and very much below last year in other areas. Since the areas where war disruption was least are, as would be expected, disproportionately represented in the reports, the 72% figure given for total revenues in the seven months ending January 1944 as a percentage of the same period a year ago is unquestionably too high. The total figure would probably not run over 60%.

The breakdown by sources of the tax receipts from the same provinces given above is as follows:

(Amounts in millions of lire)

	Jan 1943	Jan 1943	Seven months ending January 1944		Seven months ending January 1943		Column (3) as percent of (5)
			Amount	Percent	Amount	Percent	
	(1)	(2)		(4)	(5)	(6)	(7)
Monopolies	40	144	457	36	685	40	63
Direct Taxes	14	7	411	33	384	22	107
Indirect Taxes	42	64	246	20	404	23	61
Lotteries	3	10	72	6	69	4	103
Manufacturers' Tax	6	12	52	4	82	5	63
Customs	1	15	12	1	108	6	11
	105	252	1,232	100	1,732	100	71

Column (7) shows that direct taxes and lotteries are now yielding higher revenues than last year, while monopolies, indirect taxes and the manufacturers' tax are yielding only about 60% of the revenue obtained last year, and customs are yielding almost nothing. Columns (4) and (6) show that, despite these differences in the yield of various taxes, the percentage of total revenues derived from each of the sources has not varied greatly.

C. Cash position of the Italian Government

No advances of currency were made to the Italian Government during February 1944. The Italian Ministry of Finance presented estimates of the Government's cash position for Puglia (less Foggia) for February on 8 February. No figures on the cash position in Regions I and II were available. The figures for Puglia are shown below in tabular form. No advance was requested by the Italian Government. The experience of the Banco d'Italia during the month was such that there was no need for us to make an

Declassified E.O. 12356 Section 3.3/NND No. 785017

(Amounts in millions of lire)

	Jan 1944	Jan 1943	Seven months ending January 1944 Amount	Percent	Seven months ending January 1943 Amount	Percent	Column (3) as percent of (2)
	(1)	(2)		(4)	(5)	(6)	(7)
Monopolies	40	144	437	36	685	40	63
Direct Taxes	14	7	411	33	384	22	107
Indirect Taxes	42	64	248	20	404	23	61
Lotteries	3	10	72	6	69	4	103
Manufacturers' Tx	6	12	52	4	82	5	63
Customs	1	15	12	1	108	6	11
	105	252	1,232	100	1,732	100	71

Column (7) shows that direct taxes and lotteries are now yielding higher revenues than last year, while monopolies, indirect taxes, and the manufacturers' tax are yielding only about 60% of the revenue obtained last year, and customs are yielding almost nothing. Columns (4) and (6) show that, despite these differences in the yield of various taxes, the percentage of total revenues derived from each of the sources has not varied greatly.

C. Cash position of the Italian Government

No advances of currency were made to the Italian Government during February 1944. The Italian Ministry of Finance presented estimates of the Government's cash position for Puglia (less Foggia) for February on 8 February. No figures on the cash position in Regions I and II were available. The figures for Puglia are shown below in tabular form. No advance was requested by the Italian Government. The experience of the Banco d'Italia during the month was such that there was no need for us to make an advance.

Declassified E.O. 12356 Section 3.3/NND No. 785017

ESTIMATES OF CASH POSITION OF ITALIAN GOVERNMENT

FEBRUARY 1944

(Millions of Lire)

Estimated total cash expenditures of Italian Government in February (Military plus civil government in Puglia)		1,239
Less:		
Government receipts	189	
Currency available for use in Banca d'Italia at beginning of month in excess of minimum reserve	260	
Inflow of currency to Banca d'Italia through increased deposits, reimbursements of advances, etc.	330	
Payments made outside Puglia for which puglia may be used	415	
Total resources to be submitted		1,194
Net estimated needs of Italian Government for currency in February to be advanced by Allied Financial Agency		45

Discussions were initiated with the Ministry of Finance concerning a reconsideration of the currency reserve position for all of the territory restored to the Italian Government. Definitive results have not been attained but the problem is receiving active consideration, looking toward a net decrease or partial sterilization of the total amount of currency now outstanding.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Government receipts	189	
Currency available for use in Banca d'Italia at beginning of month in excess of minimum reserve	260	
Inflow of currency to Banca d'Italia through increased deposits, reimbursements of advances, etc.	330	
Payments made outside Puglia for which vaglia may be used	415	
Total resources to be subtracted		1,194
Net estimated needs of Italian Government for currency in February to be advanced by Allied Financial Agency		45

Discussions were initiated with the Ministry of Finance concerning a reconsideration of the currency reserve position for all of the territory restored to the Italian Government. Definitive results have not been attained but the problem is receiving active consideration, looking toward a net decrease or partial sterilization of the total amount of currency now outstanding.

Declassified E.O. 12356 Section 3.3/NND 785017

V. ACCOUNTING SECTION

A. Allied Financial Agency

1. Instructions were sent out outlining the procedure to be followed on the handing over of Regions I and II to the Italian Government. Such procedure will follow the lines laid down in telegrams from the Combined Chiefs of Staff as follows:-

(a) The books of AFA will not be closed but will be continued without break.

(b) A balance sheet of AFA will be prepared as at 10 February 1944 and will be subsequently revised to reflect transactions recorded later, but referring to periods prior to 10 February.

2. The books of AFA Region IV were opened and have since been kept up to date and a Balance Sheet as at 31 January 1944 prepared.

3. Consolidated accounts for all Regions as at 31 January 1944 were prepared.

4. The question of remittances from U.S.A., U.K. and other countries to private individuals in Italy was discussed with AFA and the accounting procedure agreed upon.

B. AMG/ACC Accounts

1. Instructions were sent to Fifth and Eigth Army Sub-Accountants as to which Regional Chief Accountant they should report.

2. All Regional Chief Accountants were instructed that on the change over of Regions from AMG/ACC separate Revenue and Expenditure Accounts were to be maintained for AMG and ACC.

3. Consolidated Revenue and Expenditure Accounts for AMG and ACC for the period to 31 December 1943, and for each individual month to that date, were prepared [illegible] Head Office books were opened and written up to record same.

4. Assistance was given to the Chief Accountant of Region IV in preparing his first AMG/ACC accounts.

5. A new Sub-Head of accounts for "Messing and Out-of-Pocket Expenses" was set up following on Administrative Order No. 2.

6. The Heads and Sub-Heads of accounts for AMG/ACC Expenditure were completely revised to reflect a simplification in the classification of such expenditure. Instructions and chart showing old and new classifications were sent to all Regions.

Declassified E.O. 12356 Section 3.3/NND No. 785017

(a) The books of AFA will not be closed but will be continued without break.

(b) A balance sheet of AFA will be prepared as at 10 February 1944 and will be subsequently revised to reflect transactions recorded later, but referring to periods prior to 10 February.

2. The books of AFA Region IV were opened and have since been kept up to date and a Balance Sheet as at 31 January 1944 prepared.

3. Consolidated accounts for all Regions as at 31 January 1944 were prepared.

4. The question of remittances from U.S.A., U.K. and other countries to private individuals in Italy was discussed with AFA and the accounting procedure agreed upon.

B. AMG/ACC Accounts

1. Instructions were sent to Fifth and Eighth Army Sub-Accountants as to which Regional Chief Accountant they should report.

2. All Regional Chief Accountants were instructed that on the change over of Regions from AMG/ACC separate Revenue and Expenditure Accounts were to be maintained for AMG and ACC.

3. Consolidated Revenue and Expenditure Accounts for AMG and ACC for the period to 31 December 1943, and for each individual month to that date, were — Head Office books were opened and written up to record same.

4. Assistance was given to the Chief Accountant of Region IV in preparing his first AMG/ACC accounts.

5. A new Sub-Head of accounts for "Messing and Out-of-Pocket Expenses" was set up following on Administrative Order No. 2.

6. The Heads and Sub-Heads of accounts for AMG/ACC Expenditure were completely revised to reflect a simplification in the classification of such expenditure. Instructions and chart showing old and new classifications were sent to all Regions.

C. Supplies Accounting

1. (a) Accounting instructions and relative forms were drawn up in conjunction with the Public Health Sub-Commission.

(b) Instructions were issued to AMG/ACC Regional Chief Accountants as to monthly analysis to be submitted of the figures shown for supplies purchased for export, supplies purchased for resale in the same Region and supplies purchased for resale in another Region.

(c) Instructions as to completion of the monthly returns were sent to all Regions.

Declassified E.O. 12356 Section 3.3/NND No. 785017

2. A reorganization of the Regional Supply Accounting was effected by assigning accountants to the Economics and Supply Division of each Region to act as supply accountants on the ESD staff. It was emphasized that the primary responsibility for the preparation of the Regional Supply Accounts lies with the Regional ESD. The officers so appointed were for the most part already fulfilling the functions of supply accountants, but figured on the staff of the Chief Accountant and not in the Regional ESD staff with the result that they had no official status in the Region or in the ESD.

3. The system of supplies accounting in Region III and in the Naples warehouse was thoroughly investigated and revised, the new system coming into force on 1 March. It was found that much work was required:

(a) to revise the system; and

(b) to prepare proper records of past transactions.

Two officers are at present working on (b) and a statement of stock movements for the period to 31 December has been prepared, and a statement for the month of January is in course of preparation. The various sales accounts are being investigated and past invoices, which were not priced owing to the absence of a price list, are now being priced.

4. A meeting was held with officers of the Economic Section on the future policy to be adopted for handling imported supplies. It was agreed that the Italian Government should be approached with a view to their forming an organization which would purchase all imports at the port of entry and would undertake their subsequent distribution and resale with such assistance and under such supervision as AMG/ACC considers necessary. A memorandum on this subject was written to Colonel Adams of the Economic Section. A meeting was also held with representatives of the Economic Section and of the Societa Magazzini Generali with a view to ascertaining whether they were willing and able to undertake all warehousing on behalf of AMG/ACC. The Magazzini Generali expressed themselves as willing to undertake this work and further discussions are in progress. It is hoped to combine the proposed scheme for the Magazzini Generali with the scheme for the proposed Italian Government organization.

5. Statements of stock movements and sales have been received from Region I for the period to 31 December 1943, from Apulia for the period to 31 January 1944 and from Region VI for the period to 31 December 1943. These statements have been reviewed. Region III is referred to in paragraph 3 above. No reports have yet been received from Region II, but the Regional Supply Officer has been given assistance and it is understood that reports may soon be expected. Discussions have been held with the Supply Accountants of Regions IV and V and AMG Fifth Army, and work is to be begun on schedules of their stock movements and sales.

2705

6. An accounting officer from Sicily attended the ESD accounting school organized by Region IV and lectured on ESD accounting problems experienced in Sicily.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...accounting in Region III and in the Naples ... was thoroughly investigated and revised, the new system coming into force on 1 March. It was found that much work was required:

(a) to revise the system; and

(b) to prepare proper records of past transactions.

Two officers are at present working on (b) and a statement of stock movements for the period to 31 December has been prepared, and a statement for the month of January is in course of preparation. The various sales accounts are being investigated and past invoices, which were not priced owing to the absence of a price list, are now being priced.

4. A meeting was held with officers of the Economic Section on the future policy to be adopted for handling imported supplies. It was agreed that the Italian Government should be approached with a view to their forming an organization which would purchase all imports at the port of entry and would undertake their subsequent distribution and resale with such assistance and under such supervision as AMG/ACC considers necessary. A memorandum on this subject was written to Colonel Adams of the Economic Section. A meeting was also held with representatives of the Economic Section and of the Societa Magazzini Generali with a view to ascertaining whether they were willing and able to undertake all warehousing on behalf of AMG/ACC. The Magazzini Generali expressed themselves as willing to undertake this work and further discussions are in progress. It is hoped to combine the proposed scheme for the Magazzini Generali with the scheme for the proposed Italian Government organization.

5. Statements of stock movements and sales have been received from Region I for the period to 31 December 1943, from Apulia for the period to 31 January 1944 and from Region VI for the period to 31 December 1943. These statements have been reviewed. Region III is referred to in paragraph 3 above. No reports have yet been received from Region II, but the Regional Supply Officer has been given assistance and it is understood that reports may soon be expected. Discussions have been held with the Supply Accountants of Regions IV and V and AMG Fifth Army, and work is to be begun on schedules of their stock movements and sales.

2705

6. An accounting officer from Sicily attended the ESD accounting school organized by Region IV and lectured on ESD accounting problems experienced in Sicily.

D. Emergency Financial Assistance to U.S. and British Nationals

Forms for requests for assistance and receipts were designed in conjunction with AFA and instructions (not yet issued) were prepared for all Regions.

E. Italian Refugee Branch

1. Accounting instructions were prepared and issued to all Regions and AMG Fifth and Eighth Armies.

2. Personnel was loaned to the Refugee Branch to start their Naples records.

F. Displaced Persons Sub-Commission

Draft accounting instructions were prepared and sent to the Displaced Persons Sub-Commission for consideration, but no reply has yet been received.

G. Local Purchases by Allied Armies

A form for use by the Allied Armies when purchasing supplies from civilians was designed. This form, which will serve as a voucher by which the civilian supplier will obtain payment from the Italian Government for supplies furnished to the Allied Armies, was passed to the Controller of Financial Institutions for further discussion with the Italian Government and the Allied Armies.

H. Accounting for Supplies issued by Armed Forces to Co-belligerents

Discussions were held with the Land Forces Sub-Commission and with MCS with regard to the Combined Chiefs of Staffs' instructions that ACC should account for supplies issued direct by the Armed Forces to co-belligerents. It was agreed that the Land Forces Sub-Commission should submit monthly consolidated reports to the Chief Accountant ACC showing the total imports received by Italian army depots. Issues to co-belligerents from Army depots should cease except for such issues as will be replaced in kind from Italian Army stocks and which would be accounted for between the Army depots and the Italian Army. Issues from Army depots to co-belligerents are however being made, and on instructions from AFHQ reports of such issues are being sent by Army depots to the Chief Accountant ACC. AFHQ therefore suggested to CCS that accounting for such issues should be handled not by ACC but by the Armies. CCS replied by instructions that priced lists of issues from all American depots should continue to be sent to and accounted for by ACC, but that instructions as to issues from British depots would be given by London. ACC have replied stating that whilst they can record priced returns from Army depots they cannot be responsible for checking returns, nor can they be responsible for seeing that all returns are received; they have therefore suggested that one consolidated report be submitted by the American Army for all issues. Instructions from London for dealing with British issues are awaited.

I. Railway records

Discussions were held with the Internal Transportation Sub-Commission on their proposed system for recording traffic handled in AMG territory.

J. Messing and Billeting Expenses

Further discussions were held with the Executive Officer regarding purchases of equipment, etc. for messes and billets and a letter was issued by the Executive Officer to all Regions further defining the limits of the authority of Regional Officers to authorise such expenditure.

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] designed. This form, which will serve as a voucher by which the civilian supplier will obtain payment from the Italian Government for supplies furnished to the Allied Armies, was passed to the Controller of Financial Institutions for further discussion with the Italian Government and the Allied Armies.

H. Accounting for Supplies issued by Armed Forces to Co-belligerents

Discussions were held with the Land Forces Sub-Commission and with MGS with regard to the Combined Chiefs of Staffs' instructions that ACC should account for supplies issued direct by the Armed Forces to co-belligerents. It was agreed that the Land Forces Sub-Commission should submit monthly consolidated reports to the Chief Accountant ACC showing the total imports received by Italian army depots. Issues to co-belligerents from Army depots should cease except for such issues as will be replaced in kind from Italian Army stocks and which would be accounted for between the Army depots and the Italian Army. Issues from Army depots to co-belligerents are however being made, and on instructions from AFHQ reports of such issues are being sent by Army depots to the Chief Accountant ACC. AFHQ therefore suggested to COS that accounting for such issues should be handled not by ACC but by the Armies. COS replied by instructions that priced lists of issues from all American depots should continue to be sent to and accounted for by ACC, but that instructions as to issues from British depots would be given by London. ACC have replied stating that whilst they can record priced returns from Army depots they cannot be responsible for checking returns, nor can they be responsible for seeing that all returns are received; they have therefore suggested that one consolidated report be submitted by the American Army for all issues. Instructions from London for dealing with British issues are awaited.

I. Railway records

Discussions were held with the Internal Transportation Sub-Commission on their proposed system for recording traffic handled in AMG territory.

J. Messing and Billeting Expenses

Further discussions were held with the Executive Officer regarding purchases of equipment, etc. for messes and billets and a letter was issued by the Executive Officer to all Regions further defining the limits of the authority of Regional Officers to authorise such expenditure.

K. Petroleum Products issued by AMG for civilian use

The Chief Accountant discussed with the Petroleum Section AFHQ, the question of issues of petroleum products to civilians in forward areas where there is no CIP organization. It was agreed that Petroleum Section could, on the request of AMG, appoint a local CIP representative in any forward area who would be responsible direct to the Petroleum Section for accounting for petroleum products issued to civilians. Transactions prior to the appointment of such CIP representative would be accounted for by AMG.

46

VI. CUSTOMS AND EXCISE

A. Field Survey

During February, officers of the Customs and Excise Sub-Section were engaged in making a field survey of the ports of entry of Italy in order to reactivate the Italian Customs Service. The results of this survey will be presented in the next monthly report of the Finance Sub-Commission.

VII. MONTHLY FINANCIAL REVIEW OF ITALY

In the course of its operations, the Finance Sub-Commission has been gathering information on financial developments in Italy. In the future, much more data will be available with the activation of a new office of coordination in the Banca d'Italia, which has, in cooperation with the Finance Sub-Commission, set up a system of financial reporting by the branches of the Banca d'Italia in liberated Italy. To present this material in usable form, the Finance Sub-Commission, beginning with February, is issuing a Monthly Financial Review of Italy. The Review will present the latest available statistical and other data on government financing, banking and monetary developments, other financial developments, and from time to time will include descriptive studies of the Italian financial system. Due to its length, this review is not incorporated in this report but is available for separate distribution.

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

270

Declassified E.O. 12356 Section 3.3/NND No. 785017

EXHIBIT 'A'

CONFIDENTIAL

MEMORANDUM ON METHODS OF INCREASING THE ITALIAN STATE REVENUE

The Italian State Budget has contained an excess of expenditure over income in every year since 1930-31 and it is clear that considerable increases in the Taxation income will be necessary, coupled with reductions in expenditure to enable a balance to be obtained in the future.

The present price movements which show a steady and increasing rise in the cost of articles will tend still further to increase the budget deficit as rises in expenditure will take effect immediately whereas the revenue will not rise correspondingly.

The most prominent weaknesses in the Italian State tax structure are:

(a) the few declarations of income received
(b) the fixing of liability for both the income tax, the war profits tax, the turnover tax and the total income taxes on estimated figures in a very large percentage of cases. - only limited companies and societies render accounts.
(c) the long time taken over the revaluation of lands and buildings resulting largely from the complicated methods of determining the value.
(d) the delay which takes place in the collection of duties actually assessed.
(e) the weakness of the official powers to recover unassessed duty and penalites against taxpayers who are found to be inadequately assessed.

In consequence of the above the system is particularly slow to respond to rises in turnover and profits at a time when prices are rising.

The possibility of a serious and increasing depreciation of the currency may make it necessary, in conjunction with other measures to reduce the amount of currency in circulation, to institute an emergency taxation scheme designed to make immediate increases in taxation yield possible.

The suggestions in this memorandum are accordingly presented under the two main heads.

(a) for temporary changes aimed at an immediate yield of duty
(b) for a general revision of the Italian tax Structure.

This memorandum does not include action which is being taken, particularly on the forward areas to revive the existing tax machinery, which has been badly damaged by the war, and to bring the collection of taxes to the maximum possible under the existing laws.

2705

The fact that the suggestions have been classified in the above two ways does not imply that the emergency measures will wholly precede the matters suggested for the gradual revision. The former whilst including certain points of a generally revising nature are primarily those which, with preparation made beforehand can be used to bring rapidly into the Treasury money in general circulation. The suggestions are given in detail in the appendices and are summarized as follows:

Declassified E.O. 12356 Section 3.3/NND No. 785017

revenue will not rise correspondingly.

The most prominent weaknesses in the Italian State tax structure are:

(a) the few declarations of income received
(b) the fixing of liability for both the income tax, the war profits tax, the turnover tax and the total income taxes on estimated figures in a very large percentage of cases. - only limited companies and societies render accounts.
(c) the long time taken over the revaluation of lands and buildings resulting largely from the complicated methods of determining the value.
(d) the delay which takes place in the collection of duties actually assessed.
(e) the weakness of the official powers to recover unassessed duty and penalites against taxpayers who are found to be inadequately assessed.

In consequence of the above the system is particularly slow to respond to rises in turnover and profits at a time when prices are rising.

The possibility of a serious and increasing depreciation of the currency may make it necessary, in conjunction with other measures to reduce the amount of currency in circulation, to institute an emergency taxation scheme designed to make immediate increases in taxation yield possible.

The suggestions in this memorandum are accordingly presented under the two main heads.

(a) for temporary changes aimed at an immediate yield of duty
(b) for a general revision of the Italian tax Structure.

This memorandum does not include action which is being taken, particularly on the forward areas to revive the existing tax machinery, which has been badly damaged by the war, and to bring the collection of taxes to the maximum possible under the existing laws.

2705

The fact that the suggestions have been classified in the above two ways does not imply that the emergency measures will wholly precede the matters suggested for the gradual revision. The former whilst including certain points of a generally revising nature are primarily those which, with preparation made beforehand can be used to bring rapidly into the Treasury money in general circulation. The suggestions are given in detail in the appendices and are summarized as follows:

A. - TEMPORARY EMERGENCY MEASURES.

The object of these suggestions is to formulate plans for special action designed to be put in force rapidly and, even at the loss of other important considerations, to reflect the changes in the price level and to produce an immediate income to the State.

The first essential of any improvement in the immediate yield of taxation is to obtain a hold on the persons who are the first to benefit on a rise in sales prices, i.e. the retail traders. It will accordingly be necessary to institute either in conjunction with the issue of ration cards or by some other drastic means a registration of all retail traders.

Declassified E.O. 12356 Section 3.3/NND 785017

The principal suggestions included in this program are therefore:

(a) a scheme to ensure a registration of all traders and a declaration of turnover.
(b) a scheme to obtain the latest information about rents;
(c) to accelerate the present assessing machinery for the War Profits Tax.
(d) the immediate abolition of the tax exemptions given to large families.
(e) the abolition of the exemption given to buildings erected within the last 25 years.
(f) to levy additional duties as follows:
  (1) a levy of 2% or 3% on the last 3 months declared turnover.
  (2) a levy of 3% on the rents paid in the last 3 months.
  (3) a tax on the income from government securities.

B. - SUGGESTIONS FOR REVISION OF THE ITALIAN TAX SITUATION.

The object of these suggestions is to lay the foundation upon which a general revision of the Italian tax situation can be based. Italy consists very largely of small businesses carrying on a cash trade for which proper business records are not kept and in consequence most of the income subject to direct taxation is estimated and until recent years the system contemplated the settlement of a figure which would remain in force for more than one year.

The Italian taxpayers are not required to make every year a full statement of their correct income, but are required only to report changes. This absence of annual returns from all taxpayers deprives the Revenue officials of much useful information.

It is accordingly considered that the first steps in any reform must be to clarify the basis of assessment for the income tax and to introduce a system of annual declaration of income and the principal suggestions are accordingly

(a) the clarification of the basis of assessment of income.
(b) the introduction of an annual declaration of income.
(c) an improvement in the machinery for making assessments on taxpayers who have been inadequately assessed.
(d) a strengthening of the penalties powers against taxpayers who make no returns of income or incorrect returns.
(e) a new tax on the excess of rents actually received over the existing assessments.
(f) a revision of the tax on total incomes with a steepening of the effective rates.
(g) the abolition of the bachelors tax by stages.

Subject to the necessity of having to interpose certain emergency measures the general order of priority is approximately as follows as certain steps can of course be proceeding contemporaneously:

(a) The War Profits Tax
(b) the abolition of exemptions
(c) the clarification of the basis of assessment for income.
(d) the annual declaration of all income.

Declassified E.O. 12356 Section 3.3/NND No. 785017

(1) a levy of 2½ or 3% on the last 3 months declared turnover.
(2) a levy of 3% on the rents paid in the last 3 months.
(3) a tax on the income from government securities.

B. - SUGGESTIONS FOR REVISION OF THE ITALIAN TAX SITUATION.

The object of these suggestions is to lay the foundation upon which a general revision of the Italian tax situation can be based. Italy consists very largely of small businesses carrying on a cash trade for which proper business records are not kept and in consequence most of the income subject to direct taxation is estimated and until recent years the system contemplated the settlement of a figure which would remain in force for more than one year.

The Italian taxpayers are not required to make every year a full statement of their correct income, but are required only to report changes. This absence of annual returns from all taxpayers deprives the Revenue officials of much useful information.

It is accordingly considered that the first steps in any reform must be to clarify the basis of assessment for the income tax and to introduce a system of annual declaration of income and the principal suggestions are accordingly

(a) the clarification of the basis of assessment of income.
(b) the introduction of an annual declaration of income.
(c) an improvement in the machinery for making assessments on taxpayers who have been inadequately assessed.
(d) a strengthening of the penalties powers against taxpayers who make no returns of income or incorrect returns.
(e) a new tax on the excess of rents actually received over the existing assessments.
(f) a revision of the tax on total incomes with a steepening of the effective rates.
(g) the abolition of the bachelors tax by stages.

Subject to the necessity of having to interpose certain emergency measures the general order of priority is approximately as follows as certain steps can of course be proceeding contemporaneously:

(a) The War Profits Tax
(b) the abolition of exemptions
(c) the clarification of the basis of assessmnet for income.
(d) the annual declaration of all income.
(e) the changes in the machinery for making additional assessments.
(f) the strengthening of the penalties.
(g) the new tax on interest on goverment bonds.
(h) the new tax on increased rents.
(i) the revision of the tax on total incomes.
(j) the revision of the inheritance taxes.

A. F. CROSS.
Lt. Col.
Chief Revenue Officer
Finance Sub-Commission.

20 Feb./44.
AFC/ef

Declassified E.O. 12356 Section 3.3/NND No. 785017

HEADQUARTERS
ALLIED CONTROL COMMISSION
(Rear Echelon)
APO 394

Confidential
Auth: C. Fin. Off
Initials
Date 10 Feb. 44

APPENDIX "A"
TEMPORARY EMERGENCY MEASURES

1/ Revision of lists of taxpayers.

In conjunction with an issue of ration cards, or some similar operation which would force all persons to register, every head of a family, registering would be required to furnish:

(a) A Statement of.
  (I) His name and address.
  (II) The number of children and dependents in his household for whom he was applying for ration cards.
  (III) The actual rent paid for the last 3 months.
  (IV) The name of the person receiving the rent and relationship (if any) to him.

(b)
  (I) If an employee - his work card.
  (II) If in business - a statement showing:
    (I) His name and address.
    (II) His trade or business.
    (III) The number of his employees - with name and age.
    (IV) A statement of his actual sales for the preceeding 3 months.

The Profits Tax (or "Wages" [illegible] alle stato di guerra)

The assessments on the War Profit Tax are particularly in arrear partly because although the tax was ~~just~~ chargeable for 1939 the law was not instituted until July 1940, and a considerable time elapsed before the administrative instructions were completed and issued. Some idea of the magnitude of work and duty in arrear is given by the following figures for the assessment district of Naples as at 31 Dec. 1943.

Year	Settled cases entered on the rolls.		cases not yet settled	
	NUMBER	AMOUNT OF DUTY	NUMBER	AM'T OF DUTY ESTIMATED
1939	643	8,709,714	754	26,978,000
1940	681	13,793,246	814	60,894,000
1941	153	3,202,684	677	60,286,000

Assessment rolls for this tax are made as for other taxes twice a year by Dec. and June, and the tax is then paid in six bi-monthly instalments commencing in February and August respectively. In view of the importance of this tax and the comparative smaller number of assessments, it is suggested that an entirely new and separate assessing and collecting system should be instituted.

2702

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...would be required to furnish:

(a) A Statement of.
  (I) His name and address.
  (II) The number of children and dependents in his household for whom he was applying for ration cards.
  (III) The actual rent paid for the last 3 months.
  (IV) The name of the person receiving the rent and relationship (if any) to him.

(b)
  (I) If an employee - his work card.
  (II) If in business - a statement showing:
    (I) His name and address.
    (II) His trade or business.
    (III) The number of his employees - with name and age.
    (IV) A statement of his actual sales for the preceding 3 months.

...(sul Profitto per (sui progressi nelle ...vi alle stato di guerra)

The assessments on the War Profit Tax are particularly in arrear partly because although the tax was first chargeable for 1939 the law was not instituted until July 1940, and a considerable time elapsed before the administrative instructions were completed and issued. Some idea of the magnitude of work and duty in arrear is given by the following figures for the assessment district of Naples as at 31 Dec. 1943.

Year	Settled cases entered on the rolls.		cases not yet settled	
	NUMBER	AMOUNT OF DUTY	NUMBER	AM'T OF DUTY ESTIMATED
1939	643	8,703,714	754	24,978,000
1940	681	13,799,246	614	60,894,000
1941	153	3,202,684	677	60,256,000

Assessment rolls for this tax are made as for other taxes twice a year by Dec. and June, and the tax is then paid in six bi-monthly instalments commencing in February and August respectively. In view of the importance of this tax and the comparative smaller number of assessments, it is suggested that an entirely new and separate assessing and collecting system should be instituted.

2702

The new system would provide:

(a) For assessments to be made either weekly or monthly and the procedure for making assessments and collecting the duty to be revised.
(b) For powers to make estimated assessments at any time subsequent to 6 months after the end of each respective assessable accounting period.
(c) For all duty to be payable within 1 month of the date of making the assessment.
(d) For the settlement of payments on account when the final actual liability was not agreed.
(e) For interest to be paid on all tax not paid by the due date.
(f) For administrative instructions to be issued to ensure that assessments in respect of all unassessed periods at present in arrear are made by specific dates.

Declassified E.O. 12356 Section 3.3/NND No. 785017

3/ Taxation exemptions to large families.

Italian families which have seven or more children are entitled to complete exemption from certain direct taxes, such as, family tax, household tax, cattle tax, school tax, and the tax on patrimony.

In addition, where the income is under Lit. 100,000 such families receive complete exemption from the tax on total income and other taxes and where the income is over 100,000 Lire, to an exemption of 100,000 Lire of income is spread proportionately over the various classes of Ricchezza Mobile Terreni, Fabbricati, etc, including the relative communal and provintial additional taxes (Sovrimposte).

Families which have more than two children also receive certain exemptions from stamp duties on inheritance.

These exemptions were introduced under the Fascist regime as part of the policy of providing bonuses for large families and it is suggested that all these exemptions should be abolished.

4/ Land and House Taxes (Terreni and Fabbricati)

The Terreni assessments were revised on the basis of values in 1937-39 but it appears that in certain communes the work was not completed and the old values were simply multiplied by four. The new assessments represent from sample statistics an increase of 3 - 6 times the old ones, and came into force from 1 January 1943. The rates of State tax were reduced from 10% to:

1943	- 5%	1945	- 7%	1947	- 10%
1944	- 6%	1946	- 9%		

The Fabbricati assessments are in progress of revision but this work will not be ready for use in the rolls commencing 1 Jan/45, as intended. The rents on these properties have been generally blocked, but in many cases it is known that present rental values are in excess of the valuation which was obtained by an automatic percentage increase in the then existing values.

It must also be noted that the State taxes are only a small part of the total burden on these assessments. The Compartimental Inspector at Bari estimates the total burden as 58% on Terreni (State 5%) and as 33% Fabbricati (State 10%) for 1944, exclusive of the imposte comunitarie.

In order to obtain the latest information as to rents and to obtain an immediate payment of additional tax on these properties it is suggested that every person rendering a declaration of residence under para 3 (a) above would pay a special tax of 3% of his last 3 months rent which he would be entitled to deduct from his landlord the next time he pays rent.

In the case of persons who own their own houses a sum equal to 3% of their Fabbricati assessment would be paid at a similiar time.

In the case of farmers owning their land a sum equal to 1% of their Terreni assessment would be paid.

It is also suggested that buildings not excluded from the rolls owing to having been built less than 25 years should be immediately assessed.

5/ Tax on Interest from Government Securities.

Italian State bonds carry interest in the majority of cases at rates

exemptions were introduced under the Fascist regime as part of the policy of providing bonuses for large families and it is suggested that all these exemptions should be abolished.

4/ Land and House Taxes (Terreni and Fabbricati)

The Terreni assessments were revised on the basis of values in 1937-39 but it appears that in certain communes the work was not completed and the old values were simply multiplied by four. The new assessments represent from sample statistics an increase of 5 - 6 times the old ones, and came into force from 1 January 1943. The rates of State tax were reduced from 10% to:

1943	3%	1945	7%	1947	10%
1944	5%	1946	9%		

The Fabbricati assessments are in progress of revision but this work will not be ready for use in the rolls commencing 1 Jan/45, as intended. The rents on these properties have been generally blocked, but in many cases it is known that present rental values are in excess of the valuation which was obtained by an automatic percentage increase in the then existing values.

It must also be noted that the State taxes are only a small part of the total burden on these assessments. The Compartimental Inspector at Bari estimates the total burden as 30% on Terreni (State 5%) and as 33% Fabbricati (State 10%) for 1944, exclusive of the imposte complementare.

In order to obtain the latest information as to rents and to obtain an immediate payment of additional tax on these properties it is suggested that every person rendering a declaration of residence under para 4(a) above would pay a special tax of 5% of his last 3 months rent which he would be entitled to deduct from his landlord the next time he pays rent.

In the case of persons who own their own houses a sum equal to 5% of their Fabbricati assessment would be paid at a similiar time.

In the case of farmers owning their land a sum equal to 1% of their Terreni assessment would be paid.

It is also suggested that buildings now excluded from the rolls owing to having been built less than 25 years should be immediately assessed.

5/ Tax on Interest from Government Securities.

Italian State bonds carry interest in the majority of cases at rates between 3½% and 5% and are at present exempt from taxation. It is suggested that this exemption should be withdrawn and that income from these bonds should either be included in category A of the Richezza Mobile taxation, where it would now be subject to taxation at 24% or that a special tax should be levied on this interest at 25%. It is also proposed that the interest should be included in the general tax on total income (Imposte complementare).

6/ Turnover Tax (Imposte sull'entrata).

This tax superceded a sales tax (Tasse sugli Scambi) in 1940, which tax was levied at various percentages by means of stamps affixed to invoices and applied to all sales other than sales to the public by a retailer. The new tax is wider in scope and is aimed at the total turnover i.e. the gross sales of all businesses and sums received for services by the professions, by transportation agencies and by barbers etc.

Declassified E.O. 12356 Section 3.3/NND No. 785017

It is the largest item on the revenue estimates for 1943-44 at 5000 million.

The new tax is principally assessed in the retail trade by an accordo under which an estimated turnover is got by applying a coefficient to the income tax (Ricchezza Mobile) assessment on the individual business or other activity. These coefficients which are determined generally for each separate trade by the trade corporations at Rome each year are used by the officials of Indirect Taxation to convert the net profit figures of the Ricchezza Mobile assessment into a gross turnover figure, and are further modified by reference to the population of the commune in which the business is situated and by reference to the number of employees. The Ricchezza Mobile assessment is however itself normally obtained by the officials of Direct Taxation by estimating the sales and applying a percentage figure to get the estimated net profit, or by basing it on so many lira per quanta of the different types of goods produced. It is clear that the turnover as obtained for the turnover tax has gone though so many stages of estimate that it is unlikely to be accurate.

Businesses, etc, which are too small to have a Ricchezza Mobile assessment pay a fixed duty depending on the population of the commune.

Certain specific rates are levied per vehicle or boat, on taxi ,gondolas and ferries. Other transportation agencies are charged in various ways on the actual tickets issued. Those trades not adopting the 'accordo' method pay by means of stamps, or for large sums by direct payment of cash.

The rates of duty on turnover was 2% increased to 3% as from 1 July 1943.

In Dec.1943 the Italian government passed a law in the four provinces providing that taxpayers in a large number of types of trades should in Jan. 1944 declare their actual turnover for 1943 and pay duty thereon instead of by the 'accordo' method and for other trades the 'accordo' of 1943 was continued in force for 1944. This measure is partly experimental and the general position is that the tax had become really a form of license duty except for the big businesses run by companies and the manufacturing and wholesale trades.

In order to provide some up to date check on the existing turnover figures and to provide immediate revenue it is proposed that every person in business would pay a special turnover tax of 2 - 3% on the total of his sales for the past 3 months.

7/ Income Tax on Moveable Wealth (Ricchezza Mobile) on Total Income(Imposta Complementare) and on Patrimony (Patrimonio).

The general opinion is that the existing assessments for these taxes are low and do not reflect the recent profit and value figures. It is impossible to estimate the extent of this underassessment which will undoubtedly differ in the various types of trades and also for the individuals in that trade. Suggestions have been received from certain Italian officials that the assessments on certain classes of the Ricchezza Mobile should be doubled or quadrupled. It is however thought that any such action would necessitate giving further facilities for appeal and might make more appeals and work than could be handled in a short time.

It is accordingly suggested that if it is necessary to raise further taxes rapidly from these taxpayers, who will already have been caught by the other additional taxes suggested, that the best action would be to accelerate the date of payment of the present instalments on the rolls.

8/ Death duties

Declassified E.O. 12356 Section 3.3/NND No. 785017

of goods produced. It is clear that the turnover as obtained for the turnover tax has gone through so many stages of estimate that it is unlikely to be accurate.

Businesses, etc, which are too small to have a Richezza Mobile assessment pay a fixed duty depending on the population in the commune.

Certain specific rates are levied per vehicle or boat, on taxi ,gondolas and ferries. Other transportation agencies are charged in various ways on the actual tickets issued. Those trades not adopting the 'accordo' method pay by means of stamps, or for large sums by direct payment of cash.

The rates of duty on turnover was 2% increased to 3% as from 1 July 1943.

In Dec.1943 the Italian government passed a law in the four provinces providing that taxpayers in a large number of types of trades should in Jan. 1944 declare their actual turnover for 1943 and pay duty thereon instead of by the 'accordo' method and for other trades the 'acordo' of 1943 was continued in force for 1944. This measure is partly experimental and the general position is that the tax had become really a form of license duty except for the big businesses run by companies and the manufacturing and wholesale trades.

In order to provide some up to date check on the existing turnover figures and to provide immediate revenue it is proposed that every person in business would pay a special turnover tax of 2 - 3% on the total of his sales for the past 3 months.

7/ Income Tax on Moveable Wealth (Richezza Mobile) on Total Income(Imposta Complementare) and on patrimony (patrimonio).

The general opinion is that the existing assessments for these taxes are low and do not reflect the recent profit and value figures. It is impossible to estimate the extent of this underassessment which will undoubtedly differ in the various types of trades and also for the individuals in that trade. Suggestions have been received from certain Italian officials that the assessments on certain classes of the Richezza Mobile should be doubled or quadrupled. It is however thought that any such action would necessitate giving further facilities for appeal and might make more appeals and work than could be handled in a short time.

It is accordingly suggested that if it is necessary to raise further taxes rapidly from these taxpayers, who will already have been caught by the other additional taxes suggested, that the best action would be to accelerate the date of payment of the present instalments on the rolls.

270

8/ Death duties

These duties which were doubled in 1940 are still generally on a low scale. They are, however, extremely complicated and the differences in duty, so far as they are affected by consanguinity, are very marked. It would be practicable to make an arbitrary increase in the rates but this action would not make any large immediate contribution to the revenue.

It is accordingly suggested that these taxes be revised in conjunction with the general revision of the tax structure.

APPENDIX "B"

PROPOSALS FOR THE REVISION OF THE ITALIAN TAX STRUCTURE

General

1/ The Italian tax system as at present existing contains 15 separate direct taxes and 32 indirect taxes.

Declassified E.O. 12356 Section 3.3/NND No. 785017

The direct taxes are estimated to produce 27.6% of the total State Revenue excluding Capital movements for the year 1943-44 and the indirect taxes to produce 27.9%.

The multiplicity of taxes is caused partly through the difference between permanent and temporary taxes, the latter being those which have been introduced since the various "emergencies". Several of these are called seperate taxes and are based on the same assessable figures and are obtained by levying increased percentages on the base or by additional percentages on the tax.

Italian officials themselves admit that the system is complex and designated at least in part to make it very difficult for the taxpayer to know how much tax he does in fact pay.

With a view to an increase in administrative efficiency and a reduction of work, it is considered that wherever possible taxes which are analagous should be amalgamated.

2/ The system also includes several special taxes and exemptions introduced for political or special economic reasons. Examples are the seperate taxes on bachelors, the exemptions given to families of 7 or more children and the intensive exemptions in respect of properties erected within the last 26 years (25). It is considered that these over-emphasized adjustments should be eliminated as seperate entities even if some smaller amelioration of of taxation is continued in some cases.

3/ Italy generally is a country of the small one man or family business, and this is particularly true in the South, and the latest available statistics of the Kingdom show that for the year 1938 there were only 18,918 assessments on companies and Societies totaling Lit. 3,541,817,873 average Lit. 209,383 and 1,024,198 assessments on private businesses under Category B of the Income Tax on Moveable Wealth which totalled Lit. 6,439,888,407 giving an average of only Lit. 6287 per assessment. The true gross average private income assessed would be greater than this as the small income allowances are deducted before entering the assessment in the roll, but as the maximum allowance in 1938 was 1,000 on the minimum income of Lit. 2,000 and the allowances ceased when the income exceeded Lit. 2,500 the maximum average gross is unlikely to have been more than Lit. 7,000. Sample statistics seen for later years indicate that this figure has not greatly increased.

The large number of small businesses and the to some extent consequential absence both of business accounts and accountants to prepare such accounts are probably the reasons that Italian direct tax assessments of all kinds are generally estimated. This system is inherent in the Italian idea under which until 1942 the assessment could not be varied until 2 years after the year in which the ascertainment was made. In connection with the War Profits Tax an attempt is still made to fix an Income Tax assessment on the normal profits of the business as distinct from the War Profits tax based on the excess of the actual profit over the pre-war normal. Legislation was however enacted in 1942 allowing for normal revisions of the Income Tax assessments and through an adjustment in the War Profits tax the Income Tax has been charged on the whole profit of 1941 and subsequent years.

4/ Largely in consequence of the above facts the Italian revenue staffs do not contain many personnel of much ability. The best senior officials are however capable of carrying out the more accurate and better class of work. It is understood that an attempt was made several years ago to improve the

Declassified E.O. 12356 Section 3.3/NND No. 785017

an increase in administrative efficiency and a reduction of work, it is considered that wherever possible taxes which are analogous should be amalgamated.

2/ The system also includes several special taxes and exemptions introduced for political or special economic reasons. Examples are the seperate taxes on bachelors, the exemptions given to families of 7 or more children and the intensive exemptions in respect of properties erected within the last 26 years (25). It is considered that these over-emphasized adjustments should be eliminated as seperate entities even if some smaller amelioration of of taxation is continued in some cases.

3/ Italy generally is a country of the small one man or family business, and this is particularly true in the South, and the latest available statistics of the Kingdom show that for the year 1936 there were only 16,916 assessments on companies and Societies totaling Lit. 3,541,817,378 average Lit. 209,383 and 1,024,196 assessments on private businesses under Category B of the Income Tax on Moveable Wealth which totalled Lit. 6,438,866,407 giving an average of only Lit. 6287 per assessment. The true gross average private income assessed would be greater than this as the small income allowances are deducted before entering the assessment in the roll, but as the maximum allowance in 1938 was 1,000 on the minimum income of Lit. 2,000 and the allowances ceased when the income exceeded Lit. 2,500 the maximum average gross is unlikely to have been more than Lit. 7,000. Sample statistics seen for later years indicate that this figure has not greatly increased.

The large number of small businesses and the to some extent consequential absence both of business accounts and accountants to prepare such accounts are probably the reasons that Italian direct tax assessments of all kinds are generally estimated. This system is inherent in the Italian idea under which until 1942 the assessment could not be varied until 2 years after the year in which the ascertainment was made. In connection with the War Profits Tax an attempt is still made to fix an Income Tax assessment on the normal profits of the business as distinct from the War Profits tax based on the excess of the actual profit over the pre-war normal. Legislation was however enacted in 1942 allowing for normal revisions of the Income Tax assessments and through an adjustment in the War Profits tax the Income Tax has been charged on the whole profit of 1941 and subsequent years.

4/ Largely in consequence of the above facts the Italian revenue staffs do not contain many personnel of much ability. The best senior officials are however capable of carrying out the more accurate and better class of work. It is understood that an attempt was made several years ago to improve the standard of recruits into the Finance service, but that it did not proceed to full effect.

5/ Having regard to the above general points it will be necessary to proceed carefully in revising the tax structure and accordingly the following proposals are made as a basis for a general improvement which whilst giving some immediate benefits will also be steps on the way to a more complete overhaul of the system

6/ - RETURNS.

The present system whereby income returns are only required for any specific tax when the income commences and when a change in circumstances has occurred, results in very few returns being obtained and those only when reductions are claimed.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

This fact materially restricts the information available to the Revenue officials. Even though a large part of the returns which will be received under an annual compulsory return system will be estimated and inaccurate the accumulation of facts and information will enable the officials to keep more closely in touch with the changes of profits of the individual businesses and with the incomes of the individuals. It is accordingly suggested that every taxpayer be required to make a return of his income annually, that a new form of declaration should be prepared and that the forms for this purpose should be issued to the taxpayers annually by the Revenue officials.

7/ - INADEQUATE ASSESSMENTS AND PENALTIES.

The present procedures for correcting insufficient assessments are somewhat onerous and inadequate and this feature coupled with the relatively low penalties which can be obtained further handicaps the officials in obtaining the full duties due.

When an official discovers that the income for previous years is inadequately assessed he can revise the assessments for the past four years for the Imposte Richezza Mobile and generally for two years for the other principal taxes.

Penalties are only incurred for the annual direct taxes in respect of

(i) a failure to declare a new income

(ii) a declaration of a change in income in which the income is understated by more than 25%.

It will be impossible for the existing staff even if considerably augmented in numbers and capabilities to review and bring up to-date all the assessments in one year and this will mean that as cases are gradually reviewed it will constantly be found that assessments for previous years were inadequate.

It is therefore suggested

(a) that for the direct taxes the basis of assessment should be clearly defined as the actual income of some definite period.

(b) that the powers of making supplementary assessments for the past years should be extended to six years.

(c) that the machinery for making additional assessments should be simplified.

(d) that the liability to incur penalties should apply to any failure to render every year a full and accurate return and should be extended to cover the six years prior to the current year of assessment.

8/ - INCOME TAX ON MOVEABLE WEALTH - RICHEZZA MOBILE.

The principle weakness of this tax lies in the failure except in the case of companies to clearly define the assessable income as the actual income of any particular period. This matter has been referred to in the general remarks and in the proposals in paras 6 and 7 relating to returns and the powers for supplementary assessments and penalties.

It will be necessary before any real increase can be affected in the number of assessments based on a real income and profit figures for the legal position with regard to statutory books to be improved.

It is therefore suggested that the only immediate action with regard to this tax would be to define clearly the basis of assessment and then by administrative action, based on the new returns referred to in para 6 to start the

270 Cm 6

The present procedures for correcting insufficient assessments are somewhat cumbrous and inadequate and this feature coupled with the relatively low penalties which can be obtained further handicaps the officials in obtaining the full duties due.

When an official discovers that the income for previous years is inadequately assessed he can revise the assessments for the past four years for the Imposte Richezza Mobile and generally for two years for the other principal taxes.

Penalties are only incurred for the annual direct taxes in respect of

(i) a failure to declare a new income

(ii) a declaration of a change in income in which the income is understated by more than 25%.

It will be impossible for the existing staff even if considerably augmented in numbers and capabilities to review and bring up to-date all the assessments in one year and this will mean that as cases are gradually reviewed it will constantly be found that assessments for previous years were inadequate.

It is therefore suggested

(a) that for the direct taxes the basis of assessment should be clearly defined as the actual income of some definite period.

(b) that the powers of making supplementary assessments for the past years should be extended to six years.

(c) that the machinery for making additional assessments should be simplified.

(d) that the liability to incur penalties should apply to any failure to render every year a full and accurate return and should be extended to cover the six years prior to the current year of assessment.

8/ - INCOME TAX ON MOVEABLE WEALTH - RICHEZZA MOBILE.

The principle weakness of this tax lies in the failure except in the case of companies to clearly define the assessable income as the actual income of any particular period. This matter has been referred to in the general remarks and in the proposals in paras 6 and 7 relating to returns and the powers for supplementary assessments and penalties.

It will be necessary before any real increase can be affected in the number of assessments based on a real income and profit figures for the legal position with regard to statutory books to be improved.

It is therefore suggested that the only immediate action with regard to this tax would be to define clearly the basis of assessment and then by administrative action, based on the new returns referred to in para 6 to start the revision of the larger assessments.

9/ - TAX ON INCREASES IN RENT.

The existing assessment on buildings are as already mentioned in para [illegible] of appendix A very considerably out of date and it is doubtful whether any adequate revision is possible in existing circumstances for some time. Moreover the present restrictions on raising rents may be revised in the future from time to time and it would not be possible under a revaluation scheme really to obtain the appropriate taxation from these individuals actually in receipt of additional unassessed rents.

It is accordingly suggested that a new tax be imposed on the excess of the net rent actually received over and above the amount of the existing assessment on the building.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Deductions would be given in ascertaining the net rents for expenses necessarily incurred on similiar lines to those already given in making the Fabbricati assessment. It is also suggested for the purpose of simplicity that this tax should not include a provincial or communal sovrimpost but should be levied at a flat rate of at least 25%. Declarations of rents received would be required from owners, these to be compared with the returns received under the emergency scheme for a general tax on rents.

10/ - TAXES ON TOTAL INCOME (Imposte Complementare and Imposte sul ~~extraordinary~~ reddito superior a Lt.10,000)

The total income tax (imposte complementare) is at present levied on all incomes which exceed Lire 6,000 in total, the taxable amount being obtained after deducting taxes paid under Richezza Mobile etc, life insurance premiums and interest on loans. A deduction is made for each child, of the twentieth part of the income, but not exceeding Lit 3,000 for each child. Tax is then levied at rates which progress slowly by centissimi from 1% to 10%. A seperate tax has been added during the war whereby for incomes over Lit 10,000 a further tax is levied as follows:

Income	10,000 –	30,000 –	additional	25% of existing Imposti Comple
"	30,001 –	174,000 –	"	50% " " " " (mentare.
"	174,001 –	484,000 –	"	75% " " " "
"	over 484,001	–	"	100% " " " "

Even with these war additions the tax is still not heavy as the maximum on incomes exceeding 1 million lire is only 20% (10% plus 10%)

As an indication of the relative numbers of taxpayers in the different groups and of the total incomes in each group the following tables for the commune of Naples for the principal rolls for 1944 are given.

Imposte Complementare

No. of Taxpayers.	Range of Net Incomes Included		Rate of Tax Applicated.		Total Income Charged in each Class.	Tax Charged.
20,521	3,000 –	17,000	1.– % –	2%	193,057,907	
6,659	17,200 –	48,000	2.– % –	3%	180,881,365	
838	48,500 –	99,000	3.01% –	4%	54,555,384	
185	100,000 –	174,000	4.01% –	5%	25,835,000	
87	175,000 –	260,000	5.01% –	6%	18,[illegible]200	
22	260,000 –	410,000	6.01% –	7%	[illegible],000	
8	410,000 –	570,000	7.01% –	8%	3,755,000	
1	560,000 –	770,000	8.01% –	9%	[illegible],000	
1	770,000 –	1,000,000	9.01% –	10%	2,500,000	
46			Anti 1% (categ. D)		70,664,[illegible]47	
28,313					539,227,810	12,240,606

War Additional to Imposte Complementare

No. of Taxpayers	Range of Net Income Included.	Rate of Tax applicated.	Amount of Additional Tax.
			1,092,134

ed after deducting taxes paid under Richezza Mobile etc, life insurance premiums and interest on loans. A deduction is made for each child, of the twentieth part of the income, but not exceeding Lit 3,000 for each child. Tax is then levied at rates which progress slowly by centissimi from 1% to 10%. A seperate tax has been added during the war whereby for incomes over Lit 10,000 a further tax is levied as follows:

Income	10,000 –	30,000 –	additional	25% of existing imposti Comple
"	30,001 –	174,000 –	"	50% " " " (mentare.
"	174,001 –	484,000 –	"	75% " " " "
"	over 484,001	–	"	100% " " " "

Even with these war additions the tax is still not heavy as the maximum on incomes exceeding 1 million lire is only 20% (10% plus 10%)

As an indication of the relative numbers of taxpayers in the different groups and of the total incomes in each group the following tables for the commune of Naples for the principal rolls for 1944 are given.

Imposte Complementare

No. of Taxpayers.	Range of Net Incomes Included		Rate of Tax Applicated.		Total Income Charged in each Class.	Tax Charged.
20,521	3,000 –	17,000	1.– % –	2%	193,057,467	
6,859	17,200 –	48,000	2.– % –	3%	180,881,365	
838	48,500 –	99,000	3.01% –	4%	54,555,384	
185	100,000 –	174,000	4.01% –	5%	23,825,000	
67	175,000 –	280,000	5.01% –	6%	14,845,200	
22	280,000 –	410,000	6.01% –	7%	7,000,000	
8	410,000 –	570,000	7.01 –	8%	3,755,000	
1	560,000 –	770,000	8.01% –	9%	680,000	
1	770,000 –	1,000,000	9.01% –	10%	2,500,000	
45			anti 1% (categ. B)		76,644,874	
28,313					539,227,610	12,240,696

War Additional to Imposte Complementare

No. of Taxpayers	Range of Net Income Included.	Rate of Tax Applicated.	Amount of Additional Tax.
12,063	10,000 – 30,000	25%	1,092,134
2,376	30,001 – 174,000	50%	2,154,644
87	174,001 – 484,000	75%	975,672
5	484,001 – and over	100%	427,830
14,483			4,610,280

It is proposed that these two taxes should be merged into one new tax on total income and that the rates of duty be graded up more steeply than at present.

The present tax becomes chargeable on net incomes in excess of Lit 3,000 and it is suggested that this lower limit should be raised and that different allowances should be given to married and unmarried men and the seperate Tax on bachelors be omitted.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

10/ - Bachelor Tax (Imposti sui calibi)

This tax consists of a fixed sum payable according to age and varing between 85 and 155 lire per bachelor and a variable proportion which is equal to the tax on total income. (Imposte complementare). The tax is estimated to yield 210 million for 1[illegible] against a total yield of 5700 million for Richezza Mobile. It is part of the Fascist scheme of encouraging the large family and certainly imposes a heavy discrimination against bachelors. It is suggested that as a first step the variable portion should be abolished and the whole tax eventually cancelled and variable allowances for single and married persons be given in the revised total income tax.

11/ -- TURNOVER TAX (Imposta sul'entrata)

This tax has already been described in appendix A para 6 and in its present form as actually administered it clearly bears little resemblance to a tax on actual turnover. There are very great administrative difficulties as the Italians have themselves found in obtaining proper turnover figures when the tax is extended to include the retail shops and especially when it includes money received for services.

It will probably be necessary to propose considerable amendments to this tax but the actual proposals should await the results obtained from temporary measures referred to in Appendix A.

12/ - TAXES LEVIED FOR THE COUNCIL OF CORPORATIONS AND THE ENTI COMMUNALE DI ASSISTENZA.

The small additional levy on certain existing types of income in favor of the Provincial Corporations Council should be abolished. The various small additional sovrimposts levied in favor of E. C. A. and used to provide relief to the needy should be abolished as soon as arrangements can be made to finance this expense from the general state funds. It is suggested that the abolition of these small duties be made at the same time as rates are raised on other taxes.

2693

Declassified E.O. 12356 Section 3.3/NND No. 785017

12 February 1944.

Subject: Finance Sub-Commission's report for January

To : Colonel Adams

In accordance with your advice a new set of stencils is being cut for the Finance Sub-Commission's monthly report. The stencils have been cut once, on Italian make stencils, but the copy is quite illegible. See sample attached. Depending upon the availability of stenographic staff, copies of the report should be available during the early part of next week.

CARL A. MILLER, Lt.-Col.

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

29Y

2651

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

501

38

SECRET

10 February 1944

REPORT OF THE FINANCE SUB-COMMISSION, AFHQ/ACC
JANUARY 1944

During January 1944 the Headquarters of the Finance Sub-Commission continued to be located in Naples. The CFO was absent during the entire month and the CFI was Acting CFO. The DCFI was Acting CFI. The Currency and Exchange Adviser was transferred from this theatre at the beginning of the month. The Sub-Commission was represented at the Command Post of ACC, Brindisi, throughout the month. The Report of the operations of the Finance Sub-Commission at Brindisi for January is appended.

I. AFHQ

A. Foreign Exchange Transactions

Foreign exchange transactions are to be under the control of AFHQ, in so far as custody and out-payment of foreign assets are concerned. During the month discussions and correspondence covered some five principal questions:

1. Remittances from the US and the UK

On 5 January cable advice was received that the Bank of Sicily was prepared to complete personal remittances according to the plan outlined by this HQ. Subsequently the Regional Chief Financial Officer in Sicily provided the Bank's signed acceptance of the proposal, which modified the original only in specifying a fee of 1 per cent per payee, instead of the flat fee of 100 lire per payee specified by Headquarters. The Bank of England will be sole correspondent in the UK. The Bank of Sicily proposed eight banks to serve as US correspondents;

Chase National Bank, New York.
Guaranty Trust Co. " "
Irving Trust Co. " "
National City Bank " "
Bank of America National Trust & Savings Assn. San Francisco.
Whitney National Bank, New Orleans.
Alex Brown & Sons, Baltimore, Md.
First National Bank of Boston, Boston, Mass.

2698

Declassified E.O. 12356 Section 3.3/NND No. 785017

During January 1944 the Headquarters of the Finance Sub-Commission continued to be located in Naples. The CFO was absent during the entire month and the DFI was Acting CFO. The ACFI was Acting DFI. The Currency and Exchange Advisor was transferred from this theatre at the beginning of the month. The Sub-Commission was represented at the Command Post of AOC, Brindisi, throughout the month. The Report of the operations of the Finance Sub-Commission at Brindisi for January is appended.

I. AMFA

A. Foreign Exchange Transactions

Foreign exchange transactions are to be under the control of AMFA, in so far as custody and out-payment of foreign assets are concerned. During the month discussions and correspondence covered some five principal questions:

1. Remittances from the US and the UK

On 8 January cable advice was received that the Bank of Sicily was prepared to complete personal remittances according to the plan outlined by this HQ. Subsequently the Regional Chief Financial Officer in Sicily provided the Bank's signed acceptance of his proposal, which modified the original only in specifying a fee of 1 per cent per payee, instead of the flat fee of 100 lire per payee specified by Headquarters. The Bank of England will be sole correspondent in the UK. The Bank of Sicily proposed eight banks to serve as US correspondents;

Chase National Bank, New York.
Guaranty Trust Co. " "
Irving Trust Co. " "
National City Bank " "
Bank of America National Trust & Savings Assn. San Francisco.
Whitney National Bank. New Orleans.
Alex Brown & Sons. Baltimore, Md.
First National Bank of Boston, Boston, Mass.

2698

This information was transmitted to AFHQ on 18 January and 20 January 1944. AFHQ has advised this HQ that present transmission to COS of a list of correspondents was effected on 20 January. The draft proposal, without the signed agreement of the Bank of Sicily for the list of correspondent banks, was forwarded to COS on 16 January 1944, following receipt of an urgent telegram from COS citing the personal interest of the President of the United States in the establishment of a remittance procedure.

Under the procedure suggested to COS, each remitter will be limited to one remittance per quarter, not to exceed 10,000 lire, and each Sicilian household may receive only one remittance per quarter. Onward-remittance will be limited to an amount each way per month from and to each correspondent bank, each of which will pass through AFHQ, Peloria. All dollars and sterling will be held for the Bank of Sicily for account of AMFA in post-liberation blocked accounts, from which payments will be permitted only

14 Feb 45

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

currently paid in lire.

Subsequently a cable from OSS dated 9 December which had never been received by AGS was repeated on 18 January, requesting authority for the remittance of 2 million lire to Sicily and 6 million lire to the mainland on behalf of the Apostolic Delegate in Washington, both amounts to be paid through the Bank of Sicily. To this AGS replied, with the approval of the DCRO, then in Algiers, that such remittances could be effected through the Bank of Sicily, suggesting that the US Treasury make appropriate arrangements for specific licenses, as these individual payments may exceed 10,000 lire. This will require an amendment to the agreement with the Bank of Sicily, as the fees at one per cent would be excessive. In view of this precedent, further remittances by organizations, in excess of the maximum figure of 10,000 lire per remittance, are to be expected, with each organizational remittance receiving a special license from the Treasury in the US or the Treasury of the UK.

On 22 January OSS advised this Headquarters, through AGS, that the Italian Embassy in Buenos Aires wished to arrange for personal remittances from Argentina and other Latin American countries to Sicily and the mainland. The Embassy further wished to defray the operating expenses of the Italian Embassy in Buenos Aires. OSS felt that such remittances should be effected only via sterling or dollars, through the mechanism set up above, and that the proceeds should not be earmarked for any specific purpose such as the expenses of the Italian Embassy in Buenos Aires. This HQ was in complete agreement with both suggestions, and so informed OSS, as this procedure would limit the number of AMGOT's foreign bank accounts, and concentrate these resulting from remittances into two currencies.

2. Foreign Exchange Resulting from Exports

On 23 January OSS directed that the dollar proceeds of Italian exports would be held in post-liberation blocked accounts with the Bank of Sicily or the Bank of Italy for account of AMG, in the same fashion as the dollar proceeds of remittances. Employment of such funds would be subject to the "exclusive supervision and control" of AMG, and would be used, with AMG and Treasury approval, only for the essential import needs of Italy, for essential diplomatic consular or military expenditure, and for expenditure essential to keep Italian vessels running, and in such other cases as specifically agreed upon between US and British Governments. Foreign exchange credits resulting from exports to or remittances from other Allied countries would also be held in accounts in foreign banks under control of AMG. In the case of Argentina, Switzerland and other non-allied countries, the proceeds of exports would be converted into dollars or sterling and held in post-liberation blocked accounts.

This cable is now under consideration, as export proceeds received in currencies other than dollars or sterling will present additional problems of supervision for AMG, and the conversion of neutral currencies into dollars and sterling will be possible only after negotiations with exchange control authorities in these countries. AMG has as yet taken no steps to open foreign exchange accounts other than the recommendation to the OSS that eight US banks and the Bank of Italy be authorized to open "Bank of Sicily A" accounts. To date only the United States Commercial corporation has advised this HQ that it is prepared to pay over to account of AMG the proceeds of exports from liberated territory, the currency in question being dollars. No advice has as yet been received from the consignees of shipments made to the United Kingdom, French North Africa and Malta.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

II. 6 CUSTOMS SECTION

A. Duties on Allied imports for Italian use

On 30 December a memorandum was submitted recommending full collection of all Italian duties and related charges on merchandise imported by the Allied Governments and turned over to the Italian Government or to Italian private or quasi-private concerns. A plan for the collection of such duties was included. This recommendation was approved by the Acting CPO and AMZA. On 11 January a second memorandum was submitted discussing the recommendations of this section from the point of view of the price policy outlined in the memorandum entitled "Views of ACC/AMG on Price Policies in Italy" of 3 January 1944.

B. Assembly of Italian Customs Information

1. Descriptive memoranda on the duties and functions of the three major Italian organizations concerned with the assessment and collection of customs duties and related charges have been completed. The three organizations are the customs service, the Guardia di Finanza, and the Capitanerie. A large volume of other material awaits translation.

2. A statement of duties and other charges provided in Italian law on the commodities which it is proposed that the Allied Governments will import for Italian use was obtained.

III. REVENUE SECTION

A. Reorganization

1. The Revenue Section, Finance Sub-Commission, ACC now operates through revenue officers in the AMG Regions rather than directly with the provinces. This change has simplified the work of the section, but it has delayed receipt of provincial data.

2. The following report forms were adopted:

CRO 14 - State revenues by provinces;
CRO 15 - State expenses by provinces;
CRO 16 - State expenditures by provinces and ministries;
CRO 17 - Condition of revenue offices, presses, and officials.

B. Revenue and Expenditure Statistics

1. Provincial tax receipts in millions of lire for reporting provinces in 1943 and 1942 are as follows:

	July	August	September	October	November	December	Six Months
Region II							
Milan:							
1942	.8	3.0	1.0	5.2	1.0	2.9	13.8
1943	.7	4.0	.5	.7	.6	3.4	10.1
Reggio Calabria							
1942	5.8	12.0	7.1	12.1	6.9	11.3	55.2
							17.2

"Views of ACC/AMG on Price Policies in Italy" of 2 January 1944.

B. Assembly of Italian Customs Information

1. Descriptive memoranda on the duties and functions of the three major Italian organizations concerned with the assessment and collection of customs duties and related charges have been completed. The three organizations are the customs service, the Guardia di Finanza, and the Capitanerie. A large volume of other material awaits translation.

2. A statement of duties and other charges provided in Italian law on the commodities which it is proposed that the Allied Governments will import for Italian use was obtained.

III. REVENUE SECTION

A. Reorganization

1. The Revenue Section, Finance Sub-Commission, ACC now operates through revenue officers in the AMG Regions rather than directly with the provinces. This change has simplified the work of the section, but it has delayed receipt of provincial data.

2. The following report forms were adopted:

CRO 14 - State revenues by provinces;
CRO 15 - State expenses by provinces;
CRO 16 - State expenditures by provinces and ministries;
CRO 17 - Condition of revenue offices, presses, and officials.

B. Revenue and Expenditure Statistics

1. Provincial tax receipts in millions of lire for reporting provinces in 1943 and 1942 are as follows:

	July	August	September	October	November	December	Six Months
Region II							
Matera							
1942	.8	3.0	1.0	3.2	1.0	2.9	13.8
1943	.7	4.0	.5	.7	.8	3.4	10.1
Reggio Calabria							
1942	5.8	12.0	7.1	12.1	6.9	11.3	55.2
1943	.1	1.8	*	4.0	3.8	7.5	17.2
Region III							
Naples							
1942	80.4	152.5	109.7	172.8	109.2	138.8	773.4
1943	126.3	117.9	43.1	42.1	25.8	79.5	438.7

* = less than 50,000 lire.

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Zeitz Absatz Getreide Dezember November Dezember Six Months

| | | |

1943				5.1	2.0	5.1	
Bagni Pr vinces							
Bari							
1942	29.8	65.2	47.7	76.0	54.4	54.4	327.5
1943	41.8	104.1	62.9	69.2	54.2	87.2	419.4
Brindisi							
1942	1.6	6.1	1.7	6.6	1.7	6.2	23.9
1943	2.6	9.3	2.5	7.9	4.4	7.6	34.7
Lecce							
1942	2.5	10.4	3.6	10.4	3.5	10.4	40.8
1943	3.0	13.6	3.6	13.5	5.2	13.2	56.1
Taranto							
1942	3.0	9.0	2.7	9.2	13.5	31.8	69.2
1943	2.5	11.1	3.2	10.7	4.9	11.4	45.8
Region IV							
Foggia							
1942	4.2	17.4	14.3	17.4	6.8	18.2	78.3
1943	1.5	33.6	.8	17.1	.7	12.9	66.8

2. A detailed breakdown for Naples province for December 1942 and December 1943 is as follows (amounts in millions of lire):

	December 1942	December 1943	
		Amount	Index of 1942
Imposte Dirette			
Imposta R.M. ("income tax")	21.0	11.2	53
Imposte ordinarie sul patrimonio (general property tax)	8.7	10.5	121
Imposta straordinaria sui maggiori utili relativi allo stato di guerra (excess profits tax)	1.6	4.5	281
Imposta reddito complessivo (income sur-tax)	4.8	4.5	94
Imposta straordinaria sulla proprietà immobiliare (special real property tax)	4.5	3.8	84
Imposta sui fabbricati (tax on rent of urban buildings)	4.2	3.7	88
Imposta [illegible] progressiva sui celibi (bachelors' tax)	1.1	1.1	100
Imposta sui dividendi delle ragioni sociali delle società (tax on dividends)	2.5	.0	0
Other Imposte Dirette	4.0	4.7	117
Total Imposte Dirette	52.4	43.8	

2693

Declassified E.O. 12356 Section 3.3/NND No. 785017

	December 1942	December 1943 Amount	December 1943 % of 1942
Imposte Indirette			
Imposta sull entrate (sales tax)	10.3	-	-
Other imposte indirette	13.3	10.6	80
Total imposte indirette	23.6	10.6	45
Imposte di Produzione	5.5	2.1	38
Dogane e delle Imposte Indirette (Customs)	.9	.5	54
Provveditorato Generale	.11	.08	65
Finanze Locali	.06	.02	20
Total tax Revenues	82.6	56.8	68
Other Revenues	56.2	22.7	40
Total Revenue	138.8	79.5	57

2. In the last six months of 1943 tax collections in the Royal Provinces other than Taranto, were substantially above 1942. These are the provinces in which no military campaigns were fought. They therefore escaped the disorganization of war. In Reggio collections for the six months are only about 30% of last year, but have been improving. They were 70% in December. In Naples the situation deteriorated steadily from July through November, but recovered to 55% for the month of December and an average of 55% for the six months. The returns from Foggia show surprisingly little effect from the campaigns in that area, and collections for the six months were over 85% of last year.

3. The detailed returns for Naples in December indicate revenues larger than last year from the excess profits tax, and the general property tax, and equal to last year for the bachelor's tax. The surtax, the general property tax and the tax on urban building rents ranged from 80% to 90% of last December, but others were far lower. The total for all tax revenues was only 68% of last December.

4. AMG advances are, at this time, the only indication of Italian governmental expenditures. Such advances roughly reflect expenditures of the previous month or, in the case of Regions III and IV, the two preceding months. Under the budgetary control system established in December monthly figures on advances approved by regions will be available, but these data have not yet been received. AMG advances for October, November, and December are as follows:

	October	November	December

Declassified E.O. 12356 Section 3.3/NND 785017

[illegible]	3.3	2.1	38
Dogane e delle Imposte Indirette (Customs)	.9	.3	34
Provveditorato Generale	.11	.08	68
Finanza Locali	.06	.02	20
Total tax Revenues	82.6	56.8	68
Other Revenues	56.2	22.7	40
Total Revenue	138.8	79.5	57

2. In the last six months of 1943 tax collections in the Royal Provinces other than Taranto, were substantially above 1942. These are the provinces in which no military campaigns were fought. They therefore escaped the disorganization of war. In Reggio collections for the six months are only about 30% of last year, but have been improving. They were 70% in December. In Naples the situation deteriorated steadily from July through November, but recovered to 55% for the month of December and an average of 55% for the six months. The returns from Foggia show surprisingly little effect from the campaigns in that area, and collections for the six months were over 85% of last year.

3. The detailed returns for Naples in December indicate revenues larger than last year from the excess profits tax, and the general property tax, and equal to last year for the bachelor's tax. The surtax, the general property tax and the tax on urban building rents ranged from 80% to 90% of last December, but others were far lower. The total for all tax revenues was only 68% of last December.

4. AMF advances are, at this time, the only indication of Italian governmental expenditures. Such advances roughly reflect expenditures of the previous month or, in the case of Regions III and IV, the two preceding months. Under the budgetary control system established in December monthly figures on advances approved by regions will be available, but these data have not yet been received. AMF advances for October, November, and December are as follows:

	October	November	December
		(millions of lire)	
to the State	216.0	811.2 [1]	889.8 [2,3]
to Provinces	125.1	196.0	49.0
to Communes	86.3	275.1 [1]	289.7
Total	427.4	1,282.3	1,228.6

1. Includes December advances in Messina Province
2. Includes January advances in most of Region I.
3. Includes advance of 450 million lire to Badoglio Government.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

31

price of bread rose 160% from August to January, the price of potatoes rose 650%.

The price of potatoes in Palermo is about the same as in Naples. In December the price was 6 lire in Ortigara and about 10 lire in the other provinces of the Isola and Instop. In Catanzaro and Reggio in the toe the price was considerably higher. Recent reports, however, indicate a great rise in the provinces of the Instop and the Isola. By mid-January the price had reached 20 lire in Ragusa, 22 in Caserta, and 41 in Taranto.

The legal price of potatoes varies even more widely than that for bread. It ranges from 3 to 13 lire in Region II, and from 12 to 18 lire in the Royal Provinces, having recently been increased from approximately 8 lire. Only Potenza and Palermo report any potatoes available at legal prices.

3. Olive Oil

Price developments in olive oil are quite different from those of other foods. In the areas where olive production is very small the price of olive oil has been very high for some time and has risen only moderately. In Naples, for instance, the price was already 50 lire in January 1943. By September it had reached 120, and by January 1944 200. The rise from June to January was thus only 67%, in contrast to 160% for bread and 650% for potatoes. In the other areas of low production, Caserta, Potenza and Palermo, prices were 70, 90, and 170 lire in December and did not rise in January. However in the areas of high production, the Isola and the Ortigara too, the price was around 30 lire in December, and in each of the provinces in this area the price rose sharply from December to January. The rise was over 100% in Bari, about 90% in Lecce, and about 53% in Taranto. Trapani, an area of high production, is an exception to these statements. The Trapani price was high in December, 80 lire, and rose 50% in January.

Legal prices of olive oil varied in December from about 15 lire in Sardinia, Caserta, and Potenza, to 35 lire in Sicily. In the Royal Provinces the price was about 20 lire in December and was raised to about 26 in January. In other provinces for which data are available there has been little change.

A ration of olive oil is distributed in each of the provinces from which reports have been received. In Naples the ration is ½ litre per person per month, but it has not been distributed every month.

4. Pasta

In Naples the black market price of pasta was 20 lire in January 1943 and 30 lire in July. By September it was 90 lire and then 130, 145, 240, and 250 lire in the months from October to January 1944. The increase from September 1943 to January 1944 was 178%.

In the other provinces January prices were from 20 to 35 lire in the Instop, from 40 to 50 in the Isola, 100 in Trapani, and 115 in Bari. In Lecce no pasta has been available even in the black market for several weeks. The increase of prices from December to January was over 70% in each of the 8 provinces for which data are available.

Legal prices vary from 5 to 9 lire. Some pasta is reported to be available at legal prices in Catania, Messina, and 3 of the Royal Provinces.

5. Meat, Fish, and Cheese

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

olive oil has been very high for some time and has risen only moderately. In Naples, for instance, the price was already 90 lire in January 1943. By September it had reached 120, and by January 1944 300. The rise thus was to January was thus only 65%, in contrast to 160% for bread and 650% for potatoes. In the other areas of low production, Cosenza, Potenza and Salerno, prices were 70, 90, and 170 lire in December and did not rise in January. However in the areas of high production, the Bari and the extreme too, the price was around 30 lire in December, and in each of the provinces of this area the price rose sharply from December to January. The rise was over 100% in Bari, about 90% in Lecce, and about 55% in Taranto. Trapani, an area of high production, is an exception to these statements. The typical price was high in December, 60 lire, and rose 50% in January.

Legal prices of olive oil varied in December from about 15 lire in Sardinia, Cosenza, and Potenza, to 35 lire in Sicily. In the Royal Provinces the price was about 20 lire in December and was raised to about 26 in January. In other provinces for which data are available there has been little change.

A ration of olive oil is distributed in each of the provinces from which reports have been received. In Naples the ration is ½ litre per person per month, but it has not been distributed every month.

4. Pasta

In Naples the black market price of pasta was 20 lire in January 1943 and 30 lire in July. By September it was 90 lire and then 180, 240, and 250 lire in the months from October to January 1944. The increase from September 1943 to January 1944 was 175%.

In the other provinces January prices were from 20 to 35 lire in the interior, from 40 to 50 in the Bari, 100 in Trapani, and 115 in Lecce. In Lecce no pasta has been available even in the black market for several weeks. The increase of prices from December to January was over 70% in 4 of the 8 provinces for which data are available.

Legal prices vary from 3 to 5 lire. Some pasta is reported to be available at legal prices in Catania, Cosenza, and 3 of the Royal Provinces.

5. Meat, Fish, and Cheese

Naples black market prices of these commodities have increased as follows;

	Jan. 1943	July 1943	Dec. 1943	Jan. 1944
	(in lire, per kg)			
Meat	30	50	220	270
Fish	14	22	140	140
Cheese	30	55	170	200

In Naples at present fish is about half and cheese about 2/3 of the price of meat. In most of the other provinces the price of fish is about

Declassified E.O. 12356 Section 3.3/NND No. 785017

26553

equal to that of Group 2 or 3 but is much higher in the 1-mile visibility category, and the number of days with fog is about the same as in Group 2. In the 1-mile visibility category, Plan 30, not shown in the table, is about as good as Plan 100 or 150 and better than the others. In the 1/2-mile visibility category, Plan 30 is about as good as Plan 150 and better than Plan 100 or the others. Plan 30 is about as good as Plan 150 in the 1/4-mile visibility category and better than the others. Plan 30 is about as good as Plan 150 in the 0-mile visibility category and better than the others.

With only five exceptions, the differences between the plans are not significant. The exceptions are: Plan 30 is significantly better than Plan 100 in the 1-mile visibility category; Plan 30 is significantly better than Plan 150 in the 1/4-mile visibility category; Plan 30 is significantly better than Plan 100 in the 1/4-mile visibility category; Plan 30 is significantly better than Plan 150 in the 0-mile visibility category; and Plan 30 is significantly better than Plan 100 in the 0-mile visibility category.

6. Milk

The data in the following table show the number of days with milk available at the Base Commissary during the period from 1 January 1945 to 31 December 1945.

Month	Days with milk available	Days with milk not available
January	31	0
February	28	0
March	31	0
April	30	0
May	31	0
June	30	0
July	31	0
August	31	0
September	30	0
October	31	0
November	30	0
December	31	0
Total	365	0

It will be noted that milk was available every day during the year. In addition to the milk available at the Base Commissary, milk was also available at the Base Hospital and at the Station Hospital. In addition, milk was available at the Officers' Club and at the Enlisted Men's Club. The milk available at the Base Commissary was received from the Base Dairy Farm. The milk available at the Base Hospital, the Station Hospital, the Officers' Club and the Enlisted Men's Club was received from the Base Dairy Farm or from the Base Commissary.

7. Shoes

In World War II, the Army Air Forces issued to each officer and enlisted man 3 pairs of shoes per year. In addition, officers were allowed to purchase 2 pairs of shoes per year at the Base Commissary. Enlisted men were allowed to purchase 1 pair of shoes per year at the Base Commissary. In addition, officers and enlisted men were allowed to purchase shoes at the Post Exchange. The Post Exchange received its shoes from the Base Commissary.

8. Soap

(Continued on page 17)

Declassified E.O. 12356 Section 3.3/NND No. 785017

2683

30

The results by provinces are approximately as follows:

(Lire per person per week)

	December 7	January 7
Lastop	50-90	80-100
Huel	70-110	100-150
Serlinis	100-110	no data
Tos	100-150	140-180
Sicily	130-170	185
Skin	300	300-350

Declassified E.O. 12356 Section 3.3/NND 785013

Declassified E.O. 12356 Section 3.3/NND No. 785017

A. Bank Appointments

1. Bank of Naples

In accordance with negotiations initiated in December, arrangements were completed for the appointment of Mr.Cesare Ricciardi, an industrialist as Commissario Straordinario and of Mr Arturo Rossigneli, up till now Manager of the Bank of Italy, Naples, as General Manager, Naples.

Appropriate decrees were issued by the Italian Government and the two newly designated officers will assume direction of the Bank during February. Their appointment will be given wide publicity throughout liberated Italy.

2. Bank of Italy

Also in accordance with negotiations initiated in December, Mr. Arturo Atti, senior member of the Consiglio Superiore of the Banco d'Italia, has been appointed by the Head of the Italian Government Commissario of the Bank in liberated territory vesting in him the powers of Governor, Board and Deputy Governor.

At the same time Mr.Pottinari, at present Manager of the Bari branch of the Bank of Italy, will be moved to Naples to head the Naples branch, which at the time will be designated temporary Head Office of the Bank of Italy system. This will unify the central bank in the liberated area and will greatly facilitate the Government's and ACC's supervision of the entire banking system as well as the financial operations of the Italian Government.

B. Postal Savings Bonds

1. In connection with the steps being taken to reinstitute the sale of postal savings bonds throughout liberated Italy negotiations were held with the Psychological Warfare Branch looking to the acquisition through it of sufficient stock of paper with which to print the necessary quantity of bonds, all paper stocks having been previously requisitioned by PWB. These negotiations resulted in a meeting at Foggia where all paper stocks were stored, at which our representative and a representative of the Italian Government were allocated sufficient stocks of paper of the appropriate type to produce bonds in the quantity required.

2. Arrangements were also made with PWB to have the press of Richters and Company, Naples, produce the bonds. The company will require two months to produce a specimen bond.

3. Because of the time required arrangements are also being made to use a temporary type of certificate so that this service can be initiated in the relatively near future.

Appropriate decrees were issued by the Italian Government and the two newly designated officers will assume direction of the Bank during February. Their appointment will be given wide publicity throughout liberated Italy.

2. Bank of Italy

Also in accordance with negotiations initiated in December, Mr. Arturo Atti, senior member of the Consiglio Superiore of the Banco d'Italia, has been appointed by the Head of the Italian Government Commissario of the Bank in liberated territory vesting in him the powers of Governor, Board and Deputy Governor.

At the same time Mr. Pettinari, at present Manager of the Bari branch of the Bank of Italy, will be moved to Naples to head the Naples branch, which at the time will be designated temporary Head Office of the Bank of Italy system. This will unify the central bank in the liberated area and will greatly facilitate the Government's and AMG's supervision of the entire banking system as well as the financial operations of the Italian Government.

3. Postal Savings Bonds

1. In connection with the steps being taken to reinstitute the sale of postal savings bonds throughout liberated Italy negotiations were held with the Psychological Warfare Branch looking to the requisition through it of sufficient stock of paper with which to print the necessary quantity of bonds, all paper stocks having been previously requisitioned by PWB. These negotiations resulted in a meeting at Foggia where all paper stocks were stored, at which our representative and a representative of the Italian Government were allocated sufficient stocks of paper of the appropriate type to produce bonds in the quantity required.

2. Arrangements were also made with PWB to have the press of Richters and Company, Naples, produce the bonds. The company will require two months to produce a specimen bond.

3. Because of the time required arrangements are also being made to use a temporary type of certificate so that this service can be initiated in the relatively near future.

4. Bonds have been sold in Naples since December 3 under the authority of Region III. In the city of Naples 1,618 bonds totalling 7.1 million lire were sold and 4,966 bonds totalling 11.0 million lire were redeemed during the month of January.

5. After some study and meetings with the Communications Sub-Commission looking forward to a coordinated supervision of all postal services the following decisions were made :

(a) That the services relating to Postal Savings Bonds, Postal Savings Accounts, Postal Current Accounts and Money Orders shall be supervised by the Finance Sub-Commission ;

Declassified E.O. 12356 Section 3.3/NND No. 785017

29

(b) All their activities of the postal services will be supervised by the Communications Sub-Commission ;

(c) In order to assure coordinated action and to avoid the possibility of confusion all communications and instructions emanating from the Finance Sub-Commission to the postal services will be routed through the Communications Sub-Commission.

C. Payment for Italian Goods and Services used by the Allied Armed Forces

1. Administrative Memorandum No.35 of AFHQ outlining the policy that payments for Italian goods and services used by the Armed Forces should not be paid for by the latter but by the Italian Government by arrangements to be made thereafter AFC resulted in a great many enquiries and considerable confusion because no plans for such payments had been worked out by AFC with the Government at the time of the issuance of the memorandum.

2. Accordingly the matter was considered at a meeting of the Local Resources (Italian) Board at which a representative of the Finance Sub-Commission was present. The latter pointed out the difficulty of implementing the memorandum because of the lack of a system of payments by the Italian Government, with the result that instructions were issued by Brig.-Gen.A.L. Gamble that until such time as an arrangement has been put into effect by AFC with the Italian Government the Army will make the necessary payments for services and supplies received.

D. Interest on Bank Deposits

At the time the banks in Regions I and II were closed, the clause concerning interest in Proclamation No.3 was interpreted as meaning that interest on debit and credit balances with the banks would continue to accrue up to the due dates of the obligations or in the case of demand obligations continuously. In Region III the opposite course was adopted and this worked unnecessary hardship on the banks concerned. This matter was investigated and then discussed with the Bank Planning Group, which agreed for Rome to use the interpretation applied in Regions I and II. Future editions of Proclamation No.3 will be corrected to allow of no misinterpretation.

E. Studies

Studies were continued are still in process on the possible resumption of commercial insurance in liberated Italy and financial aid to industry through Government assistance in liberated Italy.

A study was also begun of a broad coordinated blocking program of bank deposits to be applied uniformly throughout liberated Italy.

2687

Declassified E.O. 12356 Section 3.3/NND No. 785017

1. Administrative Memorandum No.99 of AFHQ outlining the policy that payments for Italian goods and services used by the armed forces should not be paid for by the latter but by the Italian Government by arrangements to be made through ACC resulted in a great many enquiries and considerable confusion because no plan for such payments had been worked out by ACC with the Government at the time of the issuance of the memorandum.

2. Accordingly the matter was considered at a meeting of the Local Resources (Italian) Board at which a representative of the Finance Sub-Commission was present. The latter pointed out the difficulty of implementing the memorandum because of the lack of a plan of payments by the Italian Government, with the result that instructions were issued by Brig.-Gen.A.L. Scobie that until such time as an arrangement has been put into effect by ACC with the Italian Government the Army will make the necessary payments for services and supplies received.

D. Interest on Bank Deposits

At the time the banks in Regions I and II were closed, the clause concerning interest in Proclamation No.5 was interpreted as meaning that interest on debit and credit balances with the banks would continue to accrue up to the due dates of the obligations or in the case of demand obligations continuously. In Region III the opposite course was adopted and this worked unnecessary hardship on the banks concerned. This matter was investigated and then discussed with the Rome Planning Group, which agreed for Rome to use the interpretation applied in Regions I and II. Future editions of Proclamation No.5 will be corrected to allow of no misinterpretation.

E. Studies

and

Studies were continued/are still in process on the possible resumption of commercial insurance in liberated Italy and financial aid to industry through Government assistance in liberated Italy.

A study was also begun of a broad coordinated blocking program of bank deposits to be applied uniformly throughout liberated Italy.

2687

Declassified E.O. 12356 Section 3.3/NND No. 785017

VI INSURANCE

A. Regulation of Claim Payments by Private Insurance Companies

1. At the present time Southern Italian agencies of private insurance companies are following very dissimilar and inconsistent practices in paying claims to policy holders. It is the intention of the Insurance Section to propose uniform regulations to cover the entire area. A proposal to this effect is being prepared.

2. The insurance organizations in Southern Italy are agencies of companies located in Northern Italy. Before the war agencies throughout the area operated directly under the head offices in Milan and other northern cities. Immediately prior to the Allied occupation the companies, in anticipation of Allied occupation, issued directives to the southern agencies specifying in most cases that the Naples office would assume the duties of head office for the southern agencies and specifying the general line of policy to be followed. The directives of some of the companies stated that claims should be paid in full, while others stated that claims should be met up to 70% of the amount of the claim.

3. These directives never reached the Sicilian agencies. Because of the lack of authority and because of shortage of funds, Sicilian agencies suspended payments of all claims. Region I Headquarters has approved of this policy.

4. AMG, Region II issued a directive for agencies in its area, effective from 1 January, laying down the following policy:

(a) Agencies whose head office is in German territory will operate autonomously;

(b) New business must be presented to AMG for approval;

(c) Claims in excess of 5,000 lire may not be paid other than in exceptional circumstances, in which case AMG approval will be required;

(d) AMG financial assistance will be provided when necessary.

5. Region III has not issued a directive, but has stated in reply to one of the company directives calling for 70% payment that all claims in Region III will be met in full. Region III has made no statement on the agents' authority to obtain new business, nor has any question of AMG financial support arisen.

6. No information is at present available on the situation in the Royal Provinces.

7. The policies laid down for insurance agencies in Southern Italy vary widely. Most of the agencies have received conflicting orders

Declassified E.O. 12356 Section 3.3/NND No. 785017

companies located in Northern Italy. Before the war agencies throughout the area operated directly under the head offices in Milan and other northern cities. Immediately prior to the Allied occupation the companies, in anticipation of Allied occupation, issued directives to the southern agencies specifying in most cases that the Naples office would assume the duties of head office for the southern agencies and specifying the general line of policy to be followed. The directives of some of the companies stated that claims should be paid in full, while others stated that claims should be met up to 70% of the amount of the claim.

3. These directives never reached the Sicilian agencies. Because of the lack of authority and because of shortage of funds, Sicilian agencies suspended payments of all claims. Region I Headquarters has approved of this policy.

4. AMG, Region II issued a directive for agencies in its area, effective from 1 January, laying down the following policy:

(a) Agencies whose head office is in German territory will operate autonomously;

(b) New business must be presented to AMG for approval;

(c) Claims in excess of 5,000 lire may not be paid other than in exceptional circumstances, in which case AMG approval will be required;

(d) AMG financial assistance will be provided when necessary.

5. Region III has not issued a directive, but has stated in reply to one of the company directives calling for 70% payment that all claims in Region III will be met in full. Region III has made no statement on the agents' authority to obtain new business, nor has any question of AMG financial support arisen.

6. No information is at present available on the situation in the Royal Provinces.

7. The policies laid down for insurance agencies in Southern Italy vary widely. Most of the agencies have received conflicting orders from their head offices and from AMG, the orders of the latter sometimes calling for larger claim payments than the companies specified and sometimes smaller. It appears desirable to standardize the practice in all the liberated area, to recognize the headship of the Naples agencies and to permit them to operate with their own facilities and in general accordance with their company directives. It is likely that the Naples agencies have the funds and personnel necessary for such operation and, if given reasonable facilities such as automobiles and curfew exemption, would be able to conduct their business satisfactorily.

Declassified E.O. 12356 Section 3.3/NND No. 785017

28

B. Position of Leading Companies in Naples

Contact was made with several of the leading insurance concerns operating in Naples, including the following :

i. Istituto Nazionale delle Assicurazioni
ii. Assicurazioni Generali Di Venezia
iii. Riunione Adriatica di Sicurta
iv. "Alleanza" Societa Italiana Assicurazioni Vita.

Generally speaking it would appear that, given reasonable facilities, the companies are well able to conduct their affairs within the instructions received from their head offices prior to occupation by Allied forces.

C. Social Insurance

1. Conferences have been held between Officers of the Insurance Section and the officials of Istituto Nazionale Infortuni, Institute Previdenza Sociale, and Cassa Marittima Meridionale on matters relating to the respective Institutes.

Copies of the Statute and Regolamento in Sicily dealing with the amalgamation of the four Casse Mutue under Istituto per l'Assistenza di Malattia ai Lavoratori have been furnished to Regions III and IV.

2. Social insurance cover for civilian labor

Region III submitted a copy of a letter sent by the Director, Labor Division to C.i/c Combined Hq, Royal Navy, relating to social insurance cover for civilian labor employed by contractors, and asked for our comments. He advised that the class of labor in question was entitled to protection and the burden was upon the employer,e.g., in the cases in question, the contractor who is subject to the Italian insurance laws.

The Director of Labor also expressed the opinion that in the case of civilians employed directly by the Armed Forces, a formula should be prepared which would give these employees the normal social insurance coverage, both in the interests of the national insurance program and as an incentive to labor.

The matter of insuring civilian employees of AMG, 7th Army and of the American Red Cross was considered earlier in Sicily when it was decided to pay such civilians at a straight salary rate without deductions for social insurance contributions. It was left to the employee to protect himself. The principal reasons for this decision were;

(a) the complex nature of Italian social insurance;
(b) the question of inclusion of insured persons under their proper classification (e.g. persons employed by the authorities mentioned, as porters, messengers, interpreters, chauffeurs etc. were often insured under a different classified trade);

2686

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

2688

[illegible], the companies are well able to conduct their affairs within the instructions received from their head offices prior to occupation by Allied forces.

C. Social Insurance

1. Conferences have been held between Officers of the Insurance Section and the officials of Istituto Nazionale Infortuni, Istituto Previdenza Sociale, and Cassa Marittima Meridionale on matters relating to the respective Istitutes.

Copies of the Statute and Regolamento in Sicily dealing with the amalgamation of the four Casse Mutue under Istituto per l'Assistenza di Malattia ai Lavoratori have been furnished to Regione III and IV.

2. Social insurance cover for civilian labor

Region III submitted a copy of a letter sent by the Director, Labor Division to O.i/c Combined HQ, Royal Navy, relating to social insurance cover for civilian labor employed by contractors, and asked for our comments. He advised that the class of labor in question was entitled to protection and the burden was upon the employer, i.e., in the cases in question, the contractor who is subject to the Italian insurance laws.

The Director of Labor also expressed the opinion that in the case of civilians employed directly by the Armed Forces, a formula should be prepared which would give these employees the normal social insurance coverage, both in the interests of the national insurance program and as an incentive to labor.

The matter of insuring civilian employees of AMG, 7th Army and of the American Red Cross was considered earlier in Sicily when it was decided to pay such civilians at a straight salary rate without deductions for social insurance contributions. It was left to the employee to protect himself. The principal reasons for this decision were;

(a) the complex nature of Italian social insurance;

(b) the question of inclusion of insured persons under their proper classification (e.g. persons employed by the authorities mentioned, as porters, messengers, interpreters, chauffeurs etc. were often insured under a different classified trade);

(c) the work devolving upon finance officers was already extensive and they had neither the time nor staff to deal with the matter adequately. In any event it is not considered incumbent upon an army of occupation to make insurance contributions for the civil labor it employs.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

27

to be shot there would be an objection to the
[illegible] this risks [illegible], in conjunction with the
[illegible], when the [illegible] covered only the Kuwaiti
[illegible] Government, as was established to
[illegible] by an Anglo-US, primarily the
[illegible] of Kuwait.

It have discussed the matter with Sudden Ali. They favor the
[illegible] but, before committing themselves, are seeking
[illegible] with the Iraqis to secure, are seeking
[illegible] of an early accession to Iraqi jurisdiction on
[illegible] of satisfied on this point, they will
[illegible] to secure the turn of circumstances as effective
[illegible] of the Kuwaiti Government.

VI. CHIEF ACCOUNTANT'S SECTION

A. AMPA

1. It was arranged that AMPA Branch Accounts should be submitted to Headquarters only on the 15th and last days of each month instead of four times a month. A minor change in the AMPA Statement of Assets and Liabilities was effected: "New A.M. Lire Notes" and "General" accounts with Headquarters in the books of the Branches were merged into one "Current Account". It was arranged to open new accounts for "Overages" or "Shortages of New A.M. Lire Notes" revealed when boxes were opened. Arrangements were made to purchase and open a set of books for AMPA, Region IV.

2. A consolidated Statement of Assets and Liabilities as at 31 December 1943, supported by a consolidated statement of Revenue and Expenditure, was prepared.

3. The accounting procedure for remittances from U.S. and British [illegible] nationals was discussed with AMPA.

B. Alterations in System of Accounting proposed by the OCS

Charts of the proposed new system of accounts were received from the OCS, Washington, and a full memorandum on the subject was prepared. This memorandum was discussed with MTO, AFHQ and despatched to the OCS in Washington.

C. 5th and 8th Army Accounting

It was arranged for all Sub-Accountants with the 5th and 8th Armies to report to the Regional Chief Accountant, Region IV. Readjustment of the territories covered by the Regions may, however, necessitate a change in this arrangement next month so far as the 8th Army is concerned.

D. AMG/AOC Accounts

Consolidated monthly accounts for all Regions are being prepared for each month up to 30 November 1943, together with a consolidated statement of the cumulative figures to that date.

E. Supplies Accounting

1. Instructions were issued that a register should be maintained in each Region of all purchases for export, showing the country of destination.

2. Instructions as to Transactions between the Armed Forces and UNRRA were expanded and reported in all Regions.

3. Various discussions were held with the Food Sub-Commission and the Industry and Commerce Sub-Commission on general questions of storage accounting and warehousing. During these discussions the necessity of making increased

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

F. Medical Supplies Accounting

1. General discussions were held on the subject of accounting for medical supplies.

2. Two soldiers were loaned to the Public Health Division to assist in bringing the Naples warehouse figures up to date and in carrying out a physical inventory. The former work is not yet completed.

G. Public Safety

Instructions for accounting for fees for permits to use motor vehicles were revised and sent to the Sub-Commission for consideration.

H. Public Works

Discussions were held with members of the Sub-Commission on the procedure for controlling expenditure of Italian agencies employed on extensive road schemes and for their financing through the Italian government.

I. Displaced Persons Sub-Commission

1. A discussion was held with Lieut-Colonel Mills on various questions of effecting disbursements of cash and supplies in forward areas.

2. A meeting was attended with the Displaced Persons Sub-Commission at its Headquarters in Bari and the whole question of accounting as applied to the various activities of the Sub-Commission was discussed. A general directive is to be drawn up by the Chief Accountant in place of the previous draft directive prepared by him, which calls for rewriting in view of changed circumstances.

[redacted]
Lieut.-Col.
Acting Deputy
Chief Finance Officer.

Declassified E.O. 12356 Section 3.3/NND No. 785017

A. Gander Lawler 26

HEADQUARTERS
Allied Control Commission
(Forward Echelon)
APO 394

Secret
auth: C.Fin.sCC
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	420
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

2683

Declassified E.O. 12356 Section 3.3/NND 785017

Summary	Millions of lire
Italian Government's estimate of its currency needs for January to be advanced by AMFA	460
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 460 million needed according to its 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 460 million lire.

Declassified E.O. 12356 Section 3.3/NND No. 785017

2683

(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 Region 1, [redacted] 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 AFHQ 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 expenditures - Italy

During the month of January data were 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 set 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	

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 Region 1, [redacted] 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 AFHQ 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 were 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 set 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	
Foreign 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
Foreign 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

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	185,366,500	237,625,200	102,258,700	
Air	143,131,162	104,430,000		38,701,162
Total Military	835,545,162	920,291,200	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		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	476,658,662	429,814,200	64,877,200	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 15 January 1944 which culminated in bringing the matter to a head.

Colonel Jung was at first reluctant to have Italian currency manufactured by [illegible] note companies. When he was informed that paper, [illegible] plates

Declassified E.O. 12356 Section 3.3/NND No. 785017

Total exclusive of Military	544,600,000	380,000,000	116,900,000	281,500,000
Military				
War	877,047,500	578,236,000	1,186,500	
Navy	135,366,500	257,625,200	102,25c,700	
Air	143,131,162	104,430,000		38,701,162
Total Military	655,545,162	920,291,200	103,447,200	3c,701,162
Less Other Than Four Provinces				
Navy-Naples (Varlia)	27,000,000	69,241,000	42,241,000	
Army-Lucania(")	27,990,500	20,267,500		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	96,199,000	224,283,000	126,084,000	
Total Deductions	376,888,500	490,477,000	168,325,000	54,734,500
Net Total Military	478,656,662	429,814,200	64,877,200	16,035,336
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 Public.

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 16 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 AMG 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 Hunt 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 Hunt 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 Hunt 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 Hunt delivered samples, specifications and estimates for the notes and Colonel Foley proceeded to Rome on 15 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 4½, nine-year bonds coming due on 15 December 1943 and AMG made available funds to the Banca d'Italia for this purpose.

In the King's four provinces the payment of the maturity was accompanied 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 AMG 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, 82 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.

	Total value of nine-year 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.....	1,575,000	10,212,500	9,492,500	2,299,000
Campobasso.....	1,444,500	—	1,778,500	—

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible], 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 4½, nine-year bonds coming due on 15 December 1943 and made available funds to the Banca d'Italia for this purpose.

In the King's four provinces the payment of the maturity was accompanied 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 AMG 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 date 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 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.....	1,609,000	21,241,000	11,973,000	-11,077,000
Lucania.....	1,576,000	10,212,500	9,492,500	- 2,293,000
Campobasso.....	1,444,500	—	1,776,500	—

(1) Incomplete

6. Italian Government Revenues

(a) Prices of salt monopoly products have been raised approximately 100% as from 16 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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

(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 28 of the appended Interim Report there is a discussion of the Italian revenues in the last quarter of 1943.

7. New Arrangement 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 Otti, 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 pay

2681

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 AMG, 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 Ratti, 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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

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.

ACS 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. Mem. 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 Cortese, 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 Meyne and Captain Earle were [illegible] objection. The Central

Declassified E.O. 12356 Section 3.3/NND No. 785017

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.

AC/S 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 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 AOC, 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 Earle were informed of the proposed price increases and raised no objection. The Central Economic Committee also raised a question with AOC, stating that such increases should have been cleared with the Committee before issuance. We advised G&C 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 AOC before issuance and in turn we will inform G&C.

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. 2.60 per kilo to L. 3.65 per kilo.

Declassified E.O. 12356 Section 3.3/NND No. 785017

This proposed increase followed the actual practice of increasing the bread price by cost of 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 50 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 DAC, 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 AAC 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 6.00 having reached this figure by the following process. SCC 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 accept 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 concurrence 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 SCC 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

price of [illegible] 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 SAC 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. SAC 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 accept 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 concurrence the foreign rate could be raised to L 5.25.

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 SAC and agreed upon by the Postal Sub-Commission, the Communications Minister and Colonel Jung. This Sub-Commission did not object since the undesirable announcement was contemplated. 265

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 S. Bernstein, the problem of establishing a retail price for gasoline was considered. Petroleum Section, AFHQ, had proposed a 16 lire per [illegible] 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 [illegible] 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.

Declassified E.O. 12356 Section 3.3/NND No. 785013

(b) The landed cost figure was abnormally high, considering ~~a~~ 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 landed 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. CAC 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 subsidies, 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 gasoline would be far too dangerous a precedent for the Ministry of Finance to consider, and, in addition, expressed grave concern at, ~~the~~ fixing the price of gasoline so high because of the probable inflationary impact on the entire price level. We advised CAC 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 25-30 lire per kilo to 45-55 lire ; olive oil from 25-30 lire per litre to 50 lire per litre; potatoes from 10 lire per kilo to 20-25 lire per

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND 785017

price 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. CSC 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 subsidies, 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 gasoline would be far too dangerous a precedent for the Ministry of Finance to consider, and, in addition, expressed grave concern at over fixing the price of gasoline so high because of the probable inflationary impact on the entire price level. We advised CSC 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 25-30 lire per kilo to 45-55 lire ; olive oil from 25-30 lire per litre to 50 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. Payment of Claims

On 5th January 5, 1944 a memorandum from the Joint Claims Committee was forwarded with endorsement of approval by AFHQ. 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 arrising out of the operations of allied troops.

(e)

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 CFL and AGD 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 (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 Rogoto 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 approved 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 foreign

Declassified E.O. 12356 Section 3.3/NND 785017

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 (AG5) 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 Fossis 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 approved 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 Treasuries 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 [illegible] reduce the evacuation costs. In view of the implications of the establishment of a free-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 AMG for their views. AMG 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. Preventing Remittances to Italy

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

Declassified E.O. 12356 Section 3.3/NND 785017

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 AOC 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. Vaccia 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. AOC 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 us 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 Draffty-Smith, Chief Financial Officer, [illegible] has requested the views of the various AOC and G-5 finance officers as to whether the provisions of Article 2, Section 2 of Proclamation Number 3 should be altered. This section provides, among other things, that interest shall not accrue during the period of the moratorium ordered by Proclamation 3. The advisability of such a provision has been the subject of much discussion. We discussed the matter with

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] was dispatched. When the matter was discussed with Colonel [illegible], 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 us 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 Draffty-Smith, Chief Financial Officer, [illegible] has requested the views of the various AOC and [illegible] finance officers as to whether the provisions of Article 2, Section 2 of Proclamation Number 5 would 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 Draffty-Smith's letter have been received, it still appears desirable to amend Proclamation 5, joint action will be taken in AOC and [illegible] 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.

Declassified E.O. 12356 Section 3.3/NND 785017

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 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 I, 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 AMG headquarters. Arrangements have accordingly been made for all such communications to be forwarded to such headquarters through Finance Sub-Commission, AFHQ 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

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, Sectional 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 AMG headquarters. Arrangements have accordingly been made for all such communications to be forwarded to such headquarters through Finance Sub-Commission, AFHQ APO 512 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. E.S.L. Timmons, and T/3 C. Bengo.

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

for:
E.H. Fitzi, Jr.
Deputy Chief, Finance Sub-Commission

Declassified E.O. 12356 Section 3.3/NND 785017

#12 20

U. S. SECRET
Equals British MOST SECRET

INTERIM REPORT

Italian Government Finances

Last Quarter of 1943

Declassified E.O. 12356 Section 3.3/NND No. 785017

INTERIM REPORT

Italian Government Finances

Last Quarter of 1943

2677

Prepared by the Finance Sub-Committee

of the

Allied Control Commission

11 January 1944

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
Pounds British MOST SECRET

9

INTERIM REPORT

ITALIAN GOVERNMENT FINANCES

LAST QUARTER OF 1943

Table of Contents

		Page
Summary		1
Section I:	Introduction	
	A. Finance Sub-Commission	3
	B. Description of Report	3
Section II:	Revenues and Expenditures	
	A. General	5
	B. Revenues	9
	C. Expenditures	14
Section III:	Financing the Deficit	
	A. Last Quarter of 1943	17
	B. Program for Financing the Deficit	19
Section IV:	Currency	
	A. Present Situation	24
	B. Program	25
Section V:	General Conclusions	26
Appendix		27

Table of Contents

		Page
Summary		1
Section I:	Introduction	
	A. Finance Sub-Committee	3
	B. Description of Report	3
Section II:	Revenues and Expenditures	
	A. General	5
	B. Revenues	9
	C. Expenditures	14
Section III:	Financing the Deficit	
	A. Last Quarter of 1943	17
	B. Program for Financing the Deficit	19
Section IV:	Currency	
	A. Present Situation	24
	B. Program	25
Section V:	General Conclusions	26
Appendix		27

26' 16

U. S. SECRET
Regrade Britain SECRET

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND 785017

18

U. S. SECRET
Drawn Entirely 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; dissociation 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 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 10 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, assuring 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 funnelled into the Banca d'Italia by shutting off other outlets for bank funds.

7. The deficit will continue to be financed on a "pay-as-you-go" 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

...Bureau 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 1950-51. 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 exceed revenues. From 12 September 1943, on two of the normal expenditure 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 drastic 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 substantial expenditure control. A more efficient system of procedure 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.

2675

8. The Italian Government has no facilities for producing its own currency. Although the armistice terms provide that the Government should make available such currency as the Allied Forces require, naturally it has been necessary for us to supply the Government with currency. Arrangements are now being made to have 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 SECRET Secret

ink, paper, and other necessary supplies into Italy so that the currency eventually can be manufactured in liberated Italy.

9. Until a more permanent policy in regard to the Italian Government has been established, additional territory turned over to it, and the rest of the government transferred to Rome, the adoption of the Finance Sub-Commission course can be much more than that of attempting to put on a drag on the inflationary course of the Italian economy.

Declassified E.O. 12356 Section 3.3/NND No. 785017

[redacted]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 went to Istanbul to consult with Marshal Fevzi Cakmak's financial advisor, Colonel Adie, on October 25. Colonel Foley remained only 2 or 3 days and returned to Caserta for a discussion of the questions raised with Brigadier Hodgin and other representatives of the Finance Sub-Commission. On November 10, Colonel Foley departed on Orient Express for Istanbul, 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 the dealings with the Italian Treasury, in addition to Colonel Foley and Captain Pinsent, by Lieutenant Colonel A. F. Corey, Lieutenant Colonel A. M. F. Steven, Lieutenant Commander J. J. Lorden, and Captain Andrew Kenrick.

2. Presentation of Report

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

1. The source from which information must largely be obtained is the Italian Ministry of Finance, which is badly disorganized. It is hardly more than a shadow of a real governmental department. It consists of the Minister, Secretary, Lieutenant Colonel Attilio Piva, and fewer than 10 other officials which Colonel Foley has been able to assemble from Italy's ruins.

2. As Colonel Foley has pointed out to me the few officials he has are not the most capable of Italian civil servants. His personal ties with the Italian Government, at best, are considerably below the level of the top ranks of the Ministry of Finance personnel at Rome.

3. Even the officials are not thoroughly familiar with the material with which they are working, and are unable at once to explain the significance of particular data. Due to the lack of facilities, examination thereof has been found to be inadequate or impossible. Information is sometimes given in response to a request which appears to cover the whole ground, but which later developments show only to have covered a portion of the field.

4. There does not seem to be an urgent desire on the part of the Italian authorities to assist in obtaining. Indeed on the contrary, in the [illegible] in the copying of figures, appear to be deliberate.

267 BTM

5. Many key records and files are reported to be [illegible] Rome. All the records and files of the Ministry were left at Rome.

6. Due to the [illegible] of communication by the absence from Rome, the inability of Finance to provide [illegible] the investigating Sub-Commission and transportation to Rome [illegible] the lines of control over the field.

U. S. SECRET
Expedite Edition AFHQ CHERUB

7. The Italian state appears never to have had an adequate system of current statistical reporting on its financial position. Under present circumstances, it is almost impossible to secure the statistical data necessary for intelligent operation. Almost all the statistical information which the Ministry of Finance is now attempting to secure is being gathered in response to requests made by the Finance Sub-Commission.

As a result of the foregoing factors the information on Italian finances that is secured comes forth slowly, is fragmentary, and is of doubtful accuracy. These difficulties must be kept in mind in the consideration of this report. The figures presented in some cases can correctly be regarded as estimates but should rather be regarded as informed guesses. It is believed that the picture which emerges is probably essentially correct but no assurance can be made of this single in its general outlines.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
Equals British MOST SECRET

16

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	543	519	535	554	604
State Lands	644	770	867	458	522	1,103
Special Accounts	188	303	351	180	250	250
Profits on Minor Public Services	251	256	269	231	254	304
Reimbursements	765	968	700	638	700	699
Miscellaneous Receipts	2,300	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		258	467	532

2615

Declassified E.O. 12356 Section 3.3/NND 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...overnment 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)

	1938-39 (actual)	1939-40 (actual)	1940-41 (actual)	1941-42 (est.)	1942-43 (est.)	1943-44 (est.)
Revenues						
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
...opoly	3,580	3,915	4,499	4,350	5,334	7,910
Lottery	544	543	519	535	534	604
State Lands	644	770	867	458	522	1,103
Special Accounts	188	305	351	180	250	250
Profits on Minor Public Services	201	256	269	231	254	304
Reimbursements	765	968	700	688	700	699
Miscellaneous Receipts	2,500	3,160	3,661	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
...vement of Capital	3,016	30,285	21,614	1,646	10,915	5,632
...otal Revenues	30,592	62,635	55,848	32,728	46,339	45,980

2673

U. S. SECRET
Equals British MOST SECRET

U. S. [redacted]
[illegible]

Expenditures by Ministry	1939-40 (actual)	1940-41 (actual)	1941-42 (est.)(2)	1942-43 (est.)(2)	1943-44 (est.)(2)
Finance	19,710	29,052	17,221	29,240	27,033
Justice	636	696	641	691	734
Foreign Affairs	1,[illegible]77	1,[illegible]29	1,186	1,119	1,161
Italian Africa	7,337	4,859	1,[illegible]26	491	257
Education	2,[illegible]68	2,[illegible]38	2,[illegible]11	2,[illegible]16	2,428
Interior	2,738	2,[illegible]69	1,270	1,493	1,[illegible]59
Public Works	1,731	1,[illegible]47	1,[illegible]46	1,929	1,[illegible]33
Communications	869	842	780	751	608
War	15,330	43,[illegible]26	4,697	5,421	5,753
Navy	5,291	7,[illegible]74	4,[illegible]04	4,[illegible]12	5,077
Air	7,208	1,[illegible]43	3,699	4,209	4,[illegible]29
Corporations	1,1[illegible]6	2,[illegible]47	1,[illegible]72	1,[illegible]16	1,[illegible]00
Corporations & Economy	361	363	334	343	29[illegible]
Popular Culture	194	224	134	1[illegible]6	1[illegible]
Foreign Exchange	28	20	34	28	4[illegible]
War Production	--	--	--	--	[illegible]
TOTAL EXPENDITURES	69,253	1[illegible],[illegible]39	41,936	55,199	54,[illegible]59
Total Expenditures excluding Space expenditures	69,127	47,[illegible]42	41,936	55,199	54,059

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

b. On 10 September 1943, the King, and Marshal Badoglio arrived in Brindisi after their flight from Rome. Files, records, and practically all of the office furniture had been left in Rome. The Italian government had to be completely rebuilt, under the 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 October 1943. Most of the important posts in the Ministry of Finance are still not been filled.

Declassified E.O. 12356 Section 3.3/NND No. 785017

	1,072	2,708	[illegible]	1,270	1,403	1,[illegible]9
[illegible]olle Forze	1,449	1,791	1,[illegible]7	1,[illegible]4	1,929	1,893
[illegible]ministrazione	93[illegible]	85[illegible]	842	70[illegible]	751	[illegible]0
[illegible]	7,146	15,3[illegible]0	45,[illegible]26	[illegible],657	5,401	5,[illegible]35
[illegible]ory	5,[illegible]03	5,291	7[illegible],[illegible]4	[illegible],[illegible]24	[illegible],[illegible]2	[illegible],077
[illegible]	4,[illegible]30	7,[illegible]28	[illegible],[illegible]43	[illegible],699	[illegible],209	[illegible],[illegible]9
[illegible]ic Instruction	999	[illegible],1[illegible]0	2,[illegible]47	1,[illegible]33	1,[illegible]16	1,[illegible]0[illegible]
[illegible]ministration of Treasury	319	[illegible]61	[illegible]62	[illegible]24	345	[illegible]3
[illegible]opular Culture	141	194	224	134	1[illegible]5	1[illegible]
[illegible]oreign Exchange	23	28	[illegible]0	34	[illegible]0	4[illegible]
[illegible]or Production	—	—	—	—	—	[illegible]1
TOTAL EXPENDITURES	42,627	69,[illegible]55	[illegible],[illegible]69	41,9[illegible]6	[illegible],199	[illegible],[illegible]3[illegible]
Total Expenditures excluding Spese straordinarie	[illegible]3,127	[illegible]7,[illegible]6[illegible]	[illegible]7,[illegible]24	[illegible]1,[illegible]36	[illegible],199	[illegible],[illegible]39

a) Source: 1938-39, 1939-40, 1940-41, Rendiconto Generale (General Financial Report)
1941-42, [illegible], 1943-44: Stato di Previsione dell'entrata e Stato di [illegible] delle Spese del Ministero delle Finanze (Estimates of receipts and expenditures of the Ministry of Finance).
b) Does not include "Spese eccezionali".

b. On 11 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 October 1943. Most of the important posts in the Ministry of Finance are still not been filled.

c. From mid the last quarter of 1943, the King's government operated only over four provinces of Apulia (Bari, Brindisi, Lecce, and Taranto) containing a total population of a little more than two million people. The financial problems were 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 TOP SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

15

2. The Italian state budget is complicated by the 'movement of capitals' 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-investment of railroads, loans to railroad, telephone, and other autonomous companies of the state, loans to provinces, communes, and ecclesiastical 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 straordinarie' or exceptional expenditures. In the figures available on actual expenditures, the 'spese straordinarie' 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 straordinarie' 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 straordinarie' were larger than the other expenditures. (Table B in the Appendix gives the distribution of the 'spese straordinarie' 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 expenses 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 that appeared in the past in the King's provinces.

b. The state accounts kept by the Banca d'Italia in each provincial capital are the only source from which to begin. These accounts do not give an accurate picture, however, for several reasons. Expenditures often 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 'transfer

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND 785017

penditure 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 electrocooperative institutions, expenditures for war pensions, and items which offset revenue items.

b. In 1939-40, the practice was begun of deleting certain military items from the regular budget and of creating 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).

3. With the pedoric 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 expenses 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 "wash" items 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 crediting 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 not merely 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.

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

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	63	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	286	421	2,203
Receipts of Budget excluding Treasury Bonds & other minor receipts.	827	56	99	173	1,151
Expenditures of Budget	2,857	612	365	1,648	5,482
Excess of expenditures of the					

(Millions of Lire)

	BARI	BRUNDISI	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	305	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	93	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.	2,050	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).

Declassified E.O. 12356 Section 3.3/NND No. 785017

14

B. REVENUE:

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 effected 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 takes 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, [illegible] and in the case of communes by Consumption Taxes. The latter are [illegible] largely on a physical rather than an ad valorem basis and thus do not respond to the rise in prices at all. A revision 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 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] necessary. Note has also to be taken [illegible] the maximum revenue out of the existing system.

a. Even when substantial economies have been effected 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, [illegible] and 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. A revision 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 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.

2. We are assisting the Government in its attempt to overcome the dislocations in revenue collection caused by the war. Revenue offices have had to be relocated, transportation and communication facilities to the field restored, 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 four provinces goes 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 check 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 reductions 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 monopoly 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 imposing the Turnover tax on actual turnover is being tried. A revision of the land tax assessments on buildings is under way. The revenue inspectors have been instructed 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-tax-

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 four provinces goes 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 monopoly tobacco and salt prices came into effect in January 1944. A new tax on [illegible] released for consumption is being imposed. In certain trades, the innovation of imposing the Turnover tax on actual turnover is being tried. A revision of the land tax assessments on buildings is under way. The revenue inspectors have been instructed 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
Equals British MOST SECRET

13

Guardi). 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 7%. The new assessments rolls and the new tax were put into effect on 1 January 1943. On 1 January 1944, a tax rate of 8% 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 businesses 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

...ese 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 1926. 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 1926. 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 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 revenues. 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.

U. S. SECRET
Equals British CONFIDENTIAL

Declassified E.O. 12356 Section 3.3/NND No. 785017

2670

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 correct 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)

	1942-43	YEAR 1943 - 1944						
PROVINCES	Whole Year	July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	1,[illegible],849	45,[illegible]88	111,724	68,[illegible]27	75,112	67,697	93,754	458,602
Brindisi	167,159	2,662	9,834	27,[illegible]96	8,322	5,215	8,093	56,922
Lecce	285,585	5,247	14,605	3,929	15,901	6,825	15,667	59,174
Taranto	420,616	4,[illegible]96	12,973	16,[illegible]30	11,794	5,280	13,729	64,336
Total King's Prov.	2,203,009	57,957	149,136	116,[illegible]42	107,129	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)

	1942-43	YEAR 1943 - 1944						
PROVINCES	Whole Year	July	Aug	Sep	Oct	Nov	Dec	Total 6 Mo.
Bari	827,220	41,770	104,[illegible]58	62,881	68,193	54,194	87,269	417,455
Brindisi	56,443	2,574	9,316	7,881	7,[illegible]38	4,411	7,613	34,733
Lecce	94,954	3,020	13,568	3,607	13,514	5,279	13,225	53,133
Taranto	173,382	2,321	11,090	3,156	10,747	4,859	11,389	43,664
Total King's Prov.	1,151,999	49,685	138,112	77,527	101,[illegible]92	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 in-

Declassified E.O. 12356 Section 3.3/NND No. 785017

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	1,349,849	45,808	111,724	60,147	75,112	67,697	95,754	456,602
Brindisi	167,159	2,662	9,834	27,796	8,522	5,215	8,093	56,922
Lecce	285,385	5,247	14,605	3,929	15,901	5,825	15,667	59,174
Taranto	420,616	4,190	12,973	16,430	11,794	5,280	13,729	64,336
Total King's Prov.	2,203,009	57,927	149,136	116,562	107,329	85,017	131,243	637,034

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	69,193	54,194	87,269	417,455
Brindisi	56,445	2,574	9,316	7,881	7,908	4,411	7,623	34,733
Lecce	94,954	3,020	13,568	5,607	13,914	5,179	13,225	53,133
Taranto	173,382	3,321	11,090	3,158	10,747	4,859	11,389	43,664
Total King's Prov.	1,151,999	42,885	138,112	77,527	101,392	68,645	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).

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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	84,355	1,909	35,532	29,042	99,307
Brindisi	281	389	---	421	8,772	4,676	10,105
Lecce	532	3	---	881	13,813	8,946	26,155
Taranto	3,759	31,364	---	1,074	9,814	7,947	119,957
TOTAL	20,109	49,711	84,355	4,305	67,936	50,611	255,724
			OCT - DEC 1943				
Bari	5,693	954	122,983	543	52,772	26,917	23,907
Brindini	521	1,544	---	134	12,121	5,605	1,668
Lecce	759	---	---	329	18,576	12,160	4,456
Taranto	789	29	---	226	16,446	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	702,094
			JULY TO DEC 1943				
	28,181	9,261	249,200	3,520	151,589	105,563	88,050

2665

	Tax	Customs	Monopoly	Lottery	Taxes	Taxes	Treasury
PROVINCES			OCT - DEC 1942				
Bari	15,237	17,965	84,355	1,909	35,533	29,042	29,307
Brindisi	281	309	---	421	8,772	4,676	10,305
Lecce	532	5	---	881	13,318	8,846	26,155
Taranto	3,759	31,432	---	1,974	9,814	7,947	119,957
TOTAL	20,109	49,711	84,355	4,305	67,936	50,511	255,724
			OCT - DEC 1943				
Bari	5,693	954	122,985	543	52,772	26,917	23,907
Brindisi	521	1,544	---	104	12,121	5,605	1,668
Lecce	759	---	---	329	12,576	12,160	4,456
Taranto	789	29	---	225	16,446	9,270	3,918
TOTAL	7,762	2,527	122,985	1,232	99,917	53,952	33,949
			JULY TO DEC 1942				
TOTAL FOR ALL FOUR PROVINCES	29,018	61,101	167,740	7,195	100,453	94,216	702,094
			JULY TO DEC 1943				
	28,181	9,261	249,200	3,520	151,589	105,553	88,050

2663

- 13 -
U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

C. Expenditures.

1. No attempt was made to control Italian governmental expenditures until December. When the December estimates were presented, it was discovered that they 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 some to cover long past due items, and the civilian ministries based their 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] with the representatives of the Italian government in December. Hear-
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 based their 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 state budgets 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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

11

TABLE VI

Italian Peace 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	32	0.6
Foreign Affairs	9	0.2
Italian Africa	-	-
Education	111	2.0
Interior	885	16.3
Public Works	67	1.2
Communications	11	0.2
War	1,665	30.3
Navy	1,830	33.4
Air	429	7.8
Agriculture	45	0.8
Industry and Commerce	4	0.1
Foreign Exchange	-	-
Information	-	-
Total, all Ministries	L. 5,472	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 7.5% 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 it was not readily reducible. All other ministries spent 5% of the total which when translated into lire amounts to a little less than 200 million lire for those ministries for a full year.

5. 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 those 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]	147	46	
August	[illegible]	329		143

2668

[illegible]		0.6
[illegible]ation		0.2
Education	-	-
Interior	[illegible]	2.0
Public Works	[illegible]	16.3
Communications	[illegible]	1.2
War	[illegible]	0.2
Navy	1,[illegible]	30.3
Air	1,[illegible]	33.4
Agriculture	[illegible]	7.6
Industry and Commerce	[illegible]	0.8
Foreign Exchange	[illegible]	0.1
Information	-	-
Total, all Ministries	[illegible]	-
	L. 5,[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 it as not readily reducible. All other ministries spent 4% of the total which when translated into lire amounts to a little less than 200 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 disbursements and not true [illegible] figures, the picture probably appears much more favorable than it actually is.

4. 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]	325		143
September	[illegible]	363		5
October	[illegible]	[illegible]	[illegible]	
November	[illegible]	106	189	
December	[illegible]	85	[illegible]	
Total	2,[illegible]	1,[illegible]	1,[illegible]	148
			[illegible]	
Net Decrease in 1943 compared to 1942.			97[illegible]	

U. S. Secret
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

2663

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 arbitrarily 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 ASCI 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, or 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 good 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 institution of 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

...in the table for July do not reflect with any degree of ...ccuracy 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 AMGOT 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, or 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 good 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 institution 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

1. 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 1500 million lire in advances to the Government and AMFA advanced 456 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.C. (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.C.)	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)	1390
Net decrease in currency held by Banca d'Italia (2)	140
Vaglia stempiglieti issued (3)	300
Net increase in postal savings (4)	30
Total advances	1770

2667

Notes:

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

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] 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)	140
Vaglia stampiglisti issued (3)	300
Net increase in postal savings (4)	30
Total advances	1770

2660

Notes:

1. Estimate based on Banca d'Italia, Bollettino Puglie, Movimento verificatesi nei Conti correnti e conti partecipazioni," (Summary of verified movement in current accounts and accounts guaranteed by a deposit of securities). (Appendix, Table H).

U. S. SECRET
Equals British [illegible] SECRET

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 Commendattore 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

30 September - 31 December. These data were secured from Commendattore 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

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

9

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 ACC, 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, approval 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 THE NET RECEIPTS 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).

5. Program for Financing the Government Deficit.

a. 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.

b. 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.

c. 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

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 [illegible] 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.

2. 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.

a. 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.

b. 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

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

could draw if necessary was set up for the purpose in the Rome branch of the Banca d'Italia. In the King's four provinces to the end of 1943, 12 million lire par value of the three-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 Hoy'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 Hoy is convinced that any attempts 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 deficits in advances from the Banca d'Italia (and AMGOT) and on the sale of its notes (Buoni del Tesoro ordinari) which have a term of a year or less.

7. The principal means which the Italian government plans to use to finance the deficit other than advances from the Banca d'Italia or AMGOT 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 currently 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 impossibility of the sale of "policennali" bonds, the government has been relying in effect 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 AMGOT. 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 ½% 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. alone and no other investment comes in to fill the gap, the government is immediately faced with a great demand for currency by the [illegible] 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 [illegible]

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] time to come, successfully float an issue [illegible] bonds because the "political, economic and financial background" is not suitable. Colonel Lang 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 deficits 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 currently 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 on 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 varying rates of interest varying with the terms 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 maturing 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 matured and maturing. In the King's four provinces in Puglia, service on this debt has been continued throughout.

U. S. SECRET
Psuedo Political MOOR SECRET

8

c. To direct available bank funds into the purchase of B.T.O., the Banca d'Italia in Puglie 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.

d. 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.

e. 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 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 other ise 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 hasbeen, and indications are, will probably continue to be

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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.

f. 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 millions 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 does not 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.

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 centralised 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 receipts being available to the Banca d'Italia

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible] 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.

(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. 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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

(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. 2662

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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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

Declassified E.O. 12356 Section 3.3/NND No. 785017

~~currency to the United Nations. Because of the Italian Government's~~ ~~facilities, the United Nations have had to provide All 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 K 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	7,893
British armed forces	3,713
French armed forces	804
Total Allied armed forces	12,410

U. S. SECRET
Equals British UKEO 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 +		
Total of above	2,885	
		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 18 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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

...not 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.

2663

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 [illegible] 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 [illegible] possible of the existing taxation system.

Declassified E.O. 12356 Section 3.3/NND No. 785017

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 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
Zonal British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
- 27 -
Italian Mission

ANNEX A

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

	Actual Revenues			Actual Expenditures			Surplus (+) or Deficit (-		
Year	Category I (actual Receipts)	Category II Movement of Capital	Total Receipts	Cat. I (actual Expenditures)	Cat. II Movement of Cap.	Total Expenditures	Cat. I effective (actual)	Cat. II Movement of Capital	To
1930-31	20,387	5,935	26,322	20,891	4,965	25,856	- 503	+ 970	+
1931-32	19,324	5,001	24,325	25,191	2,044	25,235	-5,867	+ 2,957	-
1932-33	18,217	935	19,153	21,766	1,009	22,855	-3,548	- 153	- 3,
1933-34	18,056	7,643	25,699	24,433	3,703	28,137	-6,376	+ 3,939	- 2,
1934-35	18,817	2,752	21,570	20,847 (1)	1,024	21,871	-2,029	+ 1,728	-
1935-36	20,370	40,431	60,802	33,056 (2)	33,866	66,923	-12,686	+ 6,565	- 6,
1936-37	24,702	12,710	37,412	40,932 (3)	7,133	48,065	-16,229	+ 5,576	- 10,
1937-38	24,468	3,629	31,097	38,642 (4)	1,990	40,632	-11,174	+ 1,639	- 9,
1938-39	27,575	3,016	30,591	39,853 (5)	2,773	42,627	-12,277	+ 242	- 12,
1939-40	32,350 (7)	30,284	62.635	60,388 (6)	9,166	69,555	-28,038	+21,118	- 6,
1940-41	34,234	21,614	55,848	98,233	7,436	105,659	-63,989	+14,178	- 49,

(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 57,955 exceptional expenditures (spese eccezionali)
(7) Includes 200 special credit for refunds

29692

Declassified E.O. 12356 Section 3.3/NND No. 785017

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

Actual Revenues			Actual Expenditures			Surplus (+) or Deficit (-)		
ory I al ota)	Category II Movement of Capital	Total Receipts	Cat. I (actual expenditures)	Cat. II Movement of Cap.	Total Expenditures	Cat. I Effective (actual)	Cat. II Movement of Capital	Total
87	5,935	26,322	20,891	4,965	25,856	- 903	+ 970	+ 466
24	5,001	24,325	23,191	2,044	25,235	-3,867	+ 2,957	- 909
17	935	19,153	21,766	1,009	22,855	-3,548	- 153	- 3,702
56	7,643	25,699	24,433	3,703	28,137	-6,376	+ 3,939	- 2,437
17	2,752	21,570	20,847 (1)	1,024	21,871	-2,029	+ 1,728	- 301
70	40,431	60,802	33,056 (2)	33,866	66,923	-12,686	+ 6,565	- 6,121
02	12,710	37,412	40,932 (3)	7,133	48,065	-16,229	+ 5,576	- 10,653
68	3,629	31,097	38,642 (4)	1,990	40,632	-11,174	+ 1,639	- 9,534
75	3,016	30,591	39,853 (5)	2,773	42,627	-12,277	+ 242	- 12,035
30	30,284	62,635	60,388 (6)	9,166	69,555	-28,038	+21,118	- 6,920
4	21,614	53,848	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
British MOST SECRET

4

Equale Britain Most Secret

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	4,019	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
Comunicazioni (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	4,500	21,990	57,935	86,325

2661

Declassified E.O. 12356 Section 3.3/NND No. 785017

(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
Comunicazioni (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	4,500	21,990	57,935	86,325

2661

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

3/

APPENDIX

TABLE C

Italian Direct and Indirect Revenues

Millions of Lire

	Actual Receipts			Budget Estimates		
	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Direct Taxes						
On lands	150	150	151	149	150	210
In buildings	342	344	345	350	350	350
Income Tax	4,178	4,482	4,864	4,660	5,250	5,700
Complementary tax on total income	434	480	713	700	810	810
Bachelors	240	249	241	260	240	210
On patrimony	129	1	1,050	1,320	1,400	1,400
On dividents, etc.	174	184	295	285	340	450
On immovable property	457	496	512	550	500	500
On capital	500	843	534	370	120	70
Special Tax on salaries	---	---	194	160	240	350
War profits	---	---	---	100	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	1,206	1,304	1,200	1,540	1,270
Turnover tax	---	1,472	4,850	4,500	5,600	5,900
Stamp duty	864	863	928	850	950	1,250
In lieu of Registry and Stamp duty	456	471	508	460	500	650
On excess value of bonds etc.	---	---	---	---	350	200
Mortages	150	166	246	270	290	260
Radio taxes (various)	115	129	149	150	140	160
Concessions	206	210	208	225	255	400
Motor & Car taxes	136	152	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	238	2660	217
Total Indirect Taxes	6,009	7,297	9,063	8,258	10,916	11,262

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
Direct Taxes						
On lands	150	150	191	149	150	210
In buildings	342	344	345	350	370	350
Income Tax	4,178	4,482	4,864	4,660	5,250	5,700
Complementary tax on total income	434	480	713	700	810	810
Bachelors	244	249	241	260	240	210
On patrimony	129	1	1,050	1,320	1,400	1,400
On dividents, etc.	174	184	295	285	340	450
On immovable property	457	496	512	550	500	500
On capital	500	843	534	370	120	70
Special Tax on salaries	---	---	194	160	240	350
War profits	---	---	---	150	350	1,000
Other Taxes	7	5	15	66	70	70
Total Direct Taxes	6,625	7,274	8,914	9,000	10,020	11,120
Indirect Taxes						
Succession duty	206	210	229	210	270	380
Registry duty	1,085	1,086	1,304	1,200	1,540	1,270
Turnover tax	---	1,472	4,350	4,500	5,600	5,900
Stamp duty	864	860	928	830	950	1,250
In lieu of Registry and Stamp duty	436	471	508	460	580	850
On excess value of bonds etc.	---	---	---	---	350	200
Mortages	150	166	246	170	290	260
Radio taxes (various)	115	129	149	110	140	160
Concessions	206	210	200	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	241	238	241	217
Total Indirect Taxes	6,089	7,297	9,061	8,258	10,616	11,262

U. S. Embassy
Rome, Foreign Service Unit

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
Equals British Most SECRET

APPENDIX

TABLE I

Revenues Within the Budget

Province of Bari

Revenue Source	1942-43 Whole Year	Thousands of Lire I E A R 1943 - 1944 July	Aug.	Sept.	Oct.	Nov.	Dec.	Total 6 Months
Manufacturing taxes	50047	5713	8099	451[illegible]	2098	1355	2240	24083
Customs	55359	565	2705	2696	589	241	128	6924
Local Finance	477	---	43	55	77	75	20	250
Monopoly	37654	27377	54856	43984	32555	40053	50372	249200
Lotteries	19143	74	729	435	208	267	68	1761
Direct Taxes	129417	443	25231	534	25842	2829	24101	79380
State Lands	139	----	282	---	224	36	---	542
Indirect Taxes	124303	8105	11336	10453	7509	9237	10161	56809
Purch. Agent	490	10	52	3	65	6	169	305
Treasury	502629	2118	7586	5534	3919	13593	6495	39247
Other Ministeries	891	16	5	48	23	95	14	26
Total	1129849	43386	111704	68417	73112	67697	93754	458302
Total excluding Treasury	827220	41770	104133	62881	69193	54104	87259	417435

TABLE 2

Revenues Within the Budget

Province of Brindisi

Revenue Source	1942-43 Whole Year	Thousands of Lire I E A R 1943 - 1944 July	Aug.	Sept.	Oct.	Nov.	Dec.	Total 6 Months
Manufacturing taxes	1934	91	337	16	220	51	240	965
Customs	1696	1	574	---	94	1450	---	2119
Local Finance	57	---	2	6	2	17	2	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	1546	19	123	57	38	69	27	333
Direct Taxes	39224	737	5624	336	5689	754	5678	19670
State Lands	32	---	367	---	---	---	---	367
Indirect Taxes	21806	1665	2088	1656	1879	2060	1666	11221
Purch. Agent	59	1	1	2	16	---	---	20
Treasury	110716	98	518	19315	304	804	430	22189
Other Ministeries	7	---	---	1	---	---	---	1
Total	167159	2668	9634	22796	8522	5210	8093	56922

Declassified E.O. 12356 Section 3.3/NND No. 785017

Source	Whole Year	July	Aug	Sept	Oct	Nov	Dec	Total 6 Months
Manufacturing taxes	50047	5178	8099	4312	2098	1355	2280	24085
Customs	55359	596	2705	2690	589	241	104	6924
Local Finance	477	---	43	35	77	75	20	250
Monopoly	87054	27377	54856	43584	30555	40053	50372	249200
Lotteries	19140	74	729	419	208	267	88	1781
Direct Taxes	129417	445	25231	554	25842	2829	24101	79380
State Lands	139	---	282	---	274	36	---	342
Indirect Taxes	124305	8105	11536	10459	7559	9237	10161	56309
Purch. Agent	490	10	82	3	98	6	169	305
Treasury	502629	2118	7586	5536	3919	13548	6485	39147
Other Ministeries	891	16	5	48	23	96	14	26
Total	1329849	43868	111174	68117	73112	67697	93754	458602
Total excluding Treasury	827220	41770	104230	62881	69193	54149	87269	417455

TABLE 8

Revenues Within the Budget

Province of Brindisi

Thousands of Lire

Revenue Source	1942-43 Whole Year	1943 - 1944 July	Aug	Sept	Oct	Nov	Dec	Total 6 Months
Manufacturing taxes	1934	91	337	16	220	52	240	965
Customs	1696	1	574	---	94	1450	---	2119
Local Finance	57	---	2	6	2	17	2	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	1546	19	123	57	58	69	27	353
Direct Taxes	29224	797	5824	956	5689	754	5676	19678
State Lands	39	---	367	---	---	---	---	367
Indirect Taxes	21886	1665	2088	1856	1879	2060	1668	11221
Purch. Agent	39	1	1	2	16	---	---	20
Treasury	110716	80	518	19915	384	304	480	22189
Other Ministeries	7	---	---	1	---	---	---	1
Total	167159	2662	9834	22796	8522	5215	8093	56922
Total excluding Treasury	56443	2574	9316	2881	7928	4911	7613	34733

R. J. SPENCER
Public British ACC Service

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
Pseudo British MOST SECRET

APPENDIX

TABLE 7

Revenues Within the Budget

Province of Lecce
1942-43

Thousands of Lire

Revenue Source	Whole Year	July	Aug	YEAR 1943 - 1944 Sept	Oct	Nov	Dec	Total 6 Months
Mfg. Taxes	2,812	165	606	280	315	122	323	1,809
Customs	12	---	---	---	-	---	---	---
Local Finance	55	---	---	3	---	32	---	35
Monopoly	---	---	---	---	---	---	---	---
Lottery	3,670	52	281	145	131	154	44	824
Direct Taxes	46,563	375	5,886	207	5,445	164	6,[illegible]	28,054
State Lands	93	1	2	1	1	2	-	7
Indirect Taxes	41,211	2,422	3,349	3,934	3,525	4,659	3,875	20,852
Purch. Agent	124	1	3	2	1	14	2	23
Treasury	190,432	227	1,057	322	387	1,646	3,422	6,042
Other Ministeries	411	15	44	22	24	---	22	541
Total	285,386	3,247	14,605	5,929	13,901	6,825	15,667	59,174
Total Excluding Treasury	94,954	3,020	13,548	5,607	13,514	5,179	12,245	53,133

TABLE 6

Revenues Within the Budget

Province of Taranto

Thousands of Lire

Revenue Source	1942-43 Whole Year	July	Aug	YEAR 1943 - 1944 Sept	Oct	Nov	Dec	Total 6 Months
Mfg. Taxes	7,854	206	383	47	366	92	331	1,225
Customs	83,161	25	68	95	6	4	23	217
Local Finance	29	---	6	6	6	5	5	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	3,179	52	194	251	42	106	58	302
Direct Taxes	36,857	61	7,857	129	6,635	470	6,343	21,495
State Lands	55	---	8	3	2	---	1	14
Indirect Taxes	34,775	2,277	1,388	1,745	2,610	1,128	2,532	14,680
Purch. Agent	818	---	184	2	74	38	92	392
Treasury	253,234	1,609	1,895	13,282	1,047	421	2,450	20,672
Other Ministeries	64	1	2	---	3	---	2	10

Declassified E.O. 12356 Section 3.3/NND No. 785017

[illegible]	3,812	169	606	280	315	122	323	1,809
Customs	12	---	---	---	---	---	---	---
Local Finance	55	---	---	3	---	32	---	55
Monopoly	---	---	---	---	---	---	---	---
Lottery	3,670	21	283	249	101	184	44	824
Direct Taxes	46,503	375	6,886	206	3,445	164	6,[illegible]	38,054
State Lands	95	1	2	1	1	2	[illegible]	7
Indirect Taxes	43,211	2,432	2,346	4,934	3,623	4,659	1,875	20,851
Purch. Agent	124	1	3	2	1	14	2	23
Treasury	190,432	217	1,057	322	387	1,646	2,422	6,041
Other Ministeries	414	14	444	22	21	---	33	544
Total	285,386	3,247	14,605	3,949	12,901	6,825	15,687	59,174
Total Excluding Treasury	94,954	3,030	13,568	3,627	12,514	5,179	13,265	53,133

TABLE 6

Revenues Within the Budget

Province of Tarapaca

Thousands of Lire

Revenue Source	1942-43 Whole Year	YEAR 1943 - 1944 July	Aug	Sep	Oct	Nov	Dec	Total 6 Months
Inc. Taxes	7,854	206	305	47	562	92	252	1,225
Customs	83,161	25	66	95	6	1	25	217
Local Finance	39	---	6	6	6	5	6	29
Monopoly	---	---	---	---	---	---	---	---
Lottery	3,779	51	194	151	42	126	58	602
Direct Taxes	36,857	61	7,357	129	3,835	470	8,34[illegible]	20,495
State Lands	55	---	8	3	2	---	1	14
Indirect Taxes	34,775	2,277	4,388	3,745	4,810	4,108	2,352	16,680
Purch. Agent	816	---	134	2	79	35	92	392
Treasury	253,234	1,609	1,983	15,202	1,847	421	2,450	20,672
Other Ministeries	64	1	2	---	3	---	2	10
Total	420,616	4,150	14,273	16,430	11,794	5,280	13,739	64,356
Total excluding Treasury	167,382	2,521	11,040	3,158	10,747	4,859	11,389	43,664

U. S. SECRET
Equals British LOU SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

Declassified E.O. 12356 Section 3.3/NND No. 785017

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%	Net Investment in short-term

(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%)
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	11,953,000	18,377,000

U. S. SECRET
Equals British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

U. S. SECRET
Pounds 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 unutilised 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)		2,985
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.

2658

Declassified E.O. 12356 Section 3.3/NND No. 785017

	[illegible] on banks		19,869	
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			
	Total		12,717	40,906

(1) Less than 500,000 lire.

U. S. SECRET
Eyes Only British MOST SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785017

2658

	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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

	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.

Declassified E.O. 12356 Section 3.3/NND No. 785017

1325